

Case Study

Navigating Business Expansion in Regulated Market: Opportunities and Challenges of Business Expansion in Armenia

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Received: 13 June 2024

Accepted: 20 August 2024

Online: 22 September 2024

Abstract. We discuss the opportunities and challenges that are faced when businesses consider expanding into Armenia. Armenia has experienced multiple economic growths, exceeding 12% in 2022 and solidifying its position as the fastest growing economy among former Soviet countries. However, despite the economic boom, businesses venturing into Armenia encounter a complex regulatory environment with a growing tech industry, lack of government bureaucracy, limited market size, limited trading process, as well as corruption remains an issue. Armenia's successful companies like PicsArt, Krisp and Softconstruct are the future growth for Armenian Tech, as they help foreign investors to see the positive image and will help to operate its expansions in the Armenian market and globally. Coca-Cola HBC Armenia's aim is to become a leading beverage partner for every consumer. Therefore, *Coca-Cola HBC Armenia's* strategies were to have anti-bribery training and foster partnerships to promote and navigate foreign markets in Armenia. The study needs more research on business expansion in Armenia, as the study had limitations. Overall, Armenia presents opportunities and challenges expanding into the Armenian market. Armenia's economy will grow much harder and more successful.

Keywords: business; growth; expansion; challenges; opportunities; market.

Citation: Anzhela Sargsyan, Bahman Peyravi (2024) Navigating Business Expansion in Regulated Market: Opportunities and Challenges of Business Expansion in Armenia. – *Applied Business: Issues & Solutions* 1(2024)22-25 – ISSN 2783-6967.

<https://doi.org/10.57005/ab.2024.1.4>

JEL: M10; M30.

Introduction

Armenia's economy is booming, but can businesses navigate the complex regulations to achieve success? In recent years Armenia has experienced multiple economic growths, exceeding 12% in 2022 and solidifying its position as the fastest-growing economy among former Soviet countries, according to Ref. [1]. This growth can be attributed to factors like increased foreign investments, and a growing domestic market, particularly in the capital city of Yerevan. However, despite the economic boom, businesses venturing into Armenia encounter a complex regulatory environment, especially in sectors like healthcare, finance, and food and beverage, due to stricter global standards and oversight, according to The International Trade Administration [2]. Failure to navigate these regulations effectively can lead to delays, financial penalties, and even hindered operations. In this study, we will examine the problem of why businesses face challenges when considering expanding in Armenia. What is the cause of that? We will deep dive into the understanding of navigating specific regulations in the country. We will use case studies and different government official sources to gather all the information. We will discuss how businesses must have the knowledge and resources to successfully navigate the Armenian legal landscape and achieve a compliant and successful expansion in the market.

According to The International Trade Administration [2] Armenia is a small market that has faced long-term geographical and geopolitical challenges to its economy, including the closure of two of its four international borders. Yet Armenia's economy continues to perform well, with the real GDP growth reaching 12.6 percent in 2022 fueled by large foreign exchange and migrant inflows and an improving business environment. Much of the growth was driven by booms in construction industry services and trade. The UN's new world economic situation and prospects report for 2023 largely bears out that figure, putting Armenia's estimated real GDP growth in 2022 at 14%. According to the UN, that gives Armenia the high-

est year-on-year growth of any former Soviet country. While Armenia boasts a growing economy and a promising domestic market, particularly in Yerevan, it also presents a regulated environment for businesses. This is especially true for highly regulated sectors like healthcare, finance, and food and beverage, due to stricter global standards and oversight. Navigating these regulations becomes crucial for successful expansion, as it helps businesses to:

- a) reduce legal and financial risks associated with non-compliance;
- b) enhance brand reputation and trust by demonstrating a commitment to ethical practices and compliance;
- c) improve operational efficiency by avoiding delays and penalties associated with noncompliance;
- d) make informed decisions throughout the expansion process by anticipating regulatory requirements and ensuring a smooth entry into the market.

This article aims to inform readers about the economic situation and the legal environment in Armenia, focusing on their importance for business expansion. Also, to provide comprehensive and practical guidance to businesses that are considering expanding into Armenia, a regulated market, by adopting specific regulatory legislation and giving away their chances of success. The goal of the topic: The goal aims to introduce and inform businesses about the key concepts as they expand in Armenia. As well as, to help businesses develop deliberate and successful expansion strategies for the Armenian market. Also, provides businesses with the knowledge and resources to navigate the legal environment.

