The IT Market: A Middle East Perspective

An overview of business opportunities for innovative new companies
This report by Dubai Internet City, a Member of TECOM Investments, highlights the opportunity for new IT providers across the Middle East region.

About Dubai Internet City
Dubai Internet City (DIC), a member of TECOM Investments, was established in 2000. It is currently regarded the Middle East’s largest information and communications technology (ICT) cluster. Built as a strategic base for companies targeting emerging markets in several neighbouring regions, DIC’s core focus area extends from the Middle East to the Indian Subcontinent, and from Africa to the Commonwealth Independent States (CIS) countries, covering two billion people with a GDP US$6.7 trillion. As a knowledge-oriented business model, DIC has created a dynamic international community of IT companies hosting business partners that include most of the Fortune 500 brands, as well as a number of small and medium enterprises and ventures.
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Preface

The rapid growth across the Middle East has been well publicized, as has the growth and demand in the IT sector across this region and that of broader Middle East and Africa. These make attractive stories and capture the business headlines.

This report addresses the IT growth and identifies opportunities specifically for small and medium businesses (SMBs) in the vibrant IT sector. We focus primarily on IT services; a segment of the regional market where we believe the greatest opportunities lie for such businesses. While there are numerous opportunities for SMBs in the hardware and packaged software segments, these segments are more hotly contested by large global players and less fragmented, thus reducing their overall attractiveness for SMBs.

Our objective is to identify the key success factors for SMBs operating in the region. We provide an overview of the most common entry strategies, highlight the general entrepreneurial environment, and discuss opportunities within the Gulf Cooperation Council market (including the national markets of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) and Egypt and Jordan. Opportunities in other countries in the region, and many rapidly developing African countries, are beyond the scope of this study.

The basis of the study is primary research, including one-on-one interviews with a wide range of participants from IT buyers and providers to industry experts. Information from the interviews was combined with market data, commentary, and A.T. Kearney analysis to form the perspectives contained within. The findings have been tested within the global A.T. Kearney network and Dubai Internet City, and with multiple industry sources.

Although designed to provide a useful indication of trends and order of magnitude in the IT services sector, the information and analysis in this report is subject to change due to the dependency of IT investments on general macroeconomic and regional political events. The projections should not be used as the basis for any form of investment decisions.
Acknowledgements

Dubai Internet City and A.T. Kearney would like to extend our thanks to the organizations below, and all the other industry experts and commentators who prefer to remain anonymous, who provided their valuable time and input to assist us in the compilation of *The IT Market—A Middle East Perspective: an overview of business opportunities for innovative new companies.*

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EMITAC
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Intel Corporation
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Mobitrans
Nakheel
neXgen
Oracle
Ras Info Tech
Schnabel
SPT Group
Symsoft
Temenos
TNT
Dubai Internet City (DIC), the largest ICT cluster in the Middle East and North Africa encompassing more than 1,000 companies, is pleased to develop this white paper, *The IT Market—A Middle East Perspective*, a comprehensive IT-oriented view into the business landscape, leading industries and growth opportunities.

Dubai has it all. As the business center of the region, it is a fast-paced microcosm of the Gulf countries, with growing local industries and close access to opportunities in Egypt, Saudi Arabia and Africa—a region where IT market demand is estimated at US$40 billion.

The regional IT sector in the Middle East and North Africa is emerging as one of the most dynamic, thriving IT environments on the globe. The IT industry in this region is growing as industries such as financial services, telecom, real estate, hospitality and process industries strive to improve their capabilities and introduce innovative solutions to a growing market.

DIC has been a key contributor to the IT industry development. Established in 2000 as a member of TECOM Investments, DIC has endeavored to facilitate and foster the development of a vibrant information and communications technology community in the UAE and throughout the region.

Capturing the insights of the DIC community on how to be successful were vital to this study and serve as a basis for existing companies to investigate new potential market segments and as a guide for new companies entering the region, helping to ensure their success. Within DIC we have seen companies enter the market at early stages of development and quickly grow by taking advantage of the community and ready access to potential clients. We are proud of these companies’ successes and congratulate them on their achievements.

We are pleased with the depth of analysis that A.T. Kearney has captured in this study, and thank them for providing a comprehensive perspective on the regional IT market and its opportunities. We also thank the member companies that participated in this study. Without their valuable input, this report would not have been possible.

Whether it is the unique aspects of serving consumers, tapping into a cutting-edge and highly mobile community, or merely partaking in an IT economy experiencing rapid growth, this report will help provide a starting point for better understanding these opportunities and serve as a point of entry into the local market.

This report is about meeting the challenge to create a new future—a visionary future that seizes today’s opportunities to drive future success by building IT capability into the leading businesses of the region and the globe. We hope you enjoy reading through our perspectives.

Malek Al Malek  
*Executive Director*  
*Dubai Internet City*
Introduction

The Middle East region has experienced tremendous growth over the past decade, with Dubai leading the charge in economic development and diversification. Growth in the IT market has gone hand-in-hand with this diverse industrial expansion, and the Middle East/Africa region is expected to spend US$40 billion on IT in 2008. A focus on the Middle East region alone (including the UAE, Qatar, Bahrain, Kuwait, Saudi Arabia, Oman, Egypt and Jordan) reveals a healthy market demand of around US$13 billion in 2008 (see the Middle East: a Market Full of Opportunity on page 1).

The level of sustained growth across the region has resulted in a proliferation of opportunities for new businesses and a rise in entrepreneurship. A rich, trading-based history and a market dominated by government and large family-owned conglomerates are moving the region towards a more dynamic, agile business environment in which cutting-edge solutions and creativity are sought after.

Governments and private enterprise are increasingly focused on how they can operate more efficiently in order to compete in a market where barriers for entry are coming down, foreign investments are up and customers are more demanding. Opportunities are there for the taking for organizations that bring to the table the best the international market has to offer and can create solutions tailored to the Middle East market.

The advent of free zones allowing 100 percent foreign ownership is helping to reduce red tape for new businesses and allowing them to overcome previous barriers to trade. In addition, government and private enterprise are both supporting a wide range of initiatives designed to foster innovation and entrepreneurship. Evidence of this can be seen in institutions such as the Mohammed Bin Rashid Establishment for Young Business Leaders and the Arab Business Angels Network (ABAN), which were created to foster entrepreneurship through a range of training, support and financing programs (see sidebar: Spotlight on Entrepreneurship on page 2).

The information and communication technology industry has benefited from this trend. Entrepreneurs, both local and from abroad, have been finding success across the industry—from IT consulting and systems integration to hardware and software installations and custom applications development. With the IT market continuing to evolve and buyers searching for more advanced and customized solutions, opportunities for new entrants are expected to grow. The fastest-growing segment of the market is IT services, which is expected to increase by about 13 percent annually over the next few years. (The case studies included in this paper offer prime examples of IT players that have succeeded in the Middle East market.) The market also has invested heavily in hardware, infrastructure and packaged software in previous years, and while investment in these segments will continue at around 12 percent growth, attention is increasingly turning to the provision of services.

The rising need for IT services has been driven by two major factors: continuous economic growth and industry buyers looking to extract further value

“"The Middle East is at an inflection point as several business trends are reshaping the economies of the Middle East. These include the growth of the Internet, the expansion of private equity investment, and the emergence of entrepreneurs who are driving diversification away from oil.”

— World Economic Forum on the Middle East, Putting Diversity to Work

1 Cherrayil N., “IT spending in Middle East to exceed $40 billion this year,” Gulf News, March 2008.
from their IT investments. Organizations in the public and private sectors are leveraging IT in order to differentiate how they go to market, improve internal operations and boost profitability.

Financial services and telecommunications are major buyers in the Middle East (as is the case globally). The competitive business climate in these sectors is heating up rapidly as governments move toward deregulation and new players enter once-closed markets. These buyers are looking to differentiate themselves with go-to-market strategies and to improve their performance in expanding distribution channels—and they are seeking out specialist service providers to help them achieve these business objectives. In addition, the implementation of international standards and regulations, such as Basel II, are having an impact on the financial services sector.

As they implement a raft of “e-Government” initiatives, governmental entities also are becoming big buyers in the Middle East: Regional leader Dubai e-Government, for example, is targeting a goal of automating 90 percent of it government services in the next few months. e-Payment portals, e-Permits and data integration throughout all departments are just some of the initiatives being undertaken to improve the standard of services governments provide to their citizens. Because their internal IT resources are somewhat limited, regional governments are relying heavily on private partners to help them deliver such services (see The Big Spenders on page 12).

Regional growth sectors such as real estate, manufacturing and retail, transportation and hospitality are other significant contributors to overall market demand in the Middle East. Rapid expansion and investments together with evolution of business models, such as real estate developers moving into adjacent businesses including facilities management, are driving the opportunities in these areas (see Economic Growth Drives Additional Opportunities on page 25).

New business lines also provide emerging opportunities for IT providers. Financial services, telecommunications and real estate are all evolving in the region. This, in turn, is accelerating the introduction of new products and businesses that require IT support. Trading and wealth-management solutions in financial services, mobile content and applications in

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**Figure 1:** Relative maturity of IT adoption and growth potential by industry*

* Real estate and construction and oil and gas and mining growth estimates are for Saudi Arabia, UAE, Egypt and Kuwait only

Source: A.T. Kearney analysis
telecommunications and solutions that enable the operation of “smart” buildings in real estate are just a few examples of the emerging sectors that will need IT support services going forward (see Opportunity Hot Spots throughout this report for details).

In short, IT users in the Middle East are looking for specialized providers—industry leaders that may not be the biggest but are the best. Such companies are in short supply in the market, despite increasing demand for IT support services.

Financial services companies are the most mature in terms of regional IT take-up. As one of the most IT-intensive industries globally, this is not a surprise: new channels such as internet banking, combined with an increasing focus on end customers, are key drivers. Internal platforms and processes range from state-of-the-art to slightly older technology, and this factor also is a continuing area of attention.

Telecommunications ranks second, with some variation accounting for the gap between older incumbents and start-up operators. There are also variances between take-up in launching new products versus internal operations, such as billing engines and CRM. As competition heats up in this sector, we are seeing players switching to a more customer-centric focus—with technology playing a key role.

Manufacturing, mining and oil and gas follow, with large-scale ERP and supply-chain implementations spurring demand for sophisticated technological niche applications to optimize performance. In the manufacturing sector there is variation in maturity, from large petrochemical producers, for example, to smaller operators in other industries.

The region’s well developed transportation industry and rapidly growing retail and hospitality sectors are positioned next. IT take-up in the transportation sector varies from fairly mature in the airline industry to more basic in lower-tech freight businesses. The retail and hospitality sectors are leading the way in terms of size of developments and levels of luxury, and as these projects are completed and competition increases, players will be implementing leading-edge technology. There is, however, a large number of small retail and food-and-beverage outlets that are much less advanced in IT take-up.

Government ranks in the low to medium end of the spectrum, but this sector’s activity will increase as e-Government IT systems are implemented. Still heavily focused on paper-based processes internally, Middle East governments are striving for higher levels of automation, with Dubai spearheading the trend.

Dubai: A Strategic Location

The UAE and the Emirate of Dubai benefit from their unique geographic positions as natural crossroads between Asia, Africa and Europe—a true gateway to the Middle East. Dubai has become the region’s air-transportation hub, offering flights to world business centres in Europe (six hours flying time), North Africa (four hours), South Asia (three hours) and Central Asia (three hours) (see figure 2).

Located at the entrance to the Arabian Gulf, Dubai is the economic heart of the Gulf Cooperation Council (GCC), a regional organization comprising the Arab states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The GCC common market, launched in January 2008, grants national treatment to all GCC firms and citizens of other member countries. This multilateral arrangement further reduces barriers to cross-country investment and services trade.

Figure 2: Dubai, a strategic location
Real estate and construction are considered the least mature sectors, as the majority of major players are just beginning to embrace the value technology can bring to their businesses and, in turn, to their respective industries (see figure 1 on page vii).

In the Middle East, customer proximity and a thorough understanding of local business needs are keys to success. The ability to establish relationships (or to leverage them from other activities outside the region) provides the best foundation for doing business. With demand outstripping supply, those niche suppliers that are already in the region and have local resources are reaping the rewards (see Keys to Success on page 9).

As noted previously, Dubai is central to much of the region’s growth. With real GDP expected to maintain an annual average growth rate of 11 percent into the foreseeable future.\(^3\)\(^4\) Dubai’s business-friendly environment, rich quality of life and well-developed infrastructure help cement its position as the gateway to the Middle East. A recognized economic and decision-making center, Dubai provides not only a diverse market opportunity for IT providers, but also a natural springboard from which to serve the broader Middle East region as well as Africa and South Asia (see Dubai: the Business Hub of the Region on page 37).

To sum up, the Middle East’s business dynamics present an opportunity that should not be overlooked by IT providers. A market that is continually growing—and where the services in demand are in short supply—is a market that should catch the attention of any IT entrepreneur (see sidebar: Dubai, a Strategic Location on page vii).

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\(^3\) Forecast to 2015.
The Middle East: a Market Full of Opportunity

Economic outlook: strong and sustainable growth for the region

Economic expansion in the Middle East over the past decade cannot be understated, and the region’s real GDP growth of about 6 percent is expected to continue through to 2010 (see figure 3). Successful economic reform and diversification initiatives, large infrastructure investments, higher FDI inflows and higher energy revenues are supporting this expansion.

Middle East countries are reinvesting substantial account surpluses locally and regionally in non-oil sectors, thus driving economic diversification. The UAE has led the charge to successful diversification, reducing the impact of oil revenues on the overall economy to only 35 percent of GDP. (Dubai boasts the most diversified economy, with only 5 percent of its income generated by oil-related industries.) Non-oil nominal economic growth is expected to be about 21 percent in 2008. Manufacturing, real estate and construction, financial services and tourism are key contributors to this growth.

According to a report published by Merrill Lynch, Middle East countries are expected to spend nearly US$400 billion on infrastructure projects over the next three years.5 For example, the Saudi General Investments Authority has announced a program aimed at making the Saudi economy one of the world’s 10 most competitive economies by 2010. The initiative centers on building six “economic” cities and easing regulations on foreign investment. Such government expansion programs are helping to drive investment and business opportunities across

Figure 3: Real GDP growth for selected Middle East countries

*CAGR is compound annual growth rate
Note: Local currency converted to US$ at exchange rates: 1 Bahrain dinar = US$2.6881; 1 UAE dirham = US$0.272636; 1 Saudi riyal = US$0.267058; 1 Kuwaiti dinar = US$3.77815; 1 Jordanian dinar = US$1.41403; 1 Omani riyal = US$2.60505; 1 Egyptian pound = US$0.188793; 1 Qatar riyal = US$0.275444
Sources: International Monetary Fund; A.T. Kearney analysis

Entrepreneurship is on the rise throughout the Middle East. The drive toward economic diversification and more “knowledge-based” economies is raising the profile of entrepreneurship and innovation across the region. It is estimated there are about 200,000 small and medium-size businesses (SMBs) based in the emirates of Abu Dhabi, Dubai and Sharjah.

