Home Appliance Industry in Iran

current status, opportunities and threats.

June 2018

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Iran Home Appliance Industry at a Glance

- Exported (2016): 245 million USD
- Imported (2016): 652 million USD
- Direct employment (2016): 30,000 +
- Active manufacturing units (2016): 560
- Geographical distribution of production facilities: Khorasan, Esfahan, Tehran, East Azerbaijan
- Market Value (2016): 5.7 billion USD
- Refrigerators and Freezers Produced in 2016: 1,070,000
- TV’s Produced in 2016: 1,530,000
1. World Home Appliances Industry

The home appliance industry is one of the most profitable industries in the world. The global revenues are estimated at 202 billion USD with 5.3% annual growth between 2011 to 2016. By 2020, annual turnover for the industry is expected to reach 344 billion USD, which assumes a CAGR of 6.1% between now and then. Globally the industry employs over 1 million people.

The market can be categorized into two main sectors:

- **Mature markets**: These primarily include Europe, America and Australia. Growth is low in these markets and sales are dominated by consumers need to replace and/or upgrade existing appliances.

- **Growth markets**: This includes economies such as India, China, Brazil and the Middle East. These markets accounted for over 70% of all appliances bought in 2014. The major driver for this has been the rise of per capita income in these markets and particularly that of the growing middle class.

Home appliances make life easier and ultimately more efficient. Hence with a growing middle class comes an increasing demand for such products. Further, urbanization, a rising working class population and new product development are also helping to spur growth in this industry.

A major constraint is the cost of these appliances. Home appliances require a significant investment in technology, which ultimately is bourn by the consumer in the sale price of these goods.

| Global sales by leading home appliance manufacturers in million U.S. dollars [2013] |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 29,127                      | 19,544                      | 19,164                      | 18,769                      | 16,763                      |
| Haier (China)               | Midea (China)               | Gree Electric (China)       | Whirlpool (US)              | AB Electrolux (Sweden)      |
| 13,957                      | 5,846                       | 5,527                       | 4,369                       |
| BSH Hausgeräte GmbH (Germany) | Arçelik A.Ş. (Turkey)       | Group SEB (France)          | Miele & Cie (Germany)       |
Home appliances are used by all urban and rural segments in Iran and are commonplace in both households and offices. However, the production of these appliances internally is unable to meet the demand of the country, and therefore presents a significant investment opportunity.

There are more than 550 small and large manufacturing facilities operating in Iran. These are primarily located in Khorasan, Esfahan, Tehran, East Azerbaijan, Kerman, Gilan, Alborz and Ghazvin.

More than 30,000 people are directly employed by the sector as well as tens of thousands more indirectly through different fields of sale, distribution and after-sales services.

In Iran there are more than 20 million households and it is estimated that the market value to furnish these with the required home appliances is 5.7 billion USD.

Domestic production provides more than 60% of the markets needs, with imports covering the remainder.

Raw material inputs required, including steel, aluminum, copper, brass sheets and petrochemicals are produced locally. In recent years, most intermediate parts such as electromotors and valves are being produced in Iran as well.

There are 23 Research and Development centers focused on production units and 6 industrial and mining centers licensed by Iran’s ministry of industry, mine and trade.

<table>
<thead>
<tr>
<th></th>
<th>Refrigerators and Freezers</th>
<th>TV’s</th>
<th>Washing Machines</th>
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</thead>
<tbody>
<tr>
<td><strong>Production in 2015</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>[numbers]</td>
<td>943,000</td>
<td>1,380,000</td>
<td>500,000</td>
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<tr>
<td><strong>Production in 2016</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>[numbers]</td>
<td>1,074,000</td>
<td>1,530,000</td>
<td>860,000</td>
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<tr>
<td><strong>Export in 2016</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>[numbers]</td>
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<td>0</td>
<td>866</td>
</tr>
<tr>
<td><strong>Import in 2016</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>[numbers]</td>
<td>45,360</td>
<td>170</td>
<td>42,200</td>
</tr>
</tbody>
</table>
Imports & Exports

Imports still play an important role in the Iranian home appliance landscape. It is estimated that 650 million USD is through official channels, with the vast majority being smuggled in unofficially to avoid tariffs and taxes. The main items imported are air conditioners, washing machines and dishwashers.

Nearly 250 million USD annually is exported to Iraq, Afghanistan, the Middle Asia and Africa. Water coolers, refrigerators, freezers, gas heaters, ovens, sewing machines and water heaters are the dominant products exported.