Businesses considering expansion into Armenia face challenges in understanding and navigating specific regulations related to their services and products. This can cause delays, and compliance risks, and ultimately hinder their success in the marketplace. The research Question of this study is as follows: - How can businesses effectively navigate the regulatory environment in Armenia to achieve a successful and compliant expansion?

1. Literature overview

In [3], it was referenced that after regaining its independence, Armenia found itself in a very complicated geopolitical and economic situation. However, even in this complicated situation, many saw a potential in Armenia to become a "transition success story". Therefore, In 2022, Armenia experienced impressive economic growth, emerging as the fastest growing country in Eastern Europe and Central Asia. These events have included the 2018 Velvet Revolution, the 2020 twin shocks of the COVID-19 pandemic and the conflict with Azerbaijan, the War between Russia and Ukraine, and more than 100,000 ethnic Armenians fleeing into the territory of Armenia in 2023, according to [1]. This caused a huge inflation for the Republic of Armenia, as they started to increase their products and services. For businesses to expand and open a business in the Armenian market, they have to should understand the disadvantages and advantages of opening in Armenia, what the issues can might be and how to overcome them.

First of all, Armenia's geographical location can be a difficult situation and beneficial, as Karen Mkrtychyan in his recent interview [4] talked about the financial economic advantages of Armenia, he proceeded to state: "In 2017, we will make a major push to inform the global investor community about the advantages Armenia has to offer as a gateway to the regional markets". In this interview Mkrtychyan spoke about a *One-Shop-Stop*, that could provide more investors to support and see the potential success and interest of services in the Armenian market. Thus, he adds: "We will also continue with our export promotion activities by helping Armenian exporters participate in international trade fairs and organizing our landmark export promotion event, the Made in Armenia trade show". This gives a clear view, that the branding of "Made in Armenia" trade show, it is a success to the Armenian market by showing the benefits of the trading process in regulated markets, according to [4].

Armenia has enacted various policies to create a favorable climate for foreign investments, focusing on Investment Protection, it provides guarantees against expropriation, nationalization, and discrimination, and ensures fair and equitable treatment for foreign investors. Moreover, Armenia's government offers a range of incentives to attract foreign investment, including tax exemptions and reductions, as well as access to preferential financing [5] which can help to develop more successfully. The Armenian government has taken measures to streamline administrative procedures, reduce bureaucratic obstacles, and enhance transparency. As Karen Mkrtychyan previously spoke about the *One-Shop-Stop*, it has led to the implementation of an electronic system for business registration and the establishment of a *One-Shop-Stop* has significantly improved the ease of doing business in the country, according to [5].

Armenia has witnessed a steady increase in FDI over the past few years, with several significant investments contributing to the country's economic growth, the investments include: The development of the *Amulsar gold mine* by *Lydian International*, a Canadian-based mining company, which has attracted an estimated investment of US\$425 million. Once operational, the mine is expected to have a significant impact on Armenia's economy and create numerous job opportunities. The construction of the *Ararat Wind Farm*, a US\$150 million investment by the United Arab Emirates-based company *Masdar*, will significantly increase Armenia's renewable energy capacity and contribute to the country's energy diversification strategy. The *Tumo Center* for Creative Technologies is an innovative educational center, founded by the Armenian entrepreneur Sam Simonian, has received substantial foreign investment and has

become a hub for technological and creative education in the region, according to Ref.[5].

Armenia has a strong entrepreneurial culture, and its growing tech industry has attracted significant investment from international players. The country's favorable business environment, skilled workforce, and strategic location make it an attractive destination for foreign investors, according to [6]. These are successful Armenian companies that have expanded globally.

Firstly, *PicsArt* is a popular photo and video editing app developed in Armenia. The app has over one billion downloads worldwide and is available in over thirty languages [7]. *PicsArt* is giving possibilities for the Armenian community to be a leader in the IT center, to show businesses how capable they are in the sphere.

The second successful company in Armenia that has been expanded is *Krisp*, which is an AI-powered noise-canceling app developed in Armenia [8]. This helps foreign investors to see the positive image for Armenian Tech, which can lead to more future growth.

As mentioned before, IT is very popular and important for Armenian society: *SoftConstruct* in Armenia has expanded its operations globally, opening offices in Malta, the United Kingdom, and the United States, several companies, such as *BetConstruct* and *Fast-Shift*, to expand its portfolio and increase its market share to continue the growth and success in the Armenian tech company, according to [9]. According to Rafael Kobalyan, The Head of Technology, he cites: "I have had an exciting career pathway. All this started six years ago when I was a student deeply in love with information technologies since childhood. So, the Company gave me a chance to try myself as a Customer Support operator while being an Informatics and Applied Mathematics student. Shortly afterwards, I was immensely captured by the gambling industry and its fast-growing dynamics, leading to my current position and growth" [10]. This site provided us with a reason to believe how many opportunities the industry has for the people to shift and develop in a position they always wanted. This gives a clear view that foreign companies and workers who want to have a successful business in Armenia would have the great opportunity to create and develop their business in Armenia.