The UAE and Dubai are at the forefront of this trend as the country’s diverse cultural profile combines with regulatory benefits gained from free zones to drive entrepreneurial activity.

Efforts to foster entrepreneurship are paying off. According to the UAE-Global Entrepreneurship Monitor (GEM) 2007 Report, the UAE has improved its international ranking from 41st to 25th in terms of promoting and enabling start-up businesses and entrepreneurship.

The UAE also improved its ranking in the number of start-up businesses from 29th in 2006 to 17th in 2007. Despite this, researchers indicate that demand for the innovative products of start-up businesses is still greater than is being supplied to the market.

There is a strong orientation toward exporting among UAE start-up businesses. According to the Global Entrepreneurship Monitor 2007 Executive Report, UAE start-up and “baby” businesses are second only to Hong Kong’s in rates of “international orientation,” defined as having at least 25 percent of customers in other countries. For start-ups only, the UAE ranks number one.

This focus on international trade also holds true for established businesses—a factor that reinforces Dubai’s and the UAE’s position not only as a strong business center, but as a springboard into the Middle East and Africa region and farther abroad.

While it is true that entrepreneurs in the region face challenges such as high operating costs, bureaucracy, access to funding and fear of failure, these obstacles are not unique to the Middle East—they are common complaints among entrepreneurs and small-business operators in any global market. But thanks to sustained market growth and an increasing demand for new, innovative solutions, what is unique to the Middle East in general—and the UAE and Dubai in particular—is the opportunity for new businesses to flourish.

The value proposition that the UAE and Dubai offers entrepreneurs centers on:

- **Strong market growth.** Providing opportunity for new players and reducing competitive intensity on the supplier side
- **Location benefits.** Including proximity to the large Saudi Arabian market and a springboard to the broader Middle East and Africa region. Exposure to the large Muslim market also allows companies to export expertise into emerging global markets such as Islamic banking
- **Incubation effects.** Allowing new companies to test and strengthen their value propositions in a diverse market where there is customer pull for leading technology and niche products
- **Exposure to market leaders** globally and regionally as Dubai and the UAE have established positions of market leadership in the Middle East, exemplified by eGovernment initiatives, and internationally as demonstrated by the development of mega real estate, luxury hotel and retail projects
- **Governments’ will** to improve the business environment by reducing bureaucracy through free-zones, enabling 100 percent ownership, and the free flow of capital
- **High levels of liquidity,** leading to funding primarily through private investors seeking opportunities to invest in regional SMBs (organizations such as the Arab Business Angels Network [ABAN] represent such funding sources)

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2 AME Info, 28 May 2008.
4 ibid.
5 ibid.
6 ibid.
7 ibid.
Successful reforms in key sectors have paved the way for the private sector to contribute to the region’s economic growth. The deregulation of telecommunications and the upgrading of local regulations to international standards in the financial sector have increased competition and quality of services. In telecommunications, for example, Saudi Arabia and Kuwait recently awarded licenses for third mobile operators. The establishment of the Dubai International Financial Centre (DIFC) and Bahrain Financial Harbour is evidence of the region’s growing financial sector.

The Gulf governments have also initiated programs designed to attract foreign direct investment (FDI) in non-oil sectors. (Dubai’s 15 specialized free zones are examples of successful initiatives.) Kuwait recently cut the corporate tax rate from 55 percent to 15 percent, following the example of Saudi Arabia, which in 2004 reduced the corporate tax from 45 percent to 20 percent.\(^6\)

An indicator of these initiatives’ success is the growth of FDI over the past five years. FDI inflows to the Middle East and North Africa (MENA) region totaled about US$80 billion in 2006, with the Gulf countries accounting for nearly 40 percent of this sum. The UAE received inflows of about US$8 billion, making it the third largest Middle East recipient of FDI behind Saudi Arabia and Turkey (see sidebar: Spotlight on Entrepreneurship).\(^7\)

The region’s reputation as an attractive FDI destination continues to spread, with the Gulf States showing significant performance improvement: For example, the UAE has jumped from 23rd place to 8th over the past two years, according to the A.T. Kearney FDI Confidence Index. The other Gulf States also have improved their ranking dramatically,

placing 17th in the Index’s ratings. That ranks them above countries traditionally considered more attractive to foreign investors, such as Turkey and South Korea (see figure 4).\(^8\) The establishment of service industry hubs, increased access to capital, a cosmopolitan lifestyle and improvements in infrastructure are key factors in the UAE’s improved performance.

**Figure 4: A.T. Kearney FDI Confidence Index, Top 25**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Confidence</th>
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<tbody>
<tr>
<td>1</td>
<td>China</td>
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</tr>
<tr>
<td>2</td>
<td>India</td>
<td>2.09</td>
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<tr>
<td>3</td>
<td>United States</td>
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<td>United Kingdom</td>
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<td>5</td>
<td>Hong Kong, China</td>
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<td>6</td>
<td>Brazil</td>
<td>1.78</td>
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<td>7</td>
<td>Singapore</td>
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<tr>
<td>8</td>
<td>Dubai/ UAE</td>
<td>1.72</td>
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<td>9</td>
<td>Russia</td>
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<td>10</td>
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<td>11</td>
<td>Australia</td>
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<td>12</td>
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<td>Japan</td>
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<td>17</td>
<td>Other Gulf States</td>
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*Low confidence Values calculated on a 0 to 3 scale High confidence

Source: A.T. Kearney FDI Confidence Index, 2007

*First time in index

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6 “Change to income tax law to attract more foreign investments,” Kuwait Times, 7 February 2008.
8 A.T. Kearney FDI Confidence Index.

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“Middle East countries are expected to spend nearly US$400 billion on infrastructure projects during the next three years.”

—Merrill Lynch

“UAE has jumped ‘from 23rd position globally to 8th position’ in FDI confidence ranking.”

—A.T. Kearney FDI Confidence Index
The Middle East IT Market: Solid Drivers of Double-Digit Growth

The Middle East IT market is expected to encounter double digit growth in the next five years with total spending expected to increase to an estimated US$17 billion by 2011 (see figure 5). This growth can be explained by four main factors:

- **Successful government policies** to develop the IT industry in order to facilitate development of a local IT industry, improve public-sector efficiency and invest in IT solutions for government services.
- **Strong economic growth** across all industries, with an increased focus on IT solutions and higher oil revenues fuelling huge infrastructure investments.
- **Reinforced liberalization and competition** favored by government reforms, increasing IT spending as industry players strive to modernize their IT equipment, improve their competitiveness and comply with new regulations (such as in the financial services sector).
- **Growing PC penetration off a small base** (27 percent in the UAE, 20 percent in Saudi Arabia) and a relatively young population in the region, indicating significant opportunity for growth by accessing this untapped market.

**The UAE: IT gateway to the Middle East market**

The UAE alone accounts for 31 percent of IT spending in the Middle East, slightly lower than Saudi Arabia’s but more than twice Egypt’s (see figure 6). This demonstrates both the early development of the IT industry in the UAE compared with the rest of the region, and the country’s high level of IT awareness (see sidebar: Opportunity in Muslim Consumer Products on page 6). In addition, most global industry leaders (Cisco, Intel, Microsoft, Oracle, SAP and others) are well established in the Middle East and have established regional headquarters in Dubai.

**IT services: the fastest growing segment**

The share of the hardware, software and IT services segments is expected to move toward stronger demand for IT services.

Buyers will continue to invest in IT infrastructure (network systems and computer hardware) as well as packaged software and solutions, but are now looking to exploit their previous IT investments to their full potential. As a result, buyers are starting to move slowly from a primary focus on building IT infrastructure and systems to a higher proportion of investment in value-added services.

**Hardware and software segments led by global players**

The hardware market in the Middle East is largely driven by increased consumer spending on personal computers and corporate and government invest-

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**Examples of IT initiatives:**

- The IT Education Project, which helped build the UAE knowledge economy by teaching IT in schools where 13,000 students pass through the program every year
- Saudi Arabia’s home-computer initiative, which helped 1 million Saudi families achieve PC ownership
- The Jordanian government’s national ICT strategy, geared to increase the size of the ICT sector, create jobs and boost internet penetration to 50 percent

Sources: MRK Foundation, Saudi Arabia Government and Oxford Business Group
ments in expanding existing infrastructure and systems. While some small and medium-size businesses are capturing a share of the personal-computer market, the hardware market remains largely dominated by international infrastructure/systems players such as IBM, Cisco, Sun Microsystems, HP, Siemens and others.

The Middle East packaged-software market also is characterized by the presence of major global players such as Microsoft, SAP and Oracle. All have established strong positions—Oracle and Microsoft are major government providers and SAP is a key supplier to the oil and gas and processing industries. Key areas of demand include customer relationship management (CRM) and enterprise resource planning (ERP) solutions.

For smaller businesses in these sectors, opportunities exist in three key areas:
1. Partnering with larger players in delivery and customization
2. Developing or importing new technology in emerging market areas, such as infrastructure for smart building in real estate
3. Reselling and distributing hardware and software solutions to the region’s growing SMB market

Opportunities in the fast-growing IT services segment

IT services is the fastest-growing of the three major market segments: it’s expected to expand by 13 percent annually through 2010. Many small and medium-size businesses are capturing market share in a wide range of IT services, including custom-applications development and deployment, IT consulting and selective outsourcing. These businesses are benefiting from the high market demand because they are flexible and can deliver products and services specific to their customers’ needs. They are also enjoying growth along with large global and regional players such as HP (through the recent acquisition of Atos Origin Middle East), Oracle, Saudi Business Machines (SMB) and Ejada.

Representing about 70 percent of the total IT services segment in value (see figure 7), the major IT services in demand are:
- Systems integration
- Hardware and software support and installation
- Application consulting, customization and custom-application development

System integration demand in Saudi Arabia, the UAE and Egypt is expected to nearly double, to about US$600 million in 2011. This demand is rising in industries, as key players in the private sector,
such as banks and telecommunications operators, continue to expand regionally and internationally, this creating the need for systems integration across the value chain. Governments are also looking for ways to share data among departments.

The combined market for hardware and software support and installation represents approximately 30 percent of the total market. Although this is a larger combined market, these services will experience slightly lower growth—an average of about 10 percent a year through 2010. Key drivers include financial services requirements for the implementation, replacement or updating of core banking systems and platforms; the implementation of ERP solutions in oil-and-gas, manufacturing and transportation; and demand for CRM in government, telecommunications and banking, to name just a few.

Application consulting and customization, combined with custom application development services, will experience strong growth due to high customization needs. Representing 15 percent of the market, these segments are expected to grow at 12 percent annually through 2010.

Opportunity in Muslim Consumer Products

With a current population of about 1.61 billion, the Muslim world represents nearly 20 percent of the global population. The Middle East therefore plays a major global role as a source of Muslim consumer products and services. Indeed, the economic rise of many of the Muslim nations means the Muslim consumer has now become the target of many product manufacturers and services providers—so much so that the size of the Muslim products-and-services market is currently estimated at US$2 trillion. The Islamic finance-products market alone is estimated to be worth US$400 billion.

IT applications for Islamic banking now include custom applications that specialize in the administration, control and management of Islamic products assets. With these market dynamics, the Middle East has the potential to be a catalyst for learning and the creation of new technologies that eventually can be exported to other parts of the world. This represents a significant opportunity for IT providers to be part of the world’s new hub of Muslim consumer products and services.

Source: A.T. Kearney, “Addressing the Muslim Market: Can you afford not to?”
Opportunities in Focus — IT Services

Attractiveness assessment approach

The IT services market is characterized by many opportunities for new entrants. Changing buyer requirements and expectations, a market far from saturation and high demand for locally based, skilled resources are driving a proliferation of gaps in the market.

To highlight the main opportunities in IT services, each country and industry has been assessed on its attractiveness to new entrants. This assessment is based on market size, growth and ease of market penetration as follows:

- Market size based on IT services spending in 2007
- Market growth based on expected compound annual growth from 2007 to 2011
- Recognized demand for new entrants
- Buyer fragmentation
- Barriers to entry and competitive intensity

Key inputs to this assessment include market research and estimates as well as feedback from industry experts, key buyers and various IT providers. In the following sub-sections, we introduce regional and industry assessments, then detail the main opportunities industry by industry. Our primary focus is on the most attractive industry sectors — finance, telecommunications and government — and we include summaries of major trends and opportunities in other industries (transportation, manufacturing, retail, wholesale, hospitality, oil and gas, and real estate and construction). Finally, we define the 10 most attractive segments for new entrants in the Middle East IT services market.

The Place to Be

The UAE and Saudi Arabia are accelerating the demand for IT services. The estimated combined demand for these two countries was about US$1.5 billion in 2007, accounting for 70 percent of the total Middle East IT services market (see figure 8).

UAE

The second-largest market in the Middle East is expected to grow 13 percent a year through 2010. As in the Saudi Arabia market, this growth is driven by the increased use of IT services by financial services and telecommunications firms responding to industry growth and increased competition. In addition, the UAE’s wide-ranging e-Government initiatives are driving investment, as are continued spending on infrastructure and economic growth (see sidebar: Who’s Who in the Middle East on page 9).

Figure 8: Amount spent on IT services by country

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>893</td>
<td>1,481</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>585</td>
<td>965</td>
</tr>
<tr>
<td>Egypt</td>
<td>168</td>
<td>263</td>
</tr>
<tr>
<td>Kuwait</td>
<td>359</td>
<td>985</td>
</tr>
<tr>
<td>Other</td>
<td>163</td>
<td>524</td>
</tr>
<tr>
<td>Total</td>
<td>2,717</td>
<td>4,461</td>
</tr>
</tbody>
</table>

Sources: A.T. Kearney estimates based on data sourced from IDC, Business Monitor International, Economist Intelligence Unit, Information Technology Association and A.T. Kearney analysis

1 Includes Bahrain, Jordan, Oman, Qatar
*CAGR is compound annual growth rate
Saudi Arabia
This IT services market will experience growth of about 13 percent annually through 2010, and its share of the regional market will grow 42 percent during the same period. The main drivers include general economic growth, large infrastructure projects and economic-cities development projects. Increased competition in Saudi Arabia’s telecommunications and financial services sectors—the result of recent government deregulation—is also driving growth.

Egypt
The IT services market is expected to grow from US$168 million in 2007 to US$263 million—a compound annual growth rate of 12 percent. Egypt benefits from government-structured IT initiatives and its market size. The country’s telecommunications, finance and manufacturing sectors are expected to continue to drive spending growth from the private sector.

Jordan
Under the leadership of King Abdullah II, Jordan has implemented a number of initiatives to engage the private sector in the IT industry. This has led to increased growth and expansion in the ICT market, resulting in healthy IT services growth in Jordan over the past eight years. The telecommunications and financial services sectors are the largest buyers of IT services in the Jordan market.