Since intensifying sanctions against Iran and resource constraints, the government banned the import of CBU* home appliances (since 2011). This led to decline in imported home appliances in recent years.

* Complete Batch Unit
Key Players

There are several Iranian players in the industry. The most important manufacturers in each sector of the industry are the following:

- **Coolers:** Absal, Pars, Pakshoma
- **Washing Machines:** Sinjer, Pars, Snowa
- **Freezers & Refrigerators:** Emersun, Snowa, Pars, Sinjer, Electro Steel
- **Televisions:** Pars Electric, Sanam Electronics, Shahab
- **Water Heaters:** Butane, Iran Radiator
- **Ovens:** Sinjer, Snowa, Emersun

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Snowa was established in 2005 with a production capacity of 400 ovens per day. The production can be increased up to 1,200 units per day.

- **Employees:** 250
- **Production Capacity:** 1.1 (million units per year)
- **Founded:** 2005
- **Headquarter:** Esfahan
- **Products:** Refrigerator, Washing Machine, Oven, Cooler

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Butane was founded in 1964 in order to manufacture different home appliances, mainly boilers and radiators. The company has about 1,400 employees and in 2015, they achieved 202 million USD in sales.

- **Employees:** 1,400
- **Production Capacity:** 1.6 (million units per year)
- **Foundation:** 1964
- **Headquarter:** Tehran
- **Products:** Boiler, Radiator, Water Heater, High Power Condensing Boiler

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Pars Khazar was established in 1968 with the support of Toshiba Japan. It is the biggest manufacturer of small home appliances in Iran with more than 20 product families. Around 1,400 employees are working in the firm and its annual sales in 2013 amounted to 57 million USD.

- **Employees:** 1,400
- **Production capacity:** NA
- **Foundation:** 1968
- **Headquarter:** Tehran
- **Products:** Cooking, Vacuum Cleaner, Heating & Cooling, Food Preparation

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Pars home appliances was established in 1975, mainly manufacturing refrigerators and freezers. Pars group produced 118,900 different white goods in 2013, more than 70% of which included refrigerators and freezers.

- **Employees:** 600
- **Production Capacity:** 118,900 (units per year)
- **Founded:** 1975
- **Headquarter:** Tehran
- **Products:** Freezer, Refrigerator, Cooler, Washing Machine

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Absal was established in 1956. Its major products are washing machine, cooler and heater. 820 people are employed in the company. The annual sales in 2015 was around 43 million USD.

- **Employees:** 820
- **Production Capacity:** 1.05 (million units per year)
- **Foundation:** 1956
- **Headquarter:** Tehran
- **Products:** Cooler, Washing Machine, Heater, Dishwasher

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Pakshoma was established in 1975 and is active in manufacturing various white goods, such as refrigerators, washing machines and microwave ovens. There are around 1,000 workers working in the company. In 2009, a tight collaboration with LG could ensure a 25% market share of the washing machine market.

- **Employees:** 1,000
- **Production capacity:** NA
- **Foundation:** 1975
- **Headquarter:** Tehran
- **Products:** Washing Machine, Dishwasher, Cooler, Refrigerator, Air Conditioner, Vacuum Cleaner, Steam Cleaner, Microwave Oven

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Snowa was established in 2005, mainly manufacturing refrigerators and freezers. Pars group produced 118,900 different white goods in 2013, more than 70% of which included refrigerators and freezers.

- **Employees:** 250
- **Production Capacity:** 1.1 (million units per year)
- **Founded:** 2005
- **Headquarter:** Esfahan
- **Products:** Refrigerator, Washing Machine, Oven, Cooler

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Butane was founded in 1964 in order to manufacture different home appliances, mainly boilers and radiators. The company has about 1,400 employees and in 2015, they achieved 202 million USD in sales.

- **Employees:** 1,400
- **Production Capacity:** 1.6 (million units per year)
- **Foundation:** 1964
- **Headquarter:** Tehran
- **Products:** Boiler, Radiator, Water Heater, High Power Condensing Boiler

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Pars Khazar was established in 1968 with the support of Toshiba Japan. It is the biggest manufacturer of small home appliances in Iran with more than 20 product families. Around 1,400 employees are working in the firm and its annual sales in 2013 amounted to 57 million USD.