Despite the great opportunities, expanding to Armenia may be a bit challenging. Armenia's Market Challenges can have issues with complaining about regulatory processes general inefficiency and lack of capacity within the government bureaucracy, though companies uniformly note the improved ease of doing business, according to The International Trade Administration [2]. Armenia's challenge is the lack of market competition, which is the result of high-power groups that control the economy. Despite a welcoming legal framework for foreign investment and straightforward official procedures for starting a business, market entry can be hindered in practice by lingering corruption, weak law enforcement, and collusion between business interests and politically connected individuals, which can be crucial for the Armenian economy, according to International Trade Administration [2].

Another problem that Armenia is facing is the small market size and closed borders with two of its four neighbors (Turkey and Azerbaijan) that limit the opportunity for merchandise trade, [2]. Usually, the trading transport goes through Georgia. Armenia's major trade outlets are high, and frequent delays at the sole border crossing point between Georgia and Russia, which creates a chokepoint for Armenian trade. Trade with Iran is limited, restricted by international sanctions, poor transportation infrastructure, and protective Iranian market practices, this shows how difficult it is for Armenia to have a trading process with the neighbors, according to The International Trade Administration [2].

Despite the challenge, In May 2015, the United States and Armenia signed a Trade and Investment Framework Agreement (TIFA). The TIFA provides strategic principles for dialogue on trade and investment issues. The agreement creates a platform for high level engagement to discuss issues of mutual interest with to improve cooperation and enhance opportunities for trade and investment between Armenia and the United States, the goal is to strengthen both country's economic situation for future trading market process, according to [11]. While the lack of market competition and trading processes were difficult, corruption remains a terrible issue, although Armenia has made substantial improvements in international anti-corruption rankings, it remains a significant problem. On the 2021 Corruptions Perceptions Index (CPI), Armenia has a score of 49/100, earning it a rank of 58 out of 180 countries, according to *Transparency International* [12]. Such an increase indicates that Armenia is perceived to have made impressive progress in tackling public sector corruption since the Velvet Revolution. However, Corruption and mismanagement within the customs service have created a global problem for traders, but it shows that everything is starting to slowly change, according to The International Trade Administration [2].

2. Case study

Coca-Cola's operations and market strategies in Armenia are discussed here, focusing on its market penetration, consumer behavior, and competitive landscape within the country [13]. *Coca-Cola* entered Armenia shortly after the country regained independence in 1991, demonstrating a commitment to the developing market. According to the Sustainability Report [14], *Coca-Cola HBC Armenia* the vision is to become the leading 24/7 beverage partner in business by growing with customers and ensuring that they have a beverage for every consumer at any moment around the clock. The market strategies of *Coca-Cola HBC Armenia* are promoting economic growth, minimizing environmental impact by directing the efforts towards World without Waste initiatives, and community development. These strategies were established in 2010, the main target of which was to minimize carbon footprint in the supply chain and reduce water use in manufacturing by 2020, which led to reducing water by 16% and by 37.5% were decreased carbon footprint along the supply chain to be held in the marketplace [14]. This shows a lot of value and trust in the case of *Coca-Cola HBC Armenia*, as their aim is to become a leading beverage partner for every customer.

Coca-Cola HBC Armenia has a strict Anti-Bribery Policy to show respect and principles to its business partners and operations. According to the Sustainability Report [14], all new employees are obliged to pass Anti-Bribery training to ensure their complete understanding of the relevant anti-bribery and anti-corruption regulations. Any worker who is suspicious of the worker's behavior can simply write anonymously about the action and behavior. From 2019 no risk of corruption was identified [14]. This shows how hard it is for the company to prevent any corruption.

To show this demanding work of *Coca-Cola HBC Armenia*, they connect with various business associations to work and promote practical businesses within Armenia. On July 20, 2021, *Coca-Cola HBC Armenia*, in cooperation with the Armenian British Business Chamber, organized a special visit to its Visitor Center hosting the Ambassador of the United Kingdom to the Republic of Armenia, UN Resident Coordinator, President of the ABBC, as well as other representatives from partner organizations. These informative gatherings are part of *Coca-Cola HBC Armenia* ongoing commitment to fostering partnerships and nurturing long-lasting relationships with

its stakeholders. Moreover, to navigate foreign markets to come and expand in Armenia [13].