Other countries
Bahrain will continue to be an area of opportunity in the financial services and government sectors, reflecting its strong positioning in regional financial services and its ongoing e-Government initiatives. Both Qatar and Kuwait are implementing e-Government initiatives, and benefiting from substantial investments in infrastructure as a result of high oil revenues. The oil and gas, government, finance and telecommunications sectors may all present opportunities. Oman is expected to grow at a slower rate than other GCC countries, mainly due to its relatively slower economic growth.

Based on the attractiveness assessment criteria, the greatest opportunities for new entrants in these national markets remain in the two largest—the UAE and Saudi Arabia (see figure 9).

Although smaller than Saudi Arabia, the UAE leads our ranking in terms of ease of market penetration. One contributing factor is that entry barriers to the UAE market are fewer than those in the Saudi market. The generally higher level of “ease of doing business” makes the UAE a more logical entry point than its larger neighbour, Saudi Arabia.

---

**Figure 9: Market opportunity attractiveness by region**

<table>
<thead>
<tr>
<th>Country</th>
<th>Value and growth</th>
<th>Ease of market penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td>UAE</td>
<td>1.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Egypt</td>
<td>1.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1.3</td>
<td>1.7</td>
</tr>
<tr>
<td>Jordan</td>
<td>0.9</td>
<td>1.8</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Oman</td>
<td>0.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.9</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Values calculated on a 0 to 5 scale
Sources: Industry interviews, A.T. Kearney analysis

**Figure 10: Average spent on IT as a percentage of revenue in 2008**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Average spent on IT as a percentage of revenue in 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank and finance</td>
<td>6.7%</td>
</tr>
<tr>
<td>Media</td>
<td>5.8%</td>
</tr>
<tr>
<td>Professional services</td>
<td>4.6%</td>
</tr>
<tr>
<td>IT</td>
<td>4.9%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>4.5%</td>
</tr>
<tr>
<td>Education</td>
<td>4.5%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>3.9%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>3.9%</td>
</tr>
<tr>
<td>Insurance</td>
<td>3.4%</td>
</tr>
<tr>
<td>Transport</td>
<td>3.3%</td>
</tr>
<tr>
<td>Electronics</td>
<td>2.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2.4%</td>
</tr>
<tr>
<td>Consumer products</td>
<td>2.3%</td>
</tr>
<tr>
<td>Hospitality and travel</td>
<td>2.0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.9%</td>
</tr>
<tr>
<td>Construction and engineering</td>
<td>1.8%</td>
</tr>
<tr>
<td>Chemical</td>
<td>1.8%</td>
</tr>
<tr>
<td>Energy</td>
<td>1.5%</td>
</tr>
<tr>
<td>Retail</td>
<td>1.4%</td>
</tr>
<tr>
<td>Food and beverage processing</td>
<td>1.2%</td>
</tr>
<tr>
<td>Metals and natural resources</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Source: Guvvara et al., IT Key Metrics Data, 2008, Executive Summary, December 2007
Industry attractiveness assessment

According to a Gartner global benchmarking of IT spending across a number of industries, banking and finance stands out as one of the most IT-intensive industries, with an estimated average IT spending of 6.7 percent of revenue in 2008. 9, 10

The media and telecommunications sector appears prominently at the top of the list, followed by education and health care. Manufacturing, retail, hospitality and construction/engineering are less IT-intensive, with spend of less than under 3 percent of revenue (see figure 10). 11

The Middle East is following the same trend: The financial services, telecommunications and government sectors generate the highest IT services demand. Together, these sectors will account for 58 percent of the market, or US$2 billion, by 2011 (see figure 11 on page 10).

The three main industries have been profiled in detail in the following report. Their size and growth characteristics make these sectors the most attractive for IT services players in the region (see figure 12 on page 10). (See The Big Spenders on page 12 and Economic Growth Drives Additional Opportunities on page 25)
The current demand for IT-service providers with skilled resources is outstripping current supply in the marketplace. Many large systems integrators are hoping to partner with IT services providers in order to supplement the integrators’ operations with specialized skills and additional resources. These players are seeking partners that can provide implementation services and long-term support for their clients. Small- and medium-size providers also have an advantage over large players because of their ability to offer higher levels of flexibility during contract-term negotiations and contract delivery.

Buyers in all industries are increasingly interested in specialized IT services providers with industry expertise and the ability to provide customized solutions. However, the absence of specialized solution providers and the necessary resource pool is a problem. Examples of such gaps in the market include mobile applications, IT security and trading solutions for emerging stock-exchange indexes such as the Dubai International Financial Exchange (DIFX). For instance, most of the companies that currently provide IT-security services for Middle East financial institutions operate from Europe—despite buyer preferences for locally based providers. This presents a real opportunity for providers that are willing to establish a presence in the Middle East.

In looking at the Middle East and the potential market for IT services, it becomes apparent that several common factors contribute to the success of IT providers across the region’s markets and industry sectors. These factors include:

- **Relationships**: the ability to leverage international associations and build strong local business ties
- **Industry expertise**: strong industry credentials and customer references to deliver specialized solutions
- **Local presence**: the ability to put support on the ground with a team of local resources

**Figure 11**: Amount spent on IT services by industry

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>1.9</td>
<td>2.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>1.7</td>
<td>2.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Government</td>
<td>1.7</td>
<td>1.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.2</td>
<td>2.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Transportation</td>
<td>1.3</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Retail, wholesale</td>
<td>1.3</td>
<td>1.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Oil, gas and mining</td>
<td>0.7</td>
<td>1.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Real estate and construction</td>
<td>0.4</td>
<td>1.7</td>
<td>2.1</td>
</tr>
</tbody>
</table>

* CAGR is compound annual growth rate

**Source**: A.T. Kearney estimates based on data sourced from IDC, Business Monitor International, Economist Intelligence Unit, Information Technology Association of Jordan and A.T. Kearney analysis

**Figure 12**: Industry opportunity attractiveness for new entrants

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
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<td>1.9</td>
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</tr>
<tr>
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<td>2.0</td>
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</tr>
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<td>0.4</td>
<td>1.7</td>
<td>2.1</td>
</tr>
</tbody>
</table>

**Values calculated on a 0 to 5 scale**

**Source**: Industry interviews; A.T. Kearney analysis

**Figure 13**: Industry opportunity attractiveness for new entrants

**There is a lack of locally-based resources, especially in IT services.**

— Regional IT buyer

Dubai International Financial Exchange (DIFX).
• **Market commitment and flexibility**: patience, continued investment in the local market and flexibility in delivery build credibility with potential customers

• **Competitive pricing**: always has been and still is a factor in winning new businesses, even though many sectors understand the necessity to invest in quality, specialized solutions

**Relationships**

Across the region, relationships with existing buyers and current suppliers play an important role in the development of business within the IT industry *(see sidebar: Key Tips for Investigating the Saudi Market)*. Relationships and referrals from principal vendors and large systems integrators are valuable in terms of providing an entry point for new players that have yet to establish a track record in the Middle East. Principal-vendor referrals are particularly valuable in the financial services industry, with systems integrators playing a critical role in securing business in the government sector. Leveraging relationships and experience in working with the large players from outside of the region are effective ways to gain smooth entry to the region.

As mentioned by a top manager of a regional mobile operator, “Visibility and relationships are very important. For instance, the telecommunications providers regularly participate in industry events to ensure they are aware of new technology and new suppliers. That’s why it is important for new players to be present at any events where they can meet key buyers.”

Another top manager of an IT start-up states, “In the Middle East, a continuous follow-up of the client is required. It is not only about the ‘business relationship’ as it is in Europe…it is more than that and you need to really think about it.”

Still another manager of an IT-solutions provider to banks said, “Managing the scope of work during the implementation is key. And to address that properly, you need a strong relationship at a senior level in order to tackle the issues during the implementation.”

**Deep industry-specific expertise**

Demonstrated industry expertise and a good track record are moving higher on the list of selection criteria as the market moves toward an increased use of custom applications and a higher demand for industry-specific solutions. The gap in the market remains in the niche segments, with buyers looking for
providers that can bring them market-leading industry solutions to enable strategic differentiation and support competitive advantage. As many buyers still prefer to in-source their standard IT needs, the focus is on sourcing value-added services externally. Customer referrals and “Proof of Concepts” are valuable tools for any provider in the Middle East.

Local presence
A local presence can be an important differentiator in a market still served from locations outside the Middle East (such as Europe and India) and where buyers are looking for local support and knowledge that they can access handily. With the work week running from Sunday to Thursday in many parts of the Middle East, and from Saturday to Wednesday in Saudi Arabia, a local presence facilitates alignment on timing and available support when needed.

Buyers are displaying a strong preference for locally based, highly skilled resources. Strong project management skills are in demand, as are those on the technical side. These needs are exacerbated by the current shortage of capacity in the marketplace. Suppliers and buyers alike recognize this as a key success factor in the Middle East.

Adding local resources with Arabic language skills further enhances competitiveness, particularly in doing business in Saudi Arabia and in the government sector.

Market commitment and flexibility
A visible commitment to the market—in time, money and effort—is important when establishing representation in the Middle East (see sidebar: Proving the Concept). According to industry players, business development in the Middle East can require a longer lead time than in other markets, and a continued investment in the market is expected to see this through. Flexibility in delivery and focus on being able to adjust to assist customers to achieve their business objectives is highly valued. Successful players have indicated that investing in the initial account development period will build a solid platform of customer referral—and a relationship for the future.

Competitive pricing
As in the rest of the world, price is still a key success factor in the Middle East. The level of price sensitivity varies by sector, with government and financial services slightly more price-sensitive. However, this is not necessarily the most important evaluation criterion: There is also a recognition that investment is needed for quality, specialized products (see sidebar: Be a Part of the Action: Market Entry Strategies on page 13).

Proving the Concept
Proof of Concepts are extremely valuable in winning business in the Middle East, especially in financial services. The investment of time and money required to complete a Proof of Concept may seem like a hassle that many new business owners would rather avoid. However, this can be a turning point in the early stages of developing a presence in the Middle East.

Strong international experience and references will go a long way toward winning new business, but a local Proof of Concept can be key to clinching a deal. Even if the organization to which the Proof of Concept is extended does not accept the opportunity for a more substantial implementation, peers in the marketplace will welcome the opportunity to observe first-hand the benefits of a new product or service in the region.

When arranging a Proof of Concept, businesses should ensure that they can use the site as a future reference and bring other prospective clients to visit, should they want to.

“Companies without local presence might win contracts, but it is more and more difficult.”
—Regional IT services provider


12 The IT Market—A Middle East Perspective
There are a number of different market strategies employed by new entrants in the Middle East IT market (see figure 13 on page 14). For large global players, setting up a branch office may be a viable option with financial backing of the global parent. However, for small and medium-size businesses and start-ups, this is less often a preferred entry mode.

According to industry sources and advice from established small and medium-size players, a common and more highly recommended approach is one which starts with market investigation: putting a small team on the ground, investing heavily in the first few customers and leveraging this revenue stream to grow the operations.

Example: 5-step entry guide—based on the experiences of successful Middle East providers

**Step 1: Investigate the market.** Knowing the market is critical to success in the Middle East—a send key senior executives to investigate the market opportunity first-hand. Understand key market dynamics such as set-up costs, likely sales cycles, talent pools and key customer needs. Identify potential partners, such as delivery partners in targeted industry sectors.

**Step 2: Build awareness and local linkages.** Establish a core team of locally based senior technical and marketing executives to build the office. Leverage already established linkages with principal vendors, large system-integrators and other major players to build awareness of presence in the Middle East. These relationships are likely to come from experience working with these players in other parts of the world and are valuable references for the Middle East. Build new relationships in the local market with potential delivery partners such as major regional system integrators as well as key hardware and packaged-software providers. Attend industry events in the region to showcase industry expertise and value creation potential and to build a profile with key buyers. This can be particularly important in the telecommunications sector, where buyers are seeking new providers with the latest technologies. Finally, seek out key decision-makers within potential customers and build relationships based on how you can help them achieve their goals.

**Step 3: Invest and secure first customers.** Invest in the market to secure the first customer prior to building a large local team—bring your best people to demonstrate skills and experience, and be prepared to commit them to local projects. The timelines for securing the first customer can vary with reports ranging up to 18 months or two years. However, a thorough investigation of the market, local alliances and hiring talent with experience in the market can reduce this timeframe significantly. Commit the necessary time and resources in a Proof of Concept if key customers are looking for a first-hand example of benefits. Be prepared to endure an extended sales cycle compared with those in some other parts of the world. Understand it may be necessary to be flexible on some terms and conditions and to forgo some profit margin in the early stages to secure business and build local credentials.

**Step 4: Expand local team—including strong technical and delivery skills.** Build a local team including a high-quality service and delivery function. Secure a local technical resource pool that can deliver fast response times and enable speed-to-market for customers. And, continue to build local relationships across target functions and industries.

**Step 5: Leverage growing experience to expand operations.** Once initially established in the region, new entrants need to continually market themselves to current and potential customers. Use Proof of Concepts as well as regional experience and references to build new relationships with key providers in the region as well as end customers.

As customers expand across national borders, companies should seize opportunities to springboard into new geographies.
The Big Spenders

Finance

The financial services sector has experienced “unprecedented growth and profitability” in recent years and is the most attractive IT services market for new entrants in the Middle East.12 In 2006, the Gulf total banking assets were estimated at US$805 billion.13 In the UAE alone, total banking assets in 2007 were up 42 percent in one year, to US$336 billion, and loans and advances rose 40 percent from 2006 to reach an estimated US$197 billion, according to the Central Bank of UAE.14 (see sidebar: Dubai, the World Centre for Islamic Finance on page 15).

As a result of further industry growth, demand for IT services from the financial services sector is expected to grow by about 14 percent a year over the next five years. Market demand is estimated to reach US$760 million by 2011 (see figure 14).

Key drivers of this growing demand include the strong development of conventional financial services, a high level of competition, the emergence of new market segments such as Islamic banking and new industry regulations.

Conventional financial services on the rise and more competition

The Middle East markets are characterized by an ever-increasing number of financial institutions and strong competition. In 2008, more than 50 banks were operating in the UAE alone, following expansion in total branch numbers of 15 percent in 2007.15,16 New players are also entering the market, such as the Crescent Bank created by the Abu Dhabi government.

The Saudi market is following a similar trend, with a number of new licenses being issued for local and international players—thus reinforcing competition. Outside of these two national markets, Bahrain represents a strong area of opportunity due to its history as a regional financial hub.

