Fast-Food Industry Iran
current status, opportunities and threats

June 2016

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Photo by: Mahdieh Farahani
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The global fast food market was valued at approximately 495 billion USD in 2014 and is expected to reach 645 billion USD by 2020, growing at a CAGR of 4.5% between 2015 and 2020. Asia Pacific and North America dominate the fast food market and together account for around 65% of total demand in 2014.

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Iranians love fast-food, not only for the cuisine itself, but as a leisure activity and a means of socializing. 79 million Iranians (23.8 million families) are spending 6.3 billion USD annually eating at restaurants according to official statistics in 2013. During the 8 years from 2005 to 2012, Iranian spend on restaurants increased by 120% and in the coming years this increase rate is forecast to be significantly higher.

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Iran is an emerging and growing market, providing existing businesses with an exciting opportunity for expansion. Iran has favorable demographics (a large and young population), rising rates of urbanization and a population who are increasingly turning to Fast-Food as a means of socializing.

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ILIA Corporation advises clients on market entry, strategy, and operations. We develop practical, customized insights that enable clients to act upon and transfer skills that are market specific. Founded in 2008, ILIA has offices in Iran, Germany, and China.

ILIA Research Methodology

The applied methodology consists of three main pillars:

1. Primary sources, such as field studies, interviews and phone conversations.
2. Secondary sources, such as governmental documents, official statistics, company reports, news agencies, etc.
3. ILIA own thoughts and analysis resulting from the information gathered and the conclusions derived thereafter.

ILIA Research Methodology Diagram:

- **Primary Sources**:
  - Group thinking, conducting various analyses, deriving conclusions.

- **Secondary Sources**:
  - Governmental documents, official statistics, company reports, news agencies, etc.

- **Consultant Analysis**:
  - Field studies, interviews, phone conversations.

- **IRAN Fast Food Market Insight**
Iran is the second largest economy in the Middle East and North Africa (MENA) region after Saudi Arabia, with an estimated Gross Domestic Product (GDP) in 2015 of US$393.7 billion. It also has the second largest population of the region after Egypt, with an estimated 78.8 million people in 2015. Iran’s economy is characterized by a large hydrocarbon sector, small scale agriculture and services sectors, and a noticeable state presence in manufacturing and financial services. Iran ranks second in the world in natural gas reserves and fourth in proven crude oil reserves. Economic activity and government revenues still depend to a large extent on oil revenues and therefore remain volatile.

Due to the lift of the sanctions and a more business-oriented environment, real GDP growth is projected to reach 4.2 percent and 4.6 percent in 2016 and 2017, respectively. On the production side, growth will be mainly driven by higher hydrocarbon production. On the expenditure side, consumption, investment and exports are expected to be the main drivers. Notwithstanding the narrowing of the output gap over the coming years, inflation is forecast to remain moderate, by Iran’s standard. The lifting of sanctions, and in particular the positive impact this will have on the banking system, will significantly reduce international transaction costs. Strong capital inflows, including FDI and the repatriation of part of the frozen assets, could put upward pressure on the Iranian rial which will help contain imported inflation. Fiscal policy, is projected to be slightly contractionary with the deficit projected to narrow to 1.8 and 1 percent in 2016 and 2017, respectively, mostly on account of improved oil revenues. Iran’s current account position is expected to turn into a surplus in 2017, also primarily driven by rising oil exports.

World Bank, April 2016
Iran Fast-Food Industry at a Glance

- 31 USD Annual Spend, Poorest 10%
- 1,300 USD Annual Spend, Wealthiest 10%
- 2 billion USD Annual Spending on Fast food
- 20,000 Fast-Foods branches in Iran

- ~37m Iranians between 10-35 years of age
- 79 million Iranians

Target Market
Addressable market

Market Sizes in the Iran cities:
- Mashhad: 2.8m
- Tabriz: 1.5m
- Tehran: 16m
- Shiraz: 1.5m
- Esfahan: 2.0m

~37 million Iranians between 10-35 years of age
79 million Iranians

Addressable market

Market Sizes in the Iran cities:
- Mashhad: 2.8m
- Tabriz: 1.5m
- Tehran: 16m
- Shiraz: 1.5m
- Esfahan: 2.0m

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1. World Fast-Food Industry

The global fast food market was valued at approximately 495 billion USD in 2014 and is expected to reach 645 billion USD by 2020, growing at a CAGR of 4.5% between 2015 and 2020 (Source: Transparency Market Research). In 2015, the fast-food sector reported brand value growth of 4% year on year.

In the United States alone, the sector employed 3.7 million people, working out of of 232,000 branches (as of 2013).

44.2% of global revenue share is estimated in North America, with 40.0% of global revenue concentrated in the United States. Other developed regions also have a high concentration of industry revenue, including Europe at 17.0%, with a particularly high concentration in Germany (and France to a lesser extent) the powerhouse economy of the EU. Oceania also makes up 4.2% of global revenue, and includes Australia, which has a strong affinity for fast food (Source: Global Fast Food Restaurants Market Research Report [IBIS Worlds], Apr 2016).