3. Discussions

The Case Study revealed major differences in opportunities and challenges when expanding to Armenia. In this article, we can say that Armenia has become a "successful story". Based on the article we can say that Armenia went through a lot of difficulties and challenges, but also went through great opportunities, which are: economic growth, successful companies expanding in Armenia, having trade agreements with the USA, and fewer and fewer corruption operations in the country. The successful companies that expanded to Armenia, such as *PicsArt*, *Krisp*, and *SoftConstruct* created a chance to progress and grow to show the future of IT in Armenia. With these successful businesses, the Armenian economy will grow much harder stronger and will work faster to show foreign investors how important it is for foreign companies to expand in the Armenian market. In cases like *Coca-Cola HBC Armenia*, it is important to view emphasize that to have a successful business you have to should have a strategy and values. In this case, you have to have strict rules to cooperate with the regulations, as mentioned in the article: "All new employees are obliged to pass Anti-Bribery training to ensure their complete understanding of the relevant anti-bribery and anti-corruption regulations. Any worker who is suspicious of the worker's behavior, can simply write anonymously about the action and behavior", stakeholders and partners will view this as a start for new success, as they are against corruption. Moreover, *Coca-Cola HBC Armenia* organized a business hosting event with foreign investors to foster partnerships and have a long-lasting relationship with stakeholders. Therefore, the result of this article is provided with reasonings, examples, challenges and opportunities.

In this article, we address the opportunities and challenges faced by businesses considering expansion into Armenia. As aforementioned, economic growth could be an exciting opportunity for businesses to expand, considering 2022 when it will become the fastest-growing country in Eastern Europe and Central Asia. A growing economy creates a major increase in consumer spending in the market, which creates a clear view of engaging and building a successful business in Armenia. The success stories of Armenian companies like *PicsArt*, a photo editing app with over one billion downloads, and *Krisp*, an AI-powered noise-canceling app, both of which have achieved global success. It shows the potential for foreign businesses to thrive in the Armenian market. Thus, while expanding into a new market it can be incredibly challenging. As mentioned in this article, Armenia still faces bureaucratic hurdles and a limited market size due to its geographical location. These challenges should be considered when expanding to Armenia, but overall, there's there are a lot of great successful businesses in Armenia that are still working and making a great name in the current market.

We acknowledge some limitations to the study. The limitations are due to the lack of resources. This article is mostly based on government official sites and some research on different topics. These limitations are important to notice, as they help the readers to see the lack of information and resources, so it helps people to also write and deep dive into the business expansion in Armenia to better understand and help to improve the expansions in Armenia. In conclusion Armenia's booming economy presents exciting opportunities for businesses seeking expansion. The positive developments based on this research are that: Armenia's economy has experienced impressive growth, becoming the fastest-growing country in Eastern Europe and Central Asia, with estimated real GDP

growth in 2022 at 14%. The government offers various incentives to attract foreign investment, including tax breaks, access to financing, and streamlined administrative procedures; Armenia boasts a strong entrepreneurial culture and a flourishing tech industry that has attracted significant international investment; Successful Armenian companies like PicsArt and Krisp have expanded globally, displaying the country's tech capabilities.

Conclusions

The challenges that the Market experienced are following. Despite improved ease of doing business, complaints persist regarding regulatory processes and government bureaucracy. Lack of market competition due to vested interests hinders fair competition for new entrants. Lingering corruption, weak law enforcement, and connections between businesses and politicians can create entry barriers. Armenia's small market size and limited trade opportunities with neighboring countries restrict economic growth.

As well as *Coca-Cola* HBC Armenia provided a great idea for the future success in expanding to Armenia, from strategy and values, and from business events for foreign investors to see the potential to expand their businesses to Armenia. We discovered strong limi-

tations, as there was not a lot of research based on the topic. Most of the research I took was from the government official websites. Armenia's market is still growing for the best and could have significantly greater success for the people and for the businesses.

Abbreviations

CPI	-	Corruption Perception Index
GDP	-	Gross Domestic Products
TIFA	-	Trade and Investment Framework Agreement

Authors' contributions

Anzhela Sargsyan and Bahman Peyravi initiated research concept and design, Sargsyan collected and analysed data. Both authors interpreted data and prepared the manuscript. Peyravi prepared the theoretical overview, approach and requirements, whilst both authors prepared other parts of the manuscript. Sargsyan prepared and Peyravi reviewed the initial draft of the manuscript. Both authors reviewed and approved the final manuscript.

Conflicts of interest

All authors declared at they have no conflicts of interest.

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