Financial services players are looking to IT as

Figure 13: Market entry modes

<table>
<thead>
<tr>
<th>Mode of market entry</th>
<th>Details</th>
<th>Benefits</th>
<th>Draw backs</th>
<th>Attractiveness for startups/smaller new entrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Major project sell offshore leads to establishment of local team for delivery</td>
<td>• Major contract win from offshore demands local presence</td>
<td>• Secure revenue / demand for services prior to setup reduces risk</td>
<td>• Limited acquisition of local market knowledge prior to project commencement</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td></td>
<td>• Local technical team setup to service major account</td>
<td>• Custom-built team to meet client requirements</td>
<td>• Sales capacity may be reduced as resources focused on delivery</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td></td>
<td>• Small marketing / account management team established</td>
<td>• Builds local market experience &amp; credibility through delivery</td>
<td></td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td>2 Sales office and marketing presence: inshoring/offshoring model</td>
<td>• Small local sales and marketing presence to develop relationships and manage accounts</td>
<td>• Ability to leverage skilled resources from offshore managing startup cost base</td>
<td>• Limited acquisition of local market knowledge</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td></td>
<td>• Fly in resources from offshore to service clients on an as needed basis</td>
<td>• Establish presence with limited setup risk</td>
<td>• Risk of customers perceiving low market commitment</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td>3 Full branch office setup</td>
<td>• 100% ownership by international company</td>
<td>• Demonstrates market commitment</td>
<td>• Reduced ability to show technical resources committed onshore</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td></td>
<td>• Fully functional branch office setup with expatriates relocated or local staff hired</td>
<td>• Retains market knowledge experience within the organization</td>
<td>• High startup cost base prior to significant customer base increases risk</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Leverage global network / resources</td>
<td>• Limited acquisition of local market knowledge</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Often requires extensive expat relocation program</td>
<td><img src="#" alt="Less attractive" /></td>
</tr>
<tr>
<td>4 Establish joint venture with local player</td>
<td>• Joint venture with local partner—may be local sponsor or local/regional established IT services player</td>
<td>• Rapidly acquire local market knowledge</td>
<td>• Reduced control over operations</td>
<td><img src="#" alt="More attractive" /></td>
</tr>
<tr>
<td></td>
<td>• Partial ownership by international company</td>
<td>• Access to local decision markers and existing clients relationships</td>
<td>• Increase complexity of managing relationship with local partner</td>
<td><img src="#" alt="More attractive" /></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Existing resource base</td>
<td></td>
<td><img src="#" alt="More attractive" /></td>
</tr>
</tbody>
</table>

Sources: Industry interviews; A.T. Kearney analysis

13 Expansion from 2006 to 2007; Ibid.
a solution to enable continued growth and provide differentiation. Banks are expanding their distribution channels both in terms of number of branches and the development of new channels, such as mobile banking. Banks also are trying to differentiate themselves from competitors by offering new services, such as sophisticated Internet banking solutions.

As shown in figure 15 on page 16, as financial services players evolve and the level of technology becomes more sophisticated, they will require higher levels of customization, support and targeted solutions. The Middle East financial sector is following the same global trend in its IT needs.

The future also holds the potential for higher outsourcing across the board in financial services. Currently, the majority of IT services across the industry remain in-sourced. However, with increasing competition, banks are stepping up the search for cost effective alternatives. In the short term, the services most likely to see growth in outsourcing are managed services, including desktop and infrastructure support, as well as some data storage as capacity becomes scarce. According to industry sources, “there is a burning need for good managed services providers.”

The emergence of new product segments such as Islamic finance

The emergence of new financial services and products will continue to drive needs for specialized solutions: insurance, asset management and private wealth segments are necessitating specialized IT support and the development of stock exchange indexes such as DIFX is also creating opportunities for providers of IT trading solutions.

**Emerging opportunity hotspot: Finance**
- Islamic finance applications
- Trading solutions for equities and derivatives
- Insurance, asset management and private wealth management applications
- Risk management and security solutions

**Dubai, the World Centre of Islamic Finance**

With a high level of government support and access to experts in Sharia law, Dubai has become the recognized capital of Islamic finance. According to Forbes, Dubai has an estimated US$16 billion in listed Sukuk (Islamic bonds), more than anywhere else in the world. This level of focus on Islamic banking is creating significant demand for specialized IT solutions and services, including custom applications that specialize in the administration, control and management of Islamic products and assets.

For companies with expertise in this area, this market can provide a springboard to accessing the wider Islamic banking market, with Islamic finance spreading beyond what could be considered the “traditional” Islamic markets of the Middle East, Indonesia and Malaysia and into other markets, such as the United Kingdom and Singapore.
Another significant product opportunity is that of Islamic finance. Financial institutions in the Gulf States are introducing an increasing number of Islamic products such as Murabha, Ijara and Mudaraba. In addition, many of the newly established banks in the region are fully fledged Islamic banks, including Al Salam Bank in Bahrain, Masraf Al Rayan in Qatar and Inmaa Bank in Saudi Arabia.

New industry regulations
Banks are also implementing systems and solutions which support compliance with international regulations, such as Basel II and Anti-Money Laundering standards. These regulatory changes are increasing the need for improved compliance and reporting functions, risk management and security, data recovery and business continuity solutions. Selected key opportunities for IT Services providers include (see table 1 on page 17).

The financial services sector also has a key focus on supporting the SMB sector as a key line of business. Not only a key buyer of IT services demonstrating demand for specialized providers, the sector is increasing the number of products and services targeting SMBs in the region. Over the past 12 months there have been a number of banks announcing new SMB banking services and products (see sidebar: Financing the Dream—the Funding Challenge on page 19).

**Telecommunications**
Telecommunications represents a highly attractive IT services market for new entrants. The Middle East and Africa are the fastest growing region in the world for telecommunications with projected annual growth of around 16 percent to 2010.\(^\text{17}\) Table 2 demonstrates the health of the telecommunications industry in the Gulf—the two fastest growing operators worldwide in terms of proportionate subscriptions are Etisalat from the UAE and Zain Group from Kuwait.\(^\text{18}\)

General market growth, spurred on by the increased number of providers in the region and combined with the resulting higher competition, is driving spend on IT services. Continued changes

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**Figure 15: IT’s evolution in a financial institution**

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\(^{17}\) A.T. Kearney estimates.

in the industry landscape and growth in subscriber numbers, across mobile and broadband services, will drive IT services demand at around 15 percent growth per year to about US$642 million in 2011 (see figure 17 on page 18).

The entrance of new players and continued market growth
Many countries in the region are experiencing an increase in the numbers of players as a result of the issuance of new licenses and the resulting entrance of international players. In 2007, one mobile and three fixed-line licenses were issued in Saudi Arabia, along with a third mobile license in Kuwait and a second in Qatar. New entrants and start-up operators display a particularly high demand for IT services as enabling high speed-to-market—a critical element for success (see case study: Mobitrans on page 20).

Compounding this demand is the demand that accompanies general market growth. Already high subscriber numbers continue to increase, and expanding distribution channels require improved systems integration and channel-management solutions.

More competition drives demand for differentiation
Increasing competition is prompting telecommunications providers to look to IT as a way to differentiate their go-to-market strategies and customer offers as well as improve their profitability. Providers are looking for solutions to change the way they deliver customer services and manage the customer interface. In a drive to know the customer better, CRM solutions are being put in place. Expanding distribution channels and a pressure to improve returns to shareholders is increasing the need for better visibility of internal processes and budgeting, another driver of growth in IT services spending.

The GCC countries are experiencing particularly high mobile penetration with end-users eager to adopt new technologies and services (see case study: Mobitrans on page 20). This high usage is driving demand for higher sophistication in mobile services, such as mobile content and other customized applications, as players seek to further differentiate their offers to customers.

Among the national markets, Saudi Arabia represents the most attractive opportunity for IT services providers due to the increasing number of players,
**Figure 16:** Ease of access to loans¹

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Executive Perceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>UAE</td>
<td>5.1</td>
</tr>
<tr>
<td>34</td>
<td>Bahrain</td>
<td>4.3</td>
</tr>
<tr>
<td>56</td>
<td>Saudi Arabia</td>
<td>4.6</td>
</tr>
<tr>
<td>19</td>
<td>Kuwait</td>
<td>4.6</td>
</tr>
<tr>
<td>17</td>
<td>Oman</td>
<td>4.7</td>
</tr>
<tr>
<td>16</td>
<td>Qatar</td>
<td>4.8</td>
</tr>
<tr>
<td>95</td>
<td>Egypt</td>
<td>2.7</td>
</tr>
<tr>
<td>61</td>
<td>Jordan</td>
<td>3.5</td>
</tr>
<tr>
<td>20</td>
<td>Malaysia</td>
<td>4.6</td>
</tr>
<tr>
<td>38</td>
<td>India</td>
<td>4.2</td>
</tr>
<tr>
<td>15</td>
<td>Singapore</td>
<td>4.8</td>
</tr>
<tr>
<td>65</td>
<td>Czech Republic</td>
<td>3.4</td>
</tr>
<tr>
<td>12</td>
<td>Ireland</td>
<td>4.0</td>
</tr>
<tr>
<td>43</td>
<td>Spain</td>
<td>5.0</td>
</tr>
<tr>
<td>74</td>
<td>Turkey</td>
<td>3.1</td>
</tr>
</tbody>
</table>

¹ Executive perception, 2006–2007; How easy is it to obtain a bank loan with only a good business plan and no collateral? 1 = impossible, 7 = easy


**Global rank out of 131  Mean = 3.4**

The market potential and an attractive annual growth rate of 16 percent. IT services spend is estimated to be around US$329 million in 2011 (see figure 17 on page 18).

The UAE is the second most attractive sector for telecommunications, due both to its size and tendency toward value-added IT services by current telecommunications operators. The entry of a second mobile operator, Du, has created a catalyst for change in the market’s competitive landscape.

Egypt’s market, with multiple players, presents opportunities such as those in Kuwait and the smaller markets of Bahrain and Qatar, all three of which have recently allowed additional players. Key opportunities for IT services providers are highlighted in table 3 on page 19.

**Government**

The level of focus on e-Government initiatives in the Middle East rivals that of any other part of the world. As a result, the government sector also ranks as a highly attractive market for IT services providers. Government strategies comprise major modernization initiatives as they move to new IT standards and seek to implement e-Services for citizens, businesses and internal processes. This perspective has also spread to healthcare and education, with large IT investments also being seen in these largely government-funded areas.

The level of criticality regional governments are placing on the deployment of IT drives the sector’s attractiveness. The UAE government has the highest spend on IT services in the region. Its view of IT as a key enabler to improve delivery of services, residents’ quality of life and economic development is shared by its regional peers. As a result, governments are expected to spend about US$633 million in 2011 (see figure 19 on page 22).

“**The UAE government is quite innovative in terms of how they deploy technology in the modern environment . . .**”

— Regional IT service provider

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1 Includes Bahrain, Jordan, Oman and Qatar

* CAGR is compound annual growth rate

Financing the Dream — the Funding Challenge

Accessing funding is a common challenge for entrepreneurs and SMBs globally. Banks are often reluctant to lend against what are often seen as “risky” ventures with no track record and limited profitability in the early stages. Other funding sources such as savings and family and friends are common starting points for many start-ups but usually need supplementing to support the ongoing trading and growth of a new business.

According to the Global Entrepreneurship Monitor, National Report, United Arab Emirates, business angels, including, family and friends, are the overwhelming favourite in terms of sources of funds. Accessing loans in the UAE is seen as easier than in other parts of the Middle East and indeed other high profile IT markets such as Ireland (see figure 16 on page 18). Although banks were not identified as a major source of funding in the study mentioned above, this may change as banks evolve their offers to the SMB sector.

The growing private equity and venture capital industry is likely to be an emerging source of funds in the future. The Gulf Venture Capital Association reported US$6 billion to have been raised in the region 2007, a 130 percent increase on the previous year. Such statistics show private funds are available in the market. The challenge for new businesses is to compete with the attractive returns from the current real estate market and accessing investors that are interested in what may be seen as “high risk” investments.

Support is at hand with a small but increasing number of venture capital and angel funds. Some examples of such targeted funds include:

- Injazat Technology Fund: US$50 million venture capital fund targeting technology companies within the MENA region and complying with Sharia principles
- Bahrain Labour Fund and Venture Capital Bank: US$15 million venture capital fund recently launched to provide funding to SMBs in Bahrain
- Arab Business Angels Network (ABAN): two investment vehicles which include a seed capital fund of US$10 million and a dedicated US$5 million fund for women-led ventures
- Intel Capital: US$50 million fund for the Middle East and Turkey

Matchmaking events are also becoming more popular across the region. ABAN and Dubai Internet City (DIC) are just two organizations looking to run regular sessions where business owners can meet with and present their business opportunity to potential investors.

Dubai Internet City is currently looking at ways to play a primary bridging role within the ICT industry and is working with industry players to develop the most effective platform to connect entrepreneurs with such investors.

Table 3: Opportunities in telecommunications for IT services providers

<table>
<thead>
<tr>
<th>New product development</th>
<th>Back office support</th>
<th>Sales force tools</th>
<th>Customer contact centre solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New products that interface with telecom services</td>
<td>• Managed services (including desktop, network infrastructure, storage management and maintenance)</td>
<td>• Customized sales force tools to support the addition of new channels and distributors (channel management)</td>
<td>• Call centre applications including CRM and reporting tools</td>
</tr>
<tr>
<td>• Mobile content services</td>
<td>• Improved business reporting and controlling tools (including budgeting and expense controls)</td>
<td>• Systems integration across distribution networks</td>
<td></td>
</tr>
<tr>
<td>• VoIP-based applications and value added services such as security, anti-scam and voice recognition solutions</td>
<td>• Billing engines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• GPS tracking applications such as fleet management solutions, used by automotive, logistics and insurance providers</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Suppliers of equipment and infrastructure are seeking to take advantage of the opportunities in the telecommunications sector, which are provided in Table 3. The table shows a range of opportunities for IT services providers, including new product development, back office support, sales force tools, and customer contact centre solutions.

12 “ABAN forms key partnerships with leading international organizations,” AME Info, 8 June 2008.
CASE STUDY: Mobitrans

Key products: Direct marketing and advertising mobile content
Established: June 2006 in Dubai
Current Employees: 14 FTEs
Office location: TECOM Investments, Dubai

With more than 2.5 million consumer transactions per month and more than 500,000 unique visitors to its websites every day, Mobitrans is the number one mobile entertainment company in the Middle East region.

Created in June 2006 by two Dutch businessmen, Sander den Hartog and Loek Derks, Mobitrans offers direct marketing and advertising content to mobile end-users across the region. Its content includes ringtones, music, mobile games, video clips and backgrounds.

Mobitrans’ business relies on revenue sharing agreements with telecommunications operators on one hand, and on advertising supply agreements with partners such as Google, on the other hand. Relationships are key to winning new contracts with mobile operators in the region, and this requires a continuous follow-up of the client. “The relationship is very intense and you have to be flexible,” says Loek Derks. “On the technical field, every operator has different integration, so you need to adapt.”

The Mobitrans portfolio of mobile operators covers the UAE (Du and Etisalat), Saudi Arabia (Mobily and STC), Kuwait (Wataniya and Zain), Bahrain (Batelco and Zain), Qatar with QTel, Turkey (Vodafone, Türkcell and Avea) and Jordan (Umniah and Zain), with new operators being signed up every month.