Asia Pacific and North America dominate the fast food market and together account for around 65% of total demand in 2014.

### Revenue Share of US Fast Food Market

![Revenue Share of US Fast Food Market](image)

<table>
<thead>
<tr>
<th>Brand</th>
<th>Revenue Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDonalds</td>
<td>21.7%</td>
</tr>
<tr>
<td>Yum! Brands Inc.</td>
<td>8.10%</td>
</tr>
<tr>
<td>Doctor’s Associates Inc.</td>
<td>6.70%</td>
</tr>
<tr>
<td>Wendy’s Company</td>
<td>5.50%</td>
</tr>
<tr>
<td>Burger King</td>
<td>4.10%</td>
</tr>
<tr>
<td>Others</td>
<td>53.90%</td>
</tr>
</tbody>
</table>

### 2015 Global top brand fast-food brand value in billion USD

<table>
<thead>
<tr>
<th>Brand</th>
<th>Value (billion USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>McDonalds</td>
<td>81.2</td>
</tr>
<tr>
<td>Starbucks</td>
<td>29.3</td>
</tr>
<tr>
<td>Subway</td>
<td>22.6</td>
</tr>
<tr>
<td>KFC</td>
<td>12.6</td>
</tr>
<tr>
<td>Chipotle</td>
<td>10.6</td>
</tr>
<tr>
<td>Pizza Hut</td>
<td>8.5</td>
</tr>
<tr>
<td>Tim Hortons</td>
<td>4.6</td>
</tr>
<tr>
<td>Dominos Pizza</td>
<td>3.8</td>
</tr>
<tr>
<td>Burger King</td>
<td>3.2</td>
</tr>
<tr>
<td>Panera</td>
<td>2.9</td>
</tr>
</tbody>
</table>

The Fast-Food industry is one where certain brands have a large proportion of overall market share. This industry has a medium level of capital intensity and is in a mature lifecycle.
2. Fast-Food Industry Iran

Iranians love Fast-Food, not only for the cuisine itself, but as a leisure activity and a means of socializing.

79 million Iranians (23.8 million families) are spending 6.3 billion USD annually eating at restaurants according to official statistics in 2013.

During the 8 years from 2005 to 2012, Iranian spend on restaurants increased by 120% and in the coming years this increase rate is forecast to be significantly higher.

It is estimated that one third of Iranian spending at restaurants is concentrated on the Fast-Food sector with Iranian families currently spending 2 billion USD annually on Fast Food (~85 USD per family).

![Chart showing comparison between High Income and Low Income families]

**High Income** vs. **Low Income**

- **1,300 USD** spend annually
- **31 USD** spend annually

Wealthy Iranians (the tenth decile) spend on restaurants is 41 times more than the first decile.
To obtain permits to open a Fast-Food business, four key governmental organizations must first be engaged: Police, Municipality, Health Industry and the Industry Union. Importantly, the role of the Police must not be underestimated, as it is considered one of the “red” industries by the police due to its social impacts.

With regard to customers, the key focus for the industry is in Tehran and the other large cities of Iran.
It is estimated that 20,000 Fast-Food establishments are located in Iran, predominately in Tehran. There is also a large prevalence to be found in the next four largest cities Shiraz, Esfahan, Mashhad and Tabriz.

There is a large quality and efficiency differential between Global Fast-Food Chains and those found in Tehran, and also between those in Tehran and the next four largest cities.

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### Fast-Food Landscape Iran

![Flowchart showing Tehran connected to Shiraz, Esfahan, Mashhad, and Tabriz with Other Cities]

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**Iranian Fast-Food can be broken down into three categories:**

1. **High Quality and Reputable in City/Country**
   - Less than 5% of Iran’s Fast-Food brands fall under this category

2. **Medium Quality and Reputable Locally**
   - Approximately 30-40% of Fast-Food brands

3. **Low Quality and Junk Food**
   - Approximately 55-65% of Fast-Food

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Ilia Corporations’ evaluation of Iranian Fast-Food businesses

- Supply Chain Diversity
- HR
- Quality
- Location

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Ilia Corporation
There are nearly 2,000 Fast-Food establishments in Tehran city, of which approximately 10% are not registered.

### Key Players of the Fast-Food Industry in Iran

<table>
<thead>
<tr>
<th>Founding Year</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>50</td>
</tr>
<tr>
<td>1995</td>
<td>47</td>
</tr>
<tr>
<td>2005</td>
<td>35</td>
</tr>
<tr>
<td>2003</td>
<td>27</td>
</tr>
<tr>
<td>2004</td>
<td>8</td>
</tr>
<tr>
<td>2001</td>
<td>8</td>
</tr>
</tbody>
</table>

**Ali Farzami** is the owner of Haida fast-food which was founded in the year 2000. It offers different sandwiches to customers. Haida has about 50 branches in Iran, and little diversity in its product portfolio.