- **Employees:** 1,400
- **Production capacity:** 800,000 (units per year)
- **Foundation:** 1968
- **Headquarter:** Tehran
- **Products:** Cooking, Vacuum Cleaner, Heating & Cooling, Food Preparation
Iran’s home appliance industry is a profitable market for foreign operators.

Among all foreign brands, two Korean companies, Samsung and LG, have the largest market share. Importantly, during the sanction period, many Korean companies did not withdraw from Iran, helping to consolidate their footprint in the country.

Recently, Samsung opened the Middle Easts largest refrigerator factory in Tehran. To open this facility, it required foreign investment of 50 million USD and domestic investment of 82 million USD. The facility is producing 200 units daily and in the coming months is expected to reach 1,300 units.

Goldiran, the official representative of LG, will open a 32 thousand square meter factory for producing advanced washing machines this year. This is their first ever investment in Iran. Foreign investment for the project is expected to be 8 million USD and domestic investment is expected to be 20 million USD.

The Korea Economic Research Institute predicts the expanding economic cooperation between Korea and Iran will result in 84.5 billion USD of Korea’s exports reaching Iran by 2025. Home appliances is expected to account for 9.9 billion USD of this. (Source: Iran-Daily)

<table>
<thead>
<tr>
<th>Foreign Competitors</th>
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<tbody>
<tr>
<td><strong>LG</strong> (South Korea)</td>
</tr>
<tr>
<td><strong>Products:</strong> Freezer &amp; Refrigerator, Washing Machine, Dishwasher, Cooler, Video &amp; Audio</td>
</tr>
<tr>
<td><strong>Representative:</strong> Goldiran</td>
</tr>
<tr>
<td><strong>BOSCH</strong> (Germany)</td>
</tr>
<tr>
<td><strong>CANDY</strong> (Italy)</td>
</tr>
<tr>
<td><strong>Electrolux</strong> (Sweden)</td>
</tr>
</tbody>
</table>
Social & Cultural Effects On the Industry

Consumerism in Iran has been on the rise over the last decade and has become a means of showing off social status.

Iranian women, who primarily run the household in Iranian families, pay great attention to home appliances and tend to consider them for both their functionality as well as their design. They are desired not just for what they do, but for how they look and how they add to the decor of the home.

Within the country, there is a tendency towards foreign brands, particularly among the wealthy. Foreign brands are considered high-quality, durable and prestigious products.

In recent years, several campaigns have formed to encourage the support of Iranian made goods and they have received much attention from consumers. We believe these activities will likely sway consumer behavior towards locally based products, however expect it will take some time.

Dowry (in Persian Jahiziyeh) is a commonly practiced custom in Iran. It involves providing furnishing and home items for newlyweds usually by the bride’s family. According to the custom, a more luxurious dowry leads to greater respect for the bride.

“Keeping up with the Jones’s” also influences the dowry. So much so, that it encourages families to buy far more products and spend far more money on them than is really needed.

A typical dowry will see a family spend around 5,000 USD. However, it is not uncommon among more wealthy families to see somewhere in the range of 40,000 USD spent too. (www.mehrnews.com)
The official value of imports is 650 million USD annually. However, based on the government's estimation, the majority of the imported products come through illegal smuggling and are not included in this number.

A small fraction of smuggling occurs via unauthorized docks. The vast majority though comes from trafficking using alternative tariff and free zones. Despite the existence of tariffs (about 80 percent on goods) for imports of home appliances, some importers of foreign brands abuse weak laws and lack of transparency of business information. They import goods in the form of CKD* and SKD* from different origins and under different names and assemble them locally and therefore, foreign producers and these importers are able to circumvent the tariffs. The Ministry of Industry plans to ban imports of home appliances as SKD and a tariff table has been set for importing home appliances as CKD.

The following are considered as the root cause of smuggling:

- **Low risk of being caught:** The probability of detection and penalties for the crime are negligible. According to authorities, only 2 percent of contraband shipments are discovered and only 12% of these cases result in criminal proceedings.

- **Monetary Incentive:** Profits from smuggling are very high.

- **Powerful role of individuals in monitoring:** One of the reasons for the increasing smuggling is the cooperation of smugglers with those active in the monitoring system.

- **Problems in the legal import of goods:** Excessive bureaucracy, red tape, including a requirement to obtain multiple permissions from multiple agencies and a lack of coordination help to encourage smuggling over legal importation.