Initially, Mobitrans also provided business-to-business services, such as consultancy, to mobile operators. However, the owners soon saw an opportunity to differentiate from their competitors by focusing on direct advertising to customers. “We are the only company here in the region focused on direct advertising to customers,” Loek Derks says. “Our focus on a specific and customized offer for the end-user is our main strength. As an advertising and media company, we have to control the whole chain of distribution of our content and to promote ourselves towards the end-users,” Derks adds.

An entrepreneurial vision
After experience in the Netherlands and in China respectively, Loek Derks and Sander den Hartog arrived in the Middle East in 2004, working as consultants for mobile operators. They rapidly identified the opportunity to develop a mobile content provider within the region. As a result, Mobitrans was established in Technology, E-Commerce and Media (TECOM) Free Zone in June 2006.

It was a natural choice to be located in the TECOM Free Zone, given Mobitrans’ operations. TECOM also provided a credible and visible IT cluster environment within the region with an efficient and straightforward set-up process with a lower cost of doing business than other areas in Dubai. As Loek Derks says, “The administrative load is lower here than in Europe and the assistance of TECOM gives us the ability to focus on business.”

The company’s 14 staff members range from a technical team managing the operators’ connections and the content platform to web designers, content developers as well as a marketing and customer care team. “When we decided to launch the company, it was obvious for us to set up our operations in Dubai. In terms of a business environment, it is the center of the region, you are close to all other IT players, telecommunications, advertising and media markets, you have access to a skilled and diversified workforce with knowledge of the local and regional market and it is easy to do business here,” explains Derks.

“From a personal point of view, Dubai is a cosmopolitan city with good quality of life and all the necessary infrastructure for a family life,” he adds. “For small- and medium-sized companies, where owners have to make personal decisions, Dubai is a logical and safe choice and this is a very important aspect if you want to develop a business.

“The specific position of Dubai has been a great advantage to developing our business in the Middle East to the west of Dubai. We have already expanded our operations to the ‘Eurasian’ region as well, in Turkey, and now we want to expand our activities to the East of Dubai with India and Pakistan. For these projects, the position of Dubai and the access to Indian and Pakistani workforces represent big advantages,” he adds.

In addition to this geographical expansion, Mobitrans is planning to offer more options in its current markets through full-track downloads, streaming and video clips.

Advice for new players
The Mobitrans Director advises new entrants to be patient. “Generating revenue takes a bit longer than you might expect because finding an agreement with your client and implementing it takes more time. But the return on investment is better due to lower operating costs and taxes.” One of the big advantages of the
Multiple buyers across the region increase the number of opportunities for providers to work with government. An increasing trend toward outsourcing completes the positive outlook for business in this sector.

The UAE — at the core of the opportunity
The UAE represents the most attractive market for servicing e-Government initiatives. Fragmentation of buyers at the local and national levels, creating multiple potential customers, combines with the region’s largest budget and a progressive government perspective to heighten the country’s attractiveness.

While industry track record, local presence and competitive pricing are keys to success across the region, the Saudi Arabia market could be considered more challenging to penetrate due to its strict supplier selection process. However, its large budget and ambitious plans present lucrative opportunities for those suppliers that can successfully negotiate the process. Apart from the largest markets of the UAE and Saudi Arabia, there are also opportunities for service providers to work with governments in the smaller countries, which boast ambitious e-Government initiatives as well (see sidebar: Dubai e-Government on page 24).

A summary of the key e-Government buyers across the region is shown in table 4 on page 22.

IT needs across the spectrum
Government IT needs cover a wide range of services, from shared services to online content and security tools as outlined in figure 20 on page 23.

While the current demand for IT services is high, governments are still employing a relatively low level of outsourcing, preferring to manage most needs in-house. For example, the full-scale outsourcing of data centers is yet to be embraced by the sector, although selective outsourcing of managed services may occur. Selected key opportunities for IT services providers are shown in table 5 on page 25.

Partnerships: a key to harnessing opportunity
Government buyers tend to favor local companies with established presence and strong references from prior government work. As a result, partnering with a local company to enter the market is often the most

Figure 18: Mobile penetration for Middle East countries, 2006

Sources: Paul Budde Research, Merrill Lynch Wireless Matrix, 2007; CIA World Factbook
There are two levels of e-Government—federal and local. The UAE Federal e-Government Authority’s overall IT services budget was AED2.4 billion in 2008.

Dubai’s e-Government is looking to further enhance developments to date, like payment gateway, as well as building on these with new initiatives such as facilitating integration of data across departments through an integration hub. The Abu Dhabi e-Government Authority has the largest budget and an extensive list of initiatives toward increased demand for specialists in e-Government systems-integration. One example is the Qatar government’s eHealth program—its largest national ICT initiative and government e-Services. This will offer a variety of Oracle ERP and related implementation opportunities in the near future. Other opportunities exist for health-care-specific applications related to service delivery such as billing engines, records management and online payment portals.

Table 4: e-Government buyers in the region

<table>
<thead>
<tr>
<th>Country</th>
<th>Key Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>• There are two levels of e-Government—federal and local</td>
</tr>
<tr>
<td></td>
<td>• The UAE Federal e-Government Authority’s overall IT services budget was AED2.4 billion in 2008</td>
</tr>
<tr>
<td></td>
<td>• Dubai’s e-Government is looking to further enhance developments to date, like payment gateway, as well as building on these with new initiatives such as facilitating integration of data across departments through an integration hub. The Abu Dhabi e-Government Authority has the largest budget and an extensive list of initiatives</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>• Yesser is a program of government-wide applications such as an e-Procurement system, a document-management system, messaging, archiving and e-services that has a budget of more than US$800 million</td>
</tr>
<tr>
<td></td>
<td>• The key ministries for the various e-Services include Interior, Education, Municipalities and Finance</td>
</tr>
<tr>
<td>Egypt</td>
<td>• Egypt’s Ministry of Communications and Information has established a 2007–2010 Information and Communications Technologies (ICT) strategy emphasizing the government’s promotion of ICT investments in e-Access, education, health, e-Content and government services</td>
</tr>
<tr>
<td></td>
<td>• Major programs include Egypt PC 2010-Nation Online, the Egyptian Education Initiative (EEI), an integrated national health records system, an information system, a national network for citizen health treatment, an Arabic e-Content initiative and government e-Services</td>
</tr>
<tr>
<td>Kuwait</td>
<td>• The central e-Government authority (CAIT) is a large organization and, as a relatively new authority, is currently focused on planning and infrastructure build-up</td>
</tr>
<tr>
<td></td>
<td>• E-Services are still largely underdeveloped and may offer opportunities for service providers</td>
</tr>
<tr>
<td></td>
<td>• There is a heavy emphasis on health and education, with those ministries largely freed to determine their own IT strategies</td>
</tr>
<tr>
<td>Jordan</td>
<td>• A national e-Government strategy was developed for 2006–2009 by the Ministry of Information and Communications Technology</td>
</tr>
<tr>
<td>Bahrain</td>
<td>• Bahrain’s e-Government Authority has more than 30 government affiliates</td>
</tr>
<tr>
<td></td>
<td>• The budget for 2008–2010 is BD45 million</td>
</tr>
<tr>
<td>Qatar</td>
<td>• ICTQatar sets the strategic direction for ICT for Qatar, and with over 75 affiliate government agencies it has an overall budget of QR4 billion</td>
</tr>
<tr>
<td></td>
<td>• Government investment will be focusing on health and education in the near future</td>
</tr>
<tr>
<td>Oman</td>
<td>• Oman ITA is driving Digital Oman strategy, including eMan (Government transformation), Knowledge Oasis Muscat and Knowledge Mine</td>
</tr>
<tr>
<td></td>
<td>• There is a heavy emphasis on the education sector</td>
</tr>
</tbody>
</table>

A healthy opportunity in IT services
The health-care sector has been an important area of focus for Middle East governments in recent years. In the UAE, the health-care sector is expected to grow by 14 percent over the next five years. Across the border, Saudi Arabia has allocated US$11.8 billion to health care, up 12.4 percent from the 2007 budget. About US$20 million of this is allocated for IT services.

Two of the major IT opportunities in the health-care sector are in ERP implementation and systems-integration. One example is the Qatar government’s eHealth program—its largest national ICT program. This will offer a variety of Oracle ERP and related implementation opportunities in the near future. Other opportunities exist for health-care-specific applications related to service delivery such as billing engines, records management and online payment portals.

Learning of the opportunity in education
Education is also high on the list of regional priorities. The UAE has allocated more than US$4 billion
**Figure 20:** Map of government IT needs

- **Network infrastructure:** Components including hardware and software installation and support
- **Outsourcing IT center command and control:** Back office / data center management
- **IT security:** Arabization of interfaces
- **Arabization of websites and online content:** Translating government websites and online content into Arabic
- **Geographical information systems (GIS):** For border security, public safety and law enforcement
- **Content development:** Shared government applications for procurement, payroll and financials using enterprise resource planning and related applications such as human resources management system financials and customer relationship management
- **E-Services / citizen portals:** Government-to-government (G2G), government-to-citizen (G2C), government-to-business (G2B) online services to citizens and business such as e-visa, work permits, online licenses and land registrations

*Source: A.T. Kearney analysis*

**Figure 21:** Relationship of major players in government contract delivery

- **System integrators:**
  - Managed by local system integrators (SIs), who bid mostly through open tenders in consortiums of local or foreign partners
  - Typically owned by large local business houses (for example, National Computer Services Kuwait is part of Al Babtain group and Injazat is a joint venture between Mubadala and Electronic Data System)
  - Specialize across technology platforms and verticals. Government business forms a large part of their revenue (for example, 90% of Al Mannai’s revenue comes from Qatar’s business)
  - Expressing interest in partnering with specialist providers to supplement capacity and capability

- **Technology vendors:**
  - A local presence in the country of operation through representative branches and local sales and marketing offices
  - Operate mainly through SIs for implementation and maintenance of IT solutions and direct large account sellers (DLARs) that manage enterprise license agreements
  - Have close consulting relationships with local government to help design e-Government solutions and integration architecture
  - Help promote local companies through certifications and references

*Source: Industry interviews*
Dubai e-Government

Dubai is a clear leader in the e-Government space in the Middle East. Launched in 2000, the Dubai eGovernment initiative is a key component of achieving Dubai’s vision to become “a leading business hub in the New Economy.”

The Dubai e-Government’s mission is “to achieve a virtual Government through provision of high-quality customer focused e-Services for individuals, business and Government departments and to promote e-Services adoption through customer management,” with the outcome being an easier life for the residents and businesses within Dubai through technology-based delivery of key public services.

Dubai eGovernment has adopted a model that has seen “e-Services e-enablement” decentralized to each respective Government department combined with the centralization of common aspects of the implementation and e-Services with the Dubai e-Government department. These common tools are known as “synergistic tools” and include such elements as electronic payments, common infrastructure platforms, and electronic authentication and authorization and customer care platforms. Dubai e-Government is also responsible for evaluating progress and providing support and expertise to individual departments.

Other key e-Government services include:

- **E-Job**: allows those seeking employment with the government and private sector to apply for jobs
- **E-Host**: a shared infrastructure platform which enables Government departments to host various types of web presences, from static sites to full portals
- **E-Library**: facilitates Government departments making books available to the public online
- **E-Dubai**: common platform for transmitting government information via SMS to the general public
- **AskDubai**: a multi-channel (e.g., call center, e-mail, fax, internet) single point of contact for all Government departments providing a 24-hour bilingual service
- **E-4all**: a multifaceted program providing basic training in computing and internet skills (e-Citizen), 3000 online courses (e-Learn) and e-4all magazine providing readers with updates on Dubai and the eGovernment initiatives

Dubai e-Government’s target for this year is to have all government departments with 90 percent of external services automated through technology. Currently there are more than 2,000 services which are technology enabled. The use of these services, and other provided by Dubai e-Government, is estimated to have saved the Dubai Government around AED66 million to the end of 2007.

Current areas of focus for the Dubai e-Government include further development of the e-Payment portal, launch of mobile payments in conjunction with departments such as the RTA and the integration of data across government departments.

Data integration and sharing is a particularly high priority initiative which aims to eliminate the need for members of the public to visit multiple departments to obtain official documents or certifications in any one application or process. The integration hub has been completed and new services such as e-Permits are to be rolled out in late 2008.

Broader strategic initiatives for the Department include:

- Implementing e-Service quality guidelines across Government departments
- Facilitating and implementing a “virtual government” where the public can assess services across departments via a single point of access
- Increasing take-up of e-Services through targeted marketing campaigns
- Delivery of additional synergistic tools such as e-Feedback which will gather feedback from the public online

In addition to its role as adviser to departments and ministries here within Dubai and the UAE, Dubai e-Government has also become an important source of advice and expertise to other governments here in the region. In just one example, Dubai e-Government is currently working with the government in Egypt to develop an e-Payment gateway.

Within the UAE, various programs are run at the federal, Emirate and local department levels. This tiered structure has led to higher fragmentation of buyers in the market, in turn increasing opportunities for IT companies to work with various government partners on e-Government initiatives.

Currently a reasonably high level of outsourcing is employed across the board as a result of smaller internal IT departments. Formal tender processes are in place for larger scale projects and implementations.
to education initiatives in the coming year.21 Dubai Knowledge Village and Dubai International Academic City are two free zones dedicated to education with primary areas of focus on human capital development, including HR and training, and higher education respectively. Across these two institutions are about 20 universities with more than 10,000 students enrolled in Dubai alone.

The Saudi budget for next year also has a substantial allocation to education—US$28 billion, up 8.5 percent from US$25.8 billion previously. Of that budget, US$2.1 billion is allocated to the implementation of the National Plan for Science in Technology.22 King Abdullah University of Science and Technology (KAUST) is also being developed with an endowment of US$10 billion, and will be the largest single investment in the higher education sector in the region.

In other examples, Education City in Doha represents an example of the Qatari government’s successful promotion of education. The city has attracted world-class educational institutions such as Northwestern, Cornell, Georgetown and Carnegie Mellon Universities.

Middle East governments have shown a strong willingness to adopt advanced IT solutions as part of their education systems. The e-Education program in Qatar is the second largest national ICT program, offering opportunities with the Supreme Education Council and the Qatar Foundation. Kuwait’s government is pushing to make IT part of its core education strategy. Plans are underway to set up IT labs in 700 schools and provide a laptop for every teacher and a PC for every student.

Opportunities for IT service providers within the education sector include the development of education portals, including “virtual learning environments” or learning management systems, and e-Learning applications across the spectrum of primary, secondary and tertiary education as well as corporate training programs. Other areas of interest in the education sector include business management applications that drive operational improvements (see sidebar: Education in Focus on page 27).

### Economic Growth Drives Additional Opportunities

#### Transportation

The transportation sector is showing rapid growth and expansion across the Middle East (see case study: Focus Softnet on page 27). This growth is spread across all forms of transport, from airlines to shipping, as well as major logistics and freight operations. In addition, significant infrastructure investments are being made into seaports, airports and highway networks.

Investments in airports and airline traffic are just two indicators of the size of this industry compared with other parts of the world. The GCC combined investments in airports to 2014 is estimated to be approximately US$33.2 billion, with the total for Middle East and Africa at US$44.9 billion.