**Boof** fast-food was founded in 1995 and has 46 branches in Iran (most of which are in Tehran) and one in Malaysia. It has historically been very popular however, today is facing serious competition.

**Ata Ghotbi** is the owner of Atavich fast-food which was founded in 2005. Atavich has 35 branches in Iran. It uses industrial kitchen equipment and has its own standard roles for making the sandwiches.

**Shila** was founded in 2001 and is focusing on offering healthy foods. It has approximately 8 branches in Tehran, and a separate company for management consultancy.

**Super Star** is from Kuwait and was founded in 2004 as a top Iranian fast-food establishment. There are 8 branches in Iran, which offer fried chicken and different kinds of sandwiches. It has an exciting layout and interior, catered towards children.

**Shahram Fakhar** is the owner of Pedare Khoob fast-food which was founded in 2003. Pedare Khoob has 27 branches in Iran. Approximately 1,500 people work for Pedare Khoob. It offers pizzas, sandwiches, Italian food and salads.

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2.50 **Hotdog Price [USD]**

2.63 **Hotdog Price [USD]**

2.77 **Hotdog Price [USD]**

2.77 **Hotdog Price [USD]**

3.80 **Hotdog Price [USD]**

2.66 **Hotdog Price [USD]**
ILA defines five key indicators of success for Fast-Food businesses in Iran. On many of these metrics, we believe existing branches are still well behind.

**Diversity:**
There is limited diversity of Fast-Food options in Iran. Bringing a differentiated offering to the market is important as consumers currently have limited options.

**Quality:**
Quality of product is important. So too is the quality of the exterior and interior store front. Progress has been made on this area, but there is still much further to go.

**Supply Chain:**
Supply chain management is non-existent. Maintaining the same quality at different branches is challenging.

**Human Resources:**
Workers in the Iranian Fast-Food industry require increased training.

**Location:**
Location is one the most important factors of success. Targeting the major population hubs is key.

**Fast-Food in Tehran**
There are about 2,000 Fast-Food establishments in Tehran city, of which approx. 10% are not registered.

50% of Tehran restaurants and fast food chains are located in four districts of Tehran. These are districts 1, 2, 3 and 6.

18% of Tehran restaurants and fast food chains are located within three districts of Tehran. These are districts 4, 7 and 12.

Photo by: Mahdieh Farahani
3. Fast Food Market Analysis

The Fast-Food industry presents significant opportunity for established international chains considering an expansion into the Iranian market, however it is not without its challenges.

Market Opportunities

- Large domestic market (~37m Iranians between 10-35 years of age)
- Fresh and good quality, locally sourced produce (the country of four seasons)
- Sanction relief and better international conditions
- Fast food is considered a leisure activity and a means of socializing
- An absence of large international fast food chains in Iran
- Inexpensive food material
- Inexpensive labor
- Changing Iranian lifestyle; rapidly modernizing (more demand for fast foods)
- High rate of urbanization in Iran, moving more people into the larger cities

Market Challenges

- Poor supply chain management
- Less educated labor
- Lack of international experience in market
- A notable demand gap between Tehran and other cities

We believe many of these market challenges will be addressed over the next 5-8 years, as the Iranian market further opens up to international competition.
4. Conclusion & Outlook

This white paper gave a brief introduction to Iran’s fast food market. Key figures and facts in regards to the industry include:

- 79 million Iranians (23.8 million families) are spending 6.3 billion USD annually eating at restaurants according to official statistics in 2013.
- Iranian families currently spend 2 billion USD annually on Fast Food (~$85 USD per family).
- During the 8 years from 2005 to 2012, Iranian spend on restaurants increased by 120% and in the coming years this increase rate is forecast to be significantly higher.
- We believe less than 5% of Iran’s Fast-Food business are of High Quality and Reputable in City/Country.
- Approx. 30-40% of Fast-Food brands have Medium Quality and Reputable Locally.
- Approx. 55-65% of Fast-Foods have low quality and junk food.

Iran is an emerging and growing market, providing existing businesses with an exciting opportunity for expansion. Iran has favorable demographics (a large and young population), rising rates of urbanization and a population who are increasing turning to Fast-Food as a means of socializing. At present there is no dominant business in the market and the majority of existing businesses lack the quality and efficiency of their global counterparts.

Of the challenges facing new entrants, the most notable is the lack of an established Supply Chain Management system, which makes maintaining the same quality of product and service from store to store challenging. However we believe these challenges will be addressed over the next 5-8 years, as the Iranian market further opens up to international competition.
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About ILIA

ILIA Corporation is a management consulting firm in Iran
ILIA Corporation advises clients on market entry, strategy, and operations. We develop practical, customized insights that enable clients to act upon and transfer skills that are market specific. Founded in 2008, ILIA has offices in Iran, Germany, and China.

What sets us apart
We believe a consulting firm should be more than an adviser – thus we put ourselves in our clients’ shoes, selling outcomes rather than projects. We align our incentives with our clients’ by linking our fees to their results and collaborate to unlock the full potential of their business.

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