مؤسسة محمد بن راشد لتنمية
المشاريع الصغيرة والمتوسطة

DUBAI SME

إحـدى مؤسسـات دائــرة الـتـنـمـيـة الإقـتـصـاديـة – حكـومة دبي

An Agency of the Department of Economic Development – Government of Dubai

A SMALL AND MEDIUM ENTERPRISES DEVELOPMENT PERSPECTIVE OF THE

IT INDUSTRY

IN DUBAI

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Industry Cluster Studies: IT Industry

IT businesses are location independent and intellectual capital is the main driver for new IT businesses. Hence, the key requirements for setting-up these businesses are (i) A worthwhile idea and (ii) Experience in execution. Thus, the report highlights the need for developing an entrepreneurial culture and promote development of high value-add and innovative businesses in Dubai.

The IT industry in Dubai is the most developed in the MENA region, with a strong presence of services over production of software. UAE ICT spending is expected to reach AED12.25 bn by 2011.[1] Many IT companies in Dubai are regional sales offices of international firms. The role of free-zones in the IT industry is greater than any other in Dubai. The IT focused free-zones in Dubai (DIC, DSO) have successfully developed the industry over the last decade.

The industry in general has a high SME potential. The rapid growth rates and relatively low capital requirements in the industry translate into an SME friendly opportunity. Hence, the focus of the report is to promote and develop the SME oriented sub-sectors of the IT industry in Dubai. The report highlights key requirements and considerations for setting-up such businesses (for new entrepreneurs) as well as key issues which need to be addressed to enable such businesses (for policy-makers).

Industry Taxonomy and Current Status in Dubai (ISIC Revision 4)[2]

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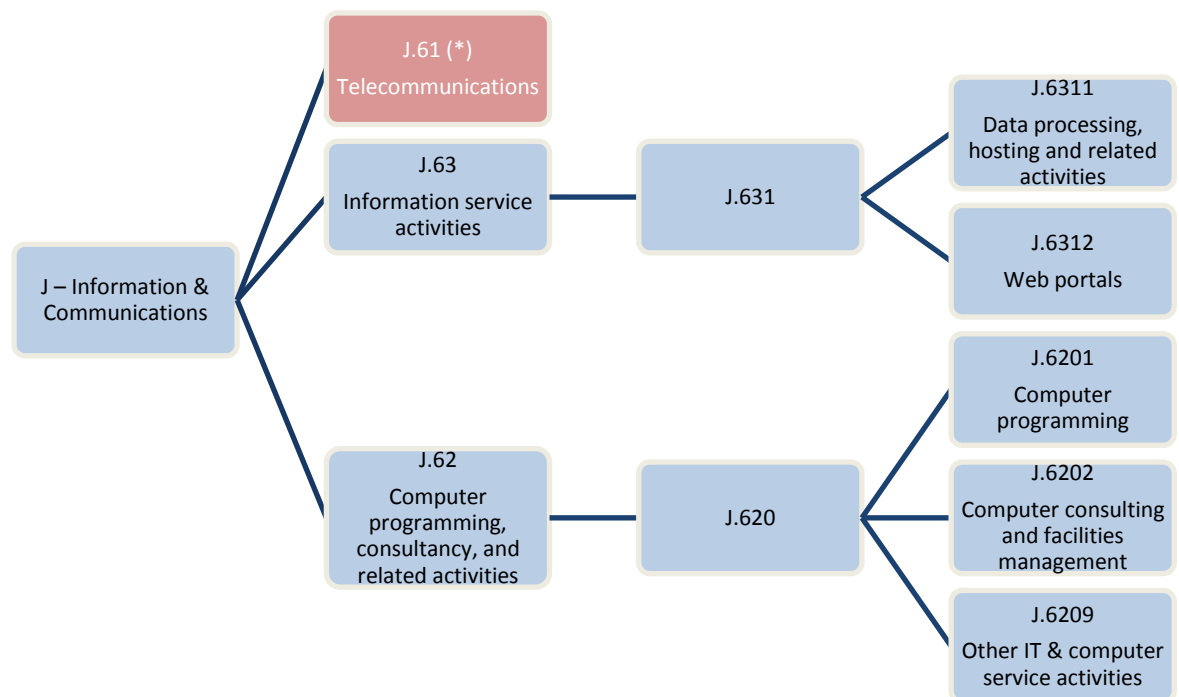
[1] Gartner Report (2010, 2011)

[2] The IT industry studied in this report includes sub-sectors as classified in J Division of the ISIC classification. It does not include telecommunications and purely trading activities

Industry Subsectors and suitability for SMEs

Desirable subsectors suitable for SMEs are in green. These have been assessed as:

- High skill

- High economic value add

  Compatible with Dubai objectives

- Low-Moderate investment (relative to the industry)

  Suitable for SMEs

Activity / Sub-sector	Score
Complete processing of data supplied by clients	15
Generation of specialized reports from data supplied by clients	15
System integration	15
Developing application software	14
Customizing existing software	12
Application service provisioning	11
Provision of on-site management and operation of client's computer, data processing facilities, and related support services	11
Developing system software	11
Computer security and disaster recovery	11
Application hosting	10
Web hosting	9
Streaming services	9
Developing web pages	8
Software installation	7
Setting up of personal computers	7
Provision of data entry services	6
Provision of infrastructure for hosting, data processing services, and related activities	4
General time-share provision of mainframe facilities to clients	NA

The report is a baseline study of the IT Industry in Dubai. The study shall 'aid business plans' for New SMEs and 'aid decision-making' for policy-makers.

For entrepreneurs: Key considerations for setting-up a business and opportunities

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Data Processing

- Dubai is likely to present a large opportunity for data processing and analytics as it is **driven by data abundant industries** such as :
  - Banking & Financial services
  - Telecom
  - Retail
- With increasing competition, most sectors **want to utilize their data to get better understanding** of the market and their service levels
- As with most consulting subsectors, it is important to be local to the client. This gives Dubai-based firms an advantage in the local market.

Application Software Development & Customisation

- Low entry barrier; intellectual capital is the key requirement
- Application software is a global business, and Dubai has to compete on cost with India, Egypt and other countries. However, Dubai can be good hub for Arabic applications.

SMEs also have an opportunity to develop small software such as *gaming software, mobile applications etc. Potential opportunity for SMEs lie in customizing and implementation of these software*

Web and Application Hosting

- The opportunity for SMEs doing web hosting in Dubai is *acting as a re-seller for existing web hosts*. Re-sellers re-package and rebrand hosting services and are responsible for support and customization of the services.
- Although sites can be hosted anywhere, a local support presence and sales team is definitely a help.
- Most companies in Dubai are web design houses that offer the hosting as part of a *package to their web design clients.*

Computer Security, Disaster Recovery, and other consulting

- These are purely consulting businesses and can be started by entrepreneurs with the requisite expertise.
- However, not many people have this expertise and it is difficult to acquire.

Software as a Service (SaaS) / Application Service Provisioning

- SaaS has the potential to reduce costs and shorten update cycles.
- There are pros and cons of setting a business in this sub-sector versus a conventional software development company. These businesses have shorter gestation period due to a shorter release cycle & continuous payments. However, an upfront investment in servers may be required, which increases the start-up capital.

For Policy makers: Initiatives to create an enabling environment for SMEs to thrive.

	Key Issue	Root Causes
Raising Finance	Limited availability of venture capital	• Only common stock is available