Globally, the Middle East has the highest forecasted average annual growth in global passengers, at 6.9 percent for the five years to 2010—and with continued growth in international scheduled passenger traffic (see figure 22).

There are also approximately 50 current seaport and maritime development projects planned across the region.

#### Table 5: Opportunities in government for IT services providers

<table>
<thead>
<tr>
<th>Data/system integration</th>
<th>Managed services</th>
<th>Automation/consolidation</th>
<th>Data centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Data integration across ministries (citizen and resident information) including: - ERP implementation and support - CRM solutions, implementation and support</td>
<td>• Desktop support and infrastructure maintenance and support (Internet portal services) • E-Payments and e-Services (visa application, online licenses and bill payments) • Online content management • Localization/Arabization</td>
<td>• Automation/customization of applications • Assisting agencies to reduce the total number of applications in use</td>
<td>• Emerging potential for data centers outsourcing services</td>
</tr>
</tbody>
</table>
the Middle East with a combined value of more than US$33 billion. The port at Jebel Ali alone handles the equivalent of 11 million 20 foot containers per year as the shipping sector booms throughout the region due to high demand for oil and gas and increasing local consumption driving imports.23

Underlying growth and these investments will drive demand for IT services to record one of the highest levels of growth across the main industries, growing at a compound annual rate of 17 percent through 2011 to reach an estimated demand of US$218 million (see figure 23).

The UAE is the most attractive market due to its size (nearly twice as large as that of Saudi Arabia), its high growth rate and readiness to adopt new technologies. The implementation of the SALIK toll system combining RFID and text alerts to mobile phones is a world first.24 The UAE also demonstrates a higher number of potential buyers spanning the airline, freight, logistics and infrastructure segments.

Saudi Arabia is also making significant investments in infrastructure modernization and development and will present significant opportunities in the region. With multiple international airlines throughout the region, other markets such as Bahrain and Qatar also present opportunities.

In the logistics sector, providers are looking to IT as a way to improve cost components such as labor, inventory and overall cycle time. Business process re-engineering is also high on the list of priorities with IT seen as a key component.25

The majority of airlines in the region are Oracle compliant, and providers that specialize in customized Oracle applications may also find opportunities in this sector.

Selected opportunities in the transportation sector for IT service providers include those shown in table 6 on page 27.

Manufacturing

Manufacturing is a fast growing sector in the Middle East, led primarily by the petrochemical industries—the Gulf States are leveraging the abundance of and easy access to natural gas feedstock. The Saudi petrochemical giant SABIC (Saudi Basic Industry Corporation) is a good example of growth and expansion in this sector with revenues growing 65 percent over two years to reach US$33 billion.26

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26 2007.
Education in Focus

In operation for more than 17 years, EduTech has grown from a small business born in Dubai to a global business providing complete learning infrastructure and solutions to its public and private sector customers. According to Mr. ASF Karim, Edutech CEO, the company is very bullish about the market here in the Middle East. “There are opportunities right across the education spectrum from primary and secondary school to universities and the corporate environment,” Mr. Karim says.

“In the school environment, there are large investments in technology being made by governments aiming to improve the quality of education and from private investors looking to differentiate their schools in an increasingly competitive environment,” says Mr. Karim.

Opportunities in the school sector include applications and content for the interactive whiteboard and other classroom tools. Solutions designed to assist teaching of languages will also experience increased demand as bilingual curriculums are introduced. In addition, administration and business management applications are helping schools streamline operations and improve profitability.

“We have seen a proliferation of universities across the region as countries such as Qatar, Saudi Arabia and the UAE have focused on bringing international institutions to the region,” Karim says. “These institutions are all looking for ways to improve the learning outcomes of their students. They are seeking learning management systems which allow a single point of access on a 24-hour basis to all learning facilities including library resources and course work as well as academic records and course enrolments.

“There is also a strong move toward solutions that enable distance learning and virtual classrooms,” Mr. Karim adds. Working with private enterprises to develop and deliver learning and talent development programs is the other core component of Edutech’s business where they work with regional leaders such as Emirates, Saudi Aramco and Sabic.

“In the oil and gas sector, for example, a large proportion of the existing workforce will be retired in the near future creating a high need for training of new employees,” Mr. Karim says.

“Corporates are also seeing continuous learning and training programs which can deliver formal industry qualifications and accreditations as retention tools for employees,” adds Mr. Karim.

Being successful in these two markets requires differing approaches, according to Mr. Karim. “Academic institutions are looking at how the proposed solution will improve learning outcomes for their students. Providers must also be prepared to go through a more formal tender process here which is not necessarily the case in many corporates.

“However, in the private sector it is about solutions which make business sense. You need to understand their needs and motivation and show them the value,” Mr. Karim said.

Overall, Mr. Karim advises new players to exchange value with their customers, to be more than just a product vendor and to really bring value to the transaction.

Table 6: Opportunities in the transportation sector for IT services providers

<table>
<thead>
<tr>
<th>Airline-specific solutions</th>
<th>Customized solutions</th>
<th>Automation/consolidation</th>
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<tbody>
<tr>
<td>• Membership and loyalty solutions</td>
<td>• ERP solutions</td>
<td>• Managed services including desktop management services</td>
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<td>• Fuel management systems</td>
<td>• CRM solutions</td>
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<td>• Maintenance planning systems</td>
<td>• Object-orientation software development</td>
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<td></td>
<td>• Tracking and tracing solutions such as GPS</td>
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<td></td>
<td>• RFID</td>
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<tr>
<td></td>
<td>• Security solutions</td>
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<tr>
<td></td>
<td>• Process redesign and automation</td>
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<td></td>
<td>• Warehouse management solutions</td>
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<tr>
<td></td>
<td>• Supply chain management solutions</td>
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</tbody>
</table>
Other growing industries in the region include aluminium, steel and cement. The region is also moving forward in developing value-added industries in the economic and industrial cities in Saudi Arabia and the UAE. There is strong willingness on the part of the authorities to develop local manufacturing activities such as aerospace and biotechnology. These industries all will contribute to future demand and opportunities for IT services players.

Current IT services spending by the region’s manufacturing sector is estimated at US$145 million and is expected to grow by 12 percent annually over the next five years (see figure 24). The Saudi market represents about 40 percent of total IT spending in this sector.

The main needs of regional manufacturing companies include system integration, customized applications, ERP and supply-chain management solutions, performance-management applications and systems upgrades.

Retail, wholesale and hospitality

The retail and hospitality sector is experiencing significant growth in the region due to many economic and social drivers. The population in the region, which registers one of the highest population growth rates in the world, is driving the demand for consumer products. In addition, economic growth has increased per capita income in the region, boosting the retail and leisure spending of its citizens and residents.

In the tourism and hospitality arena, the Middle East is planning to spend US$651 billion in new tourism projects. Part of that spending will be on 437 hotels planned in the Gulf alone by 2012. The expansion of tourism and its heavy focus on shopping, especially in the UAE, has also increased growth in the retail sector: 40 percent of the sales trade in the region is generated by tourists.

By 2010 Dubai will represent 30 percent of the total retail space in the Gulf. A prime example of Dubai’s ambitions in the retail and tourism market is the Dubai Mall which is set to open this year. It will be one of largest shopping malls in the world, with an area of 5.9 million square feet and featuring 1,200 stores.

Retailers are increasingly taking the opportunity to install new technology as more and more new shops open. The appetite for innovative solutions is also increasing, according to industry leaders.

Examples of ways in which retailers are planning to utilize such new technologies range from using RFID and automatic data-capture technology to create automatic bills, thus reducing the need for customers to queue, to advanced surveillance solu-
tions, which not only improve security but also capture data that can improve store operations.

Areas of interest for retailers include applications and services related to point-of-sale, inventory management, data management and business intelligence, RFID and CRM solutions.

In the hospitality and tourism industry, new projects are similarly driving IT spending as developers and hotel managers look to create state-of-the-art hotels and leisure experiences. As consumers and travellers become accustomed to higher levels of technology in their own homes, they are demanding the same from the hotels they visit.31

Hotels and resorts are evaluating various uses of technology to enhance the in-room environment. These range from free wi-fi and audio/visual connections to touchscreen VoIP phones delivering information and services to the customer’s fingertips. For example, The Palm Atlantis is looking to introduce a sophisticated software solution to wirelessly connect different departments (reception, facilities, etc.) using electronic patches that can be attached to clothing. Through these patches, a staff member can be located anywhere in the hotel—allowing for instant communication and response to client requests thus higher customer satisfaction.

Solutions enabling a variety of check-in options are high on the list of both high-end and budget-hotel operators globally. At the top of the market, hotels are looking for mobile check in solutions using Palm devices to seamlessly register guests with wireless connections to property management systems. At the lower end of the spectrum, kiosks are becoming more popular to facilitate self check in, similar to the airline industry.

Additional opportunities in the hospitality sector include point-of-sale applications and technology, RFID and integrated CRM solutions and loyalty management applications.

IT services spending in the Middle East retail and hospitality sector is estimated at US$153 million with 75 percent of its market share in the UAE and Saudi Arabia. The overall market is expected to grow by 16 percent annually to reach US$278 million by 2011 (see figure 25).

**Figure 25:** Amount spent on IT services in retail, wholesale and hospitality (US$ million)

Oil, Gas and Mining

The GCC states produce about 18 million barrels of oil per day, accounting for nearly 20 percent of global oil production.32 Continued high energy prices are driving increased expansion and investment across the region. GCC countries are planning a capacity increase of nearly 3 million barrels per day by 2010. In the refining sector, plans are also underway to increase the refining capacity by about 2 million barrels per day in Saudi Arabia and Kuwait. Qatar, on the other hand, is becoming a world leader in natural gas production and is executing plans to triple its output over the six years from 2006.33

The current size of IT services spending by the oil-and-gas sector is estimated at US$116 million (see figure 26 on page 30).34 Over the next five years, spending in this sector is expected to grow at 9 percent annually, driven mainly by system updates and production-capacity expansions.

The major players in the oil and gas market are SAP and HP, and requirements tend to be more standardized - major oil companies tend to lean toward large international providers to service their
needs in terms of large-scale implementations such as the rollout of ERP solutions.

However, there is still a need for small- and medium-sized businesses as partners through the delivery of some of the components and in the provision of niche applications and consulting services, such as those provided by SPT Group (see case study: The SPT Group on page 33). An executive of a regional IT services leader estimates the share of small and medium-size businesses in the region’s oil and gas industry to be 10 to 20 percent.

For businesses hoping to target the oil and gas industry in the Middle East, international and regional references, local technical resources, the ability to understand the technical issues and demonstrate experience gained in similar situations are important success factors.

Opportunities for IT providers within the oil and gas sector include Supply Chain Management and ERP solutions, post implementation support and customized technical applications and consulting services.

Real estate and construction
The real estate and construction boom led by Dubai is now spreading rapidly across the region. Current construction projects in the GCC are estimated to be worth US$1 trillion. The leading developers are continuing to grow and expand both regionally and internationally, and are also diversifying into adjacent and new businesses such as facilities management, retail and hotels.

While real estate as an industry is not as IT-intensive as financial services or telecommunications, real estate players in the region are increasingly viewing IT in a more strategic manner and looking to further leverage its potential benefits throughout their businesses across operations, maintenance and asset management. As a result, the market is experiencing growth in demand for specialty applications for development activities and property management as well as applications and services catering to the new business units. The rising cost pressure on developments combined with the increasing size and complexity of projects across the region is also contributing to the focus on IT to deliver business benefits (see case study: NeXgen Advisory Group on page 34).

New regulations are also having a substantial impact on the level of interest in IT from developers (see sidebar: “Smart” Buildings on page 33). The two regulations having the impact on the industry in terms of IT requirements are:

- Green buildings
  - New regulations governing green building standards are scheduled to be in place during next year in Dubai
  - The Emirates green Building Council has been established in the UAE with a number of developments announced in Abu Dhabi and the other Emirates
  - This interest in green initiatives is spreading across the broader Middle East region

Emerging opportunity hotspot: real estate
- Solutions and services relating to “green” initiatives and improving the environmental ratings of developments
- Solutions and services for “smart” buildings

30 The IT Market—A Middle East Perspective
CASE STUDY: Focus Softnet

**Key products:** Packaged software in enterprise resource planning (ERP) and customer relationship management (CRM) solutions and IT services, including systems integration, custom application development and localization

**Established:** 1991 in India, first Middle East office established in Dubai in 1995

**Set up in Dubai Internet City:** Regional headquarters for Middle East and Africa set up in 2001

**Current Employees:** Around 200 across the Middle East, 500 globally

**Forecast 2008 revenues:** US$24 million globally, US$15 million in the Middle East

**Office locations:** Middle East and Africa: UAE (Dubai and Abu Dhabi), Bahrain, Saudi Arabia, Qatar, Oman and Kuwait. Other offices in India, Singapore, Malaysia and the United States

Since establishing operations in DIC in 2001, Focus Softnet has grown its revenue across the Middle East by over 400 percent with revenue in Dubai alone growing from approximately US$2 million in 2001 to over US$8 million in 2008.

Focus Softnet mainly provides its own ERP and CRM solutions to the regional market, focusing on the “mid market” (companies with roughly 500 employees and revenues in the millions, rather than billions) and the smaller end of the market (companies that might only have 10 employees).

In a market where there is the presence of global players such as Microsoft, Oracle and SAP, Focus Softnet has carved out a position as a quality player, focusing on the customers who are looking for specialized solutions at competitive prices. Ranked as one of the top 10 suppliers of ERP solutions to the Middle East and Africa, Focus Softnet’s key clients span a range of industries, including aviation, education, banking and finance.

**Local presence: a key success factor**

According to Focus Softnet CEO Mr. Ali Hyder, the key to the company’s success in the Middle East has been its ability to deliver cost-effective solutions customized to the local needs of the region and specific customer industries.

“Our success has been based on our ability to upgrade our solutions in line with the changing technology environment and the flexibility to move beyond packaged software to build customized solutions for the local markets here in the Middle East,” Hyder says. “Our speed in implementation of solutions is also important to clients as is our ability to customize the application, even after implementation, with a turnaround time of as little as one day in some instances.”

This is made possible through proximity of the development team located in Dubai to the clients. The strength of the local marketing team is also credited in the regional success. “Qualifications and the ability to actually get in contact with the customer are key aspects in winning over 50 percent of new business,” Mr. Hyder states. According to Mr. Hyder, relationships are important but it is possible to break into this market with a dedicated, focused marketing team—provided you have the qualifications to deliver.