* CKD: Complete Knock Down
* SKD: Semi-Knocked Down
Recession

There are over 80,000 industrial factories in Iran, yet it is estimated that around 70 percent of which operate at less than 30 percent capacity. Most of these factories have a need for financial injections.

Within the appliance industry, less than 50 percent of the capacity of these factories is active with domestic manufacturers suffering from a combination of the following issues:

- Lack of cash flow
- Large imports of foreign home appliances, especially Korean ones
- Operating cost 7 to 8 times more than that of foreign competitors
- Raw material inputs which are 7 to 23 percent more expensive than their foreign competitors
- Importers of foreign home appliances spending a lot on advertising which is not comparable with domestic products

ARJ, Azmayesh, Pars Electric and Ardel are reputable local manufacturers in the white goods industry who have been having challenges with manufacturing. ARJ in particular, the first white goods manufacturer in Iran and a name that is familiar to all Iranians, officially closed in 2016 due to escalating production problems. The main reasons leading to its closure may be:

- Public administration and inefficient management policies
- Exchange rate fluctuations causing a sharp rise in imports
- Lack of strategy
- Old technology and poor quality products

Reputable local manufacturers in white goods industry facing challenges

One of alternatives for foreign investors who are willing to participate in Iran is revitalizing existing Iranian brands as the necessary facilities like land, factory and some equipment already exist.

Every year, an International exhibition of home appliances is held at the permanent international fairground of Tehran. Both domestic and foreign home appliance producers commonly attend. The first exhibition was held in 2001. Thus far, 15 courses have been held. Italy, Germany, France, Turkey, China are amongst the foreign countries regularly attending this fair.
3. Industry Analysis

The home appliance industry is a profitable one in Iran and although it has encountered problems, there are many reasons which are attracting industry participants to invest in the country.

**Strengths**
- Raw materials required by the industry can be produced locally
- Availability of a young and talented workforce
- Competent engineers in the area of mechanical engineering and electronics

**Weaknesses**
- Low efficiency of production
- Cash flow management of companies
- Low R&D investment in this field
- Uncompetitive prices as compared to international markets
- Poor brand management
- Low level of cooperation with international key players
- Low capacity for producing suitable components and parts
- A large number of production companies, however, most of which are small production factories with low capacity

**Opportunities**
- Proximity to export markets: Afghanistan, Iraq, Armenia and Tajikistan
- Rising demand due to the increase in consumption power of the people in suburbs, small towns and cities
- Good access to energy resources

**Threats**
- Sanctions and its side effects on industry
- Large amount of imports of similar products through unofficial channels that are not taxed
- Weak export know-how / infrastructure for industrial production
- Customer preference towards foreign brands, even though local products are of good quality

For the industry, the following vision for 2025 has been set:

“Maintaining the second position within the Middle East, having at least one local brand present in the international market place, and producing 16 million units, as well as achieving exports worth 3 billion USD.”

<table>
<thead>
<tr>
<th>#</th>
<th>Index</th>
<th>Measure</th>
<th>Output [2014]</th>
<th>Target Output [2025]</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Refrigerators</td>
<td>Million Units</td>
<td>2.4</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Washing Machines</td>
<td>Million Units</td>
<td>1.7</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Water Coolers</td>
<td>Million Units</td>
<td>2.2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Ovens</td>
<td>Million Units</td>
<td>3.2</td>
<td>5</td>
</tr>
</tbody>
</table>
4. Conclusion & Outlook

With more than 20 million households, Iran is a large potential market for the home appliances industry. In fact, it is estimated that the value of products required by these households is more than 5.5 billion USD per year.

There are several large domestic manufacturers in the market however the industry is fragmented. More than 600 factories are active in Iran and are capable of producing more than one million TVs and more than one million refrigerators per year.

For many reasons, amount of imported goods are still larger than that of local production. In some sectors such as video and audio equipment, more than 90% of the market is in the hand of foreign brands.

In 2016, the official value of imports was 650 million USD. The vast majority of imports however came through unofficial channels.

Iran provides a great opportunity for international players for the following reasons:

• A proximity to export markets: Afghanistan, Iraq, Armenia and Tajikistan
• Rising demand due to the increase in consumption power of the Iranian people
• Strong access to energy resources

Already, there are some big international players including LG, Samsung, Daewoo currently active in the market.

We hope that one day Iran plays an important role in the 400-million consumer strong market in the region and we believe it can be made possible should suitable international partners be found.