Focus Softnet sees the market trend moving towards specialty providers with localization of solutions a key selection criterion. “The localization of applications to fit regional market requirements is critical,” Hyder says. “We are seeing distributors in Saudi Arabia, for example, starting to drop certain applications which are very successful elsewhere in the world but do not meet the local market needs.”
Figure 27: Amount spent on IT services in real estate and construction (US$ million)\(^1\)

![chart showing IT services expenditure by region and year]

Serving small-and medium-sized businesses
A growing Middle East sector is the small- and medium-sized businesses (SMB) market. As the number of SMBs grows, so too will their demands for customized IT offerings. SMBs are increasingly recognizing the value of IT to their businesses; however, without the scale to in-source IT activities, SMBs are looking for providers to support them on a day-to-day basis through managed service providers (MSPs) of hardware, software and full support services, as well as access to data centers. Some of the managed services include remote desktop, network management, network security and secure e-mail.

\(^1\)Includes UAE, Saudi Arabia, Egypt, and Kuwait only
\(^*\)CAGR is compound annual growth rate

Sources: A.T. Kearney estimates based on data sourced from IDC and A.T. Kearney analysis

Figure 28: Top 10 regional sector opportunities\(^1\)

![chart showing top sector opportunities by region]

Serving small-and medium-sized businesses
A growing Middle East sector is the small- and medium-sized businesses (SMB) market. As the number of SMBs grows, so too will their demands for customized IT offerings. SMBs are increasingly recognizing the value of IT to their businesses; however, without the scale to in-source IT activities, SMBs are looking for providers to support them on a day-to-day basis through managed service providers (MSPs) of hardware, software and full support services, as well as access to data centers. Some of the managed services include remote desktop, network management, network security and secure e-mail.

\(^1\)Opportunity ratings are a combination of scoring on ease of market penetration, growth and value
\(^*\)CAGR is compound annual growth rate

Sources: Industry interviews and A.T. Kearney analysis
CASE STUDY: SPT Group

Key products: Software applications and services for the oil and gas industry focused on providing modelling capability to optimize reservoir production and pipeline operation

Established: 1989 in Norway and expanded into Dubai in 2003

Set up in Dubai Internet City: March 2003

Current Employees: Around 200 globally, 16 in Dubai

Office locations: UAE (Dubai), Norway (HQ), Australia, Germany, Malaysia, Mexico, Italy, Russia, UK, USA

The higher price of oil and plans across the region to increase production are making the oil and gas sector an attractive industry to be serving for players such as SPT GROUP. As a provider of highly technical and niche applications in the multiphase flow and reservoir engineering area, SPT GROUP is seeing its investment in the Middle East region paying off as it experiences growth of around 40 percent per year.

“When we first set up in 2003 it took us about a year to secure our first major customer,” says Dr. David Millar, SPT GROUP’s senior vice president. “One of the challenges we faced was that we were launching new products globally and so did not yet have strong references from other regions to show to potential customers in this region.

“Customers in the Middle East are perhaps slightly more cautious than in Europe so they like to work with companies which have established strong reputations in other regions, particularly if they do not have many customers in the region,” Dr. Millar adds. “Once we had secured our first local customers, it then became much easier as we could demonstrate successes and share learnings and experience from within the Middle East. Being able to show good regional reference customers is really important.”

According to Dr. Millar, it is also important for companies to invest in local resources and show commitment to the region. “You need to have critical mass on the technical side,” he says. “Some companies try to provide technical support to their Gulf clients from Europe, but it just doesn’t work, especially with the difference in time zones and working weeks. In addition to the logistical issues, customers also want to see commitment to the market and to know that you, or at least the company, will be around in five to 10 years to support them.

“Knowing the market here is critical as well—getting to know the people and the culture can take as long as two to three years if you are completely new to the region. Investing in local knowledge and hiring talent which has experience in the region can help you shortcut this process,” Dr. Millar adds. “In addition, don’t hesitate to talk with people in the region who you might have worked with elsewhere in the world to get recommendations and introductions.”

“Smart” Buildings

Linked to the interest surrounding “green” buildings is the emerging trend toward developing “smart” buildings and developments. This term has become the new buzzword in the industry with multiple smart projects being announced across the region.

True smart buildings are those that integrate technology into the fabric of the building and then use the information to drive building management.

This includes data such as water flow and usage of electricity and air-conditioning.

Solutions that allow this information to be effectively integrated into ongoing building management are just one of the opportunities in this emerging area of the real-estate industry.
The continued growth and expansion of the real estate sector across the Middle East is driving a new segment of demand for IT providers. One company planning to tap into this opportunity is neXgen, an IT advisory and consulting services business focused on providing support to real estate companies and telecommunications providers across the region.

Over the past 18 to 24 months neXgen has built a client list containing market leaders in the GCC, such as Dubai Properties, Nakheel and Sama Dubai in the real estate sector, Etisalat and Du in telecommunications, and others in Saudi Arabia, Oman and elsewhere.

According to Ghazi Atallah, neXgen’s managing director, more real estate developers in the region want to understand what IT can do for their business. “Some developers are quite visionary in their use of IT,” Mr. Atallah says. “They understand what technology can do for them and are driving demand for external support as they do not have the necessary internal resources.

“While most developers do not necessarily fall into this ‘visionary’ category and may not have leveraged IT extensively in the past, their businesses are changing and becoming more complex,” he adds. “As a result, these operators are actively looking to understand more about what IT can bring to their businesses. They are interested in new solutions and understanding how you, as an IT provider, can bring solutions to their problems.”

Regulatory trends such as the new strata laws and “green” buildings are having an impact on this level of demand as developers are looking for improved methods of managing facilities and energy management. “We are seeing more and more ‘smart’ building and ‘green’ buildings being talked about however there is still shortage of specialized providers which can enable these types of developments,” says Mr. Atallah. “This convergence of ICT (information communication technology) and real estate, where you are integrating ICT infrastructure into the fabric of the buildings and looking to leverage the information captured, is a trend which will have a substantial impact on the industry.”

In the telecommunications space, Mr. Atallah sees opportunities for providers in operating and business systems where major platform changes are underway. CRM and billing engines are just two examples of areas of focus for many operators.

Mr. Atallah identifies getting close to the customers, understanding the issues and demonstrating the value IT can bring to an organization as the main success factors in this market. “You also need resources here,” he says. “I don’t believe anymore that you can be truly successful in the region without a local presence.

The biggest challenge for start-ups is to create a company that takes a professional approach to operations and has sound methodology and processes in place. “You need to have a sustainable longer term view when setting up a business, not one where you are only in it for one or two years,” he says. “It is important that the right procedures are in place particularly around areas such as intellectual property.”

Growing strongly off a start-up base, neXgen is planning to expand across the Middle East and North Africa through satellite offices; starting with Saudi Arabia and Egypt then eventually moving into Morocco and Qatar, among others.
Table 7: The top 10 market opportunities

<table>
<thead>
<tr>
<th>Rank</th>
<th>Regional Industry</th>
<th>Comments</th>
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<tbody>
<tr>
<td>1</td>
<td>Saudi Arabia</td>
<td>Telecommunications</td>
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<td>2</td>
<td>Saudi Arabia</td>
<td>Finance</td>
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<td>6</td>
<td>UAE</td>
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<td>7</td>
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<td>Saudi Arabia</td>
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<td>10</td>
<td>UAE</td>
<td>Manufacturing</td>
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– This is leading to increased interest from developers in energy consumption and management solutions including enabling infrastructure solutions as well as relevant IT services such as integration, application development and consulting

- **Strata law**
  - New strata laws scheduled to come into effect in Dubai during 2008 will require developers to manage the properties for longer periods than they may have done previously
  - This change will require increased focus on facilities management solutions as well as those in the energy management area

The current size of the IT services market is estimated at US$85 million annually, with projected annual growth of 9 percent over the next five years (see figure 27 on page 32). The main IT services needs in the real estate and construction sectors include enterprise architecture, business intelligence, collaborative software, ERP solutions, property management applications, project management applications and other specialized solutions

### Top 10 Opportunities

To summarize the attractiveness assessment by country and by industry, the top 10 regional industry opportunities identified are detailed below (see figure 7 on page 35). On the basis of inputs from market research and estimates, feedback from industry experts, key buyers and a selection of IT providers, the top 10 opportunities have been positioned on a matrix (see table 28 on page 32). The vertical axis shows the average annual growth up to 2011, while the horizontal axis rates the ease of market penetration. The size of the bubble for each data point is proportionate to the 2007 market size. Table 7, on page 35, offers details of each market.
Dubai: The Business Hub of the Region

The UAE has experienced tremendous growth during the past 30 years transforming itself into a regional hub. A modern country with a flourishing economy, it has one of the region’s highest GDP per capita at US$55,200.\(^{38}\)

Since 2000, the UAE government has focused on building the Emirates towards information-rich societies. In their Global Information Technology Report 2007–2008, researchers for the World Economic Forum (WEF) rank the United Arab Emirates first out of the Middle Eastern countries and 29\(^{th}\) worldwide in the Networked Readiness Index.\(^{39}\) This is closer to European countries such as France (21\(^{st}\)) and Ireland (23\(^{rd}\)) than India, ranked 50\(^{th}\) worldwide. The United Arab Emirates leads the Gulf states in networked readiness thanks to the Government taking a leading role in ICT promotion as witnessed by its top 10 rankings in the importance of ICT to government vision of the future (4\(^{th}\)) and in government success in ICT promotion (6\(^{th}\)) (see figures 29 and 30).

Launched in 2000 and fostering ICT implementation in the UAE, Dubai’s e-Government Initiative has been recognized as a success story by experts and is a major component of Dubai’s development strategy.

Dubai is an economic hub in the Middle East region and is today recognized as a center for global trade and commerce. In addition, through strong government initiatives and supported by the willingness of private industries, Dubai has emerged as the...
IT hub of the region. The city has been able to achieve this enviable status by capitalizing on:
- Its strategic location
- A sustainable and diversified economy
- A visionary pro-business environment
- A leading economic role as the gateway of the region
- A high standard of living and attractive lifestyle

**Strategic location: Trade and logistics hub**

Strategically located between Europe and the Far East, the UAE provides access to a vast region covering the GCC, North Africa, the Levant, Central Asia and the Indian sub-continent—a combined population of 1.5 billion and a GDP of US$1.1 trillion.

Dubai is home to the region’s largest free zone and port at Jebel Ali, and has enhanced its position as a regional hub for banking and finance through the establishment of the Dubai International Financial Centre.

In the region, Dubai is the most convenient location for flights to Europe, Africa and Asia. Dubai International Airport handled an average of 725 flights per day last year and is connected to 205 destinations through a network of 120 international airlines. The airport serviced 34 million passengers in 2007 and is expecting 40 million passengers this year. Upon completion, the Dubai World Central—Al Maktoum International Airport will complement Dubai International Airport and will be one of the world’s larger passenger and cargo hubs.

In their Global Competitiveness Report 2007–2008, researchers for the World Economic Forum (WEF) gave the UAE a leading score on the quality of its infrastructure. With respective positions of 9th and 4th worldwide for the quality of roads and of air transport infrastructure, the UAE is now directly competing with leaders such as Singapore (see figures 31 and 32).

**Sustainable and diversified economy**

Since the establishment of the United Arab Emirates (UAE) federation 37 years ago, the young nation has benefited from strong and sustained economic development. Realizing the challenge posed by country’s heavy reliance on oil revenues as a main source of income, the UAE leadership moved early to actively push for diversification of the national economy.

The success of the Dubai government’s policy is evident in the growth of a variety of sectors of the economy. Dubai real GDP reached a US$54 billion in 2007, with an expected growth rate of around 11 percent per annum over the next eight years. Com-
ments made by the Dubai Chamber of Commerce indicate it will be the non-oil sectors which will contribute most strongly to this growth.\textsuperscript{42}

In a speech reviewing progress in Dubai since 2000, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, UAE Vice President and Prime Minister and Ruler of Dubai, stated that most of the targets announced in that year had been passed long before their expected dates: “In 2000, the plan was to increase GDP to US$30 billion by 2010. This figure was exceeded in 2005, with GDP reaching US$37 billion. The plan also included an increase in GDP per capita to US$23,000 by 2010. In 2005 the average GDP per capita reached US$31,000. In other words, in five years, we exceeded the economic targets that were originally planned for 10 years.”

Pro-business environment
Complementing long-lasting trading tradition and the local business community’s familiarity with international commercial practices, Dubai’s government has been instrumental in accelerating growth. Consistent pro-business policies allied with stable political and financial systems have created a more investor-friendly and entrepreneurial environment than in other parts of the Middle East.

As mentioned earlier, the UAE has made a leap from 23\textsuperscript{rd} position in 2005 to 8\textsuperscript{th} position in 2007 as shown by the 2007 A.T. Kearney FDI Confidence Index (see Figure 33). This has been assessed based on feedback from 1,000 CEOs and business leaders. The index is calculated as a weighted average of the number of high, medium and “no interest” responses to a question about the likelihood of direct investments in a market in the next one to three years. All questioned corporations cover 70 percent of global FDI flows and generate US$27 trillion in annual sales.

The key factors driving the significant improvement in ranking of the UAE included:
- The increased importance of Asian investors
- Service industry hubs
- Access to capital
- Access to energy reserves
- Geographical positioning
- Cosmopolitan lifestyle
- Infrastructural improvements
- Fast growing population

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure33}
\caption{UAE positioning in 2007 A.T. Kearney FDI Confidence Index (assessment by 1,000 CEOs and business leaders)}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure34}
\caption{Efficiency of legal framework\textsuperscript{1}}
\end{figure}

\textsuperscript{1} Executive perception, 2006–2007; The legal framework for private businesses to settle disputes and challenge the legality of government actions and / or regulations (1 = inefficient and subject to manipulation, 7 = efficient and follows a clear neutral process)

Source: A.T. Kearney FDI Confidence Index, 2007

commented on by independent observers for the level of economic freedom it enjoys and for the role played by the government in promoting economic development.

An efficient legal framework has helped to support this strengthening business environment. Ranking 27th out of 131 countries in the Global Competitiveness Report 2007-2008 the UAE outperforms the global IT hub of India (see figure 34).

As a result, Dubai has become the place where economic decisions are taken within the region. Many major blue chip companies have already selected Dubai as their regional headquarters and main international and regional investors are located in Dubai. As mentioned by the CEO of an IT services company, “Everything that happens in the Middle East comes from Dubai.”

Strengthening its position in terms of the IT industry, the UAE became a member of the World Intellectual Property Organization (WIPO) in 1974. In 1992, two important laws for intellectual property protection were passed: the Patent and Industrial Design Law and the Trademark Law. Through its entry into the World Trade Organization in 1996, the UAE signed the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Strong enforcement of intellectual property rights has resulted in a piracy rate of 35 percent at the end of 2007 according to the 2007 Global Software Piracy Study of the Business Software Alliance. As a result, by 2007 the UAE was in the top 20 list of countries with the lowest piracy rate according to the Global Software Piracy Study. This effort has recently been reinforced with the launch of proactive initiatives to fight against software piracy (e.g. the launch of the “Using unlicensed software can shut down your business” campaign in June 2008).

Unique quality of life
Dubai has become a recognized brand worldwide and is the most attractive place in the region for qualified expatriates. As a modern and cosmopolitan city, Dubai is currently home to an exciting blend of cultures where people of more than 120 nationalities coexist in an international environment that has become an icon for 21st century living. The size and diversity of Dubai population are key advantages for companies desiring to investigate the Middle East market.

Even if the cost of doing business in Dubai is slightly higher than in other regional locations, the advantages of Dubai locations make it the place to be in the region, with a secure environment to do business according to international standards and a high quality of life for expatriates and their families. Dubai is growing at an astonishing rate, and the numbers of jobs and business opportunities increase annually. Expatriates living in Dubai benefit from a no-tax lifestyle and a wealth of employment possibilities.

In terms of quality of life, Dubai provides a good option in the region with a range of housing options coupled with improved medical care. Many who come to the UAE are surprised by the availability of top quality products, modern facilities, excellent services, and variety of recreational activities. There are golf clubs aplenty, rugby, football, polo, swimming, diving clubs and many other types of sporting clubs. There are also all of the necessary infrastructure to provide good education and as well as a variety of entertainment options including bars, pubs, restaurants, clubs, cafes and lounges.

In addition, Dubai is recognized worldwide as the place where facilitation can happen very quickly.
Dubai Internet City: A Unique Ecosystem for IT Companies

On 31 October 1999, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, now Ruler of Dubai and UAE Prime Minister, announced the creation of Dubai Internet City (DIC). On April 2000, Mohammed Al Gergawi unveiled the DIC blueprint at an IBM Conference generating huge interest throughout the global IT industry and resulting in 100 companies being licensed at the end of June 2000. On 28 October 2000, HH Sheikh Mohammed officially opened Dubai Internet City—the region’s first technology innovation zone and a place considered across the region as an economic driver for the regional ICT industry (see case study: Symsoft on page 43).

DIC’s mission is to:

• Provide growth opportunities to business partners by nurturing various business activities across the value chain and creating synergies in the cluster
• Build ICT industry leadership by collaborating with business partners nurturing thought leadership and promoting cluster value proposition

The DIC community is composed of more than 1,200 companies from all around the world, creating a truly cosmopolitan working environment (see figure 35 on page 40). DIC offers a number of advantages:

• Businesses can be established quickly and easily
• An “IT ecosystem” environment
• Recognized for quality and competence by customers in the region
• Possesses a free zone concept, a good infrastructure and communication base
• Able to understand and develop business

Ease of setting up operations
DIC offers one of the quickest set-up processes in the region (see figure 36 on page 41) and looks to encourage entrepreneurial initiatives through its firststeps@DIC offer. Firststeps@DIC is a unique business center for entrepreneurial initiatives and small businesses.

What does firststeps@DIC offer?
• Firststeps@DIC enables ICT companies to test the business opportunities within the region, from within a hassle-free environment and without needing to make major investments, to collaborate and work with the existing and future

“DIC is a place where you can focus on your job and not be disturbed by administrative issues.”

—Provider of IT security solutions
enterprises operating within Dubai Internet City

- Firststeps@DIC offers world-class infrastructure with leading technology, and highly professional administrative services. The unconstrained working environment is designed to optimize business success for the ICT companies based there
- Intelligent Workspace: Every workspace in firststeps@DIC is equipped with the latest in fully integrated high-end office solutions; internet connectivity, IP telephony and networked printers straight to the desktop to support modern businesses in this rapidly developing age of technology
- Professional Administration Services: Office support includes access to a central reception, collection and distribution of mail, meeting and conference rooms with presentation aids, and a central equipment room that includes photocopying and faxing.

Who is eligible for firststeps@DIC?
- All ICT companies who would like to expand their operations with the Middle East region
- This includes ICT companies who would like to locate in Dubai for conducting feasibility studies, evaluating the future potential and/or scouting for new business or collaborate ventures in the region

The only IT ecosystem within the region DIC is fully integrated into a larger project, The Technology, e-Commerce and Media Free zones (TECOM Investments) comprising of Dubai Internet City (DIC), Dubai Outsource Zone (DOZ), Dubai Media City (DMC), Dubai Studio City (DSC), Dubai Studio City (DSC), International Media Production Zone (IMPZ), Dubai Knowledge Village (DKV) and Dubai International Academic City (DIAC). They are all aimed at creating a cluster of innovation comprising of educators, incubators, logistic companies, multimedia businesses, telecommunications companies, remote services providers, software developers and venture capitalists.

Dubai is therefore the leading location in the Middle East region in terms of developing an emerging local IT ecosystem with entrepreneurial creativity, competitive dynamics, cross-fertilization across businesses and the ability to attract talent. DIC provides this industry cluster and IT emerging ecosystem with most of the major industry players in a campus-style environment (see figures 37 and 38 on page 42 and 44)

Figure 36: Dubai Internet City five-step setup process

1. Handover of legal documents
   - Receipt of legal documents by business development department
   - Review documents in presence of the candidate to ensure all required documents are submitted

2. Review of legal documents
   - Dubai Internet City registration department reviews details of the legal documents
   - Dubai Internet City registration informs business development whether all legal documents are complete

3. Signing of MOA and AOA and issuance of bank introduction letter
   - Once all legal documents are complete, Dubai Internet City registration issues the bank letter, memorandum of association (MOA) and articles of association (AOA)
   - A meeting is then held with a legal representative to sign the MOA and AOA as well as hand over the bank letter and start the process for opening the bank account and depositing capital

4. Capital deposit
   - Once a bank account is opened, capital is transferred to the account
   - A capital deposit confirmation is then issued by the bank and handed over to Dubai Internet City

5. Allocation of office and issuance of trade license and other registration documents
   - An office is now allocated by issuing a customer confirmation letter (CCL)
   - Down payment towards the office and full payment towards license and company registration is made
   - The candidate file is then sent to Dubai Internet City registration Department to issue license, lease agreement and other registration documents
   - Once this is complete, candidate is informed that license is ready

Source: Dubai Internet City
Free zone advantages in the center of Dubai
With 900 acres (440 hectare) at a complex 25 kilometres from downtown Dubai and 1 kilometre from Dubai Marina, Dubai Internet City benefits from a central location, easing rapid contacts with major clients while being less expensive than the rest of Dubai. Even more important, it has capitalized on its excellent reputation across the region—it is now recognized as the natural location for ICT companies and is seen as a quality and competency cluster by major clients.

According to various CEOs from major IT companies and small and medium IT service providers, DIC’s address alone creates credibility. Since 1985, with the creation of the Jebel Ali Free Zone, the UAE has been at the edge of economic attractiveness in the region with the creation of industry-specific free zones offering 100 percent foreign ownership of businesses, 100 percent corporate and personal tax exemption as well as no restrictions on the repatriation of capital and profits.

With the initiative of single window services, it has highly encouraged and facilitated fast and convenient company set up. DIC partners benefit from the following free zone advantages:

- 100 percent foreign ownership
- 100 percent corporate and personal tax exemption
- No customs duties
- Full currency convertibility
- No restrictions on the repatriation of capital and/or profits
- No trade barriers or quotas
- 100 percent expatriate workers/staff permissibility
- Abundant and inexpensive energy
- On-site government departments, international banks, insurance companies, consultancies, hospitality services and other support services

**Infrastructure**
DIC is supported by state-of-the-art infrastructure with:
- The world’s largest commercial implementer of IP telephony
- Structured cabling supporting gigabit applications
- Scalable broadband internet access to desktop
- Scalable and serviced office space, land lease options and competitive pricing

In order to meet increasing demand from new entrants, DIC has launched a real estate capacity development plan which will increase available office space by 30 percent.

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**Figure 37: Dubai Internet City community by business type**

<table>
<thead>
<tr>
<th>Dubai Internet City</th>
<th>IT services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Solution Provider</strong></td>
<td><strong>Solution Provider</strong></td>
</tr>
<tr>
<td>Software</td>
<td>• Security solution provider, IT infrastructure solution provider</td>
</tr>
<tr>
<td>Development</td>
<td>• Security solution provider, IT infrastructure solution provider</td>
</tr>
<tr>
<td>Solution Provider</td>
<td>• Web-hosting services</td>
</tr>
<tr>
<td>Internet and multimedia</td>
<td>Telecommunication and network</td>
</tr>
<tr>
<td>Consultancy</td>
<td>• Network consultant, telecommunications consultancy, information technology consultancy</td>
</tr>
<tr>
<td>Development</td>
<td>• Content developer, multimedia programming services, web software developer, web designing</td>
</tr>
<tr>
<td>Solution Provider</td>
<td>• Online banking solution provider, e-Business solution provider</td>
</tr>
<tr>
<td>Service Provider</td>
<td>• Content provider, web software provider, application service provider, e-Commerce, e-Marketing, online-distributor, B2B portal, B2C portal, online services, online engineering software provider, online engineering solution provider</td>
</tr>
<tr>
<td>Consultancy</td>
<td>• Network consultant, telecommunications consultancy, information technology consultancy</td>
</tr>
<tr>
<td>Solution Provider</td>
<td>• Network solution provider, wireless solutions provider, broadband solution provider</td>
</tr>
</tbody>
</table>

Source: Dubai Internet City
**CASE STUDY: Symsoft**

**Key products:** The Nobill Platform, a single platform which includes three primary services areas charging, messaging and IP services to telecommunications providers

**Established:** 1989 in Sweden, 2005 in Dubai

**Set up in Dubai Internet City**

**Current Employees:** 100 globally, 15 in the Middle East

**Annual revenue growth:** 30 percent globally

**Office locations:** (Stockholm, Kista), UAE (Dubai), Saudi Arabia (Riyadh), Singapore, US (Dallas) Ecuador (Quito)

SYM SofT was pulled into the Middle East by customer demand. Headquartered in Sweden, the business serviced its first customer in the region from the European base. However, a year into the relationship SYM SofT made the decision to set up local operations in the Middle East. The company recognized it was extremely important to be close to the customer, particularly in this region.

“Proximity to the market is important all over the world but even more so here in the Middle East,” says Bogdan Saciu, SYM SofT’s general manager for the Middle East and Africa. “Being close to your customers and the market allows you to better understand the market and where change is occurring. In addition, you don’t have to worry about things such as time differences.”

SYM SofT saw firststeps@DIC as the most interesting option for setting up a new office as it combined all the elements required including facilities, speed and systems.

“Firststeps@DIC allowed us to have all of the logistics taken care of,” Saciu says. “It assisted us with everything from the paperwork, such as visas and setting up an entity, to the basics of setting up an office including finding space, organizing fit outs and furniture and getting networks up and running. It quickly gave us a base from which to operate. This service is great for smaller businesses as well as larger companies who are looking to investigate the market or establish only a small presence in the initial stages.”

Mr. Saciu adds, “It is particularly valuable when there is only a small team which is primarily focused on securing and delivering to customers and which may need to travel extensively to do this…... First we took just one office. But as we needed more space, DIC and firststeps@DIC made it possible for us to expand into a second office. Now we have staff based in Saudi Arabia, Qatar, Oman and Dubai serving our customers.”

A critical element of success in this region is patience. “We were perhaps a little lucky as we had our first customer prior to setting up our business here,” he says. “This enabled us to sustain our operations as we further developed our customer base. Relationships are very important in this part of the world; sometimes it is not only about having the best product or the lowest price. This is again when patience becomes a key success factor.”

Now firmly established in the region, SYM SofT will shortly be moving out of firststeps@DIC and into its own commercial offices in DIC. "Being close to your customers and the market allows you to better understand the market and where change is occurring,” Mr. Saciu says. “In addition, you don’t have to worry about things such as time differences.”
One of the main advantages of DIC compared to other potential locations within the region is its understanding of businesses and its ability to help members develop their activities through networking opportunities and the organization of focused events and facilitation services (transport, conference, hospitality, customs, etc.).
Scope
The geographical scope of this report covers eight countries in the Middle East region including Bahrain, Egypt, Jordan, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Across this geographical area, eight key industries were analyzed—finance, telecommunications, government, transportation, manufacturing, retail, wholesale and hospitality, oil and gas and mining and real estate and construction.

These countries and industry sectors comprise the bulk of the Middle East IT market and provide a solid basis for understanding current market dynamics and areas of opportunity for providers in this space.

The report aims to:

• demonstrate the strength and sustainability of the Middle East’s past and future growth through the analysis of the main growth drivers
• define the Middle East IT market by key segments (hardware, software and IT services)
• assess the attractiveness of market by countries and industries for new entrants to the region
• detail by industry the suitable growth opportunities in the Middle East IT market for small and medium businesses (businesses ranging from 100 to 2,000+ person enterprises)
• highlight case studies of successful IT companies operating here in the Middle East
• provide an overview of the key success factors for new entrants in order to assist newcomers in understanding how to be successful in this marketplace and communicate insights from experienced operators on successful entry strategies
• assess the attractiveness of the Dubai location as a base to set up or start a business in the Middle East region and the advantages of DIC for IT small and medium businesses

In compiling this report, both primary and secondary sources where utilized.

Industry interviews
During the research process, a range of interviews were carried out with key regional IT providers, buyers and DIC partners. The insights gained from these interviews were then consolidated and synthesized to provide key commentary on market trends and opportunities. These findings were tested within A.T. Kearney and DIC.

The sample of key regional IT buyers and operators comprised hardware and software providers, system integrators, government departments and industry bodies, financial institutions, real estate players, telecommunications operators, transportation and logistics companies as well as DIC partners. Interviewees included CEOs, CIOs and senior regional managers as well as other industry experts.

During these interviews, the following topics were discussed: key trends and dynamics of the overall IT market and of IT services, description of current and future industry needs, identification of main opportunities, definition of key success factors within the Middle East IT industry, key purchasing criteria, analysis of the most attractive locations to set up operations within the region and potential advice to new entrants.

The sample of DIC partners comprised small and medium businesses and large global corporations. The profiles of these businesses varied and included recent start-ups, established companies who have recently expanded to the Middle East as well as those which have been operating in the region for some time. Their activities cover a significant spectrum of the IT services market including security solutions, customized software solutions, CRM solutions, system integration, data warehousing, managed services providers, hardware solutions, IT consultancy and mobile content.

During these interviews, the following topics were discussed: activities of the companies and main drivers, review of growth trends and main opportu-
nities for each covered industry, definition of key success factors within the Middle East IT industry, analysis of the choice of Dubai and DIC to set up operations, analysis of potential other locations within the region, key lessons learned and potential advice to new entrants.

**IT and IT services spend projections**
Market estimates for the period of 2007 to 2011 have been based on a range of industry data sources including EIU, IDC and BMI as well as A.T. Kearney estimates. Market data has been internally adjusted based on A.T. Kearney additional research and analysis.

These figures provide a useful indication of trends and order of magnitude but may be subject to change due to the dependency of IT investments on general macroeconomic and regional political events. The projections should not be used as the basis for any form of investment decisions.

**Other research**
In compiling this report, a range of publicly available information has also been incorporated. These sources include regional government departments and industry bodies, press reports and other published market research. Relevant sources are credited in the report. At times, multiple sources have been used and adjusted through A.T. Kearney analysis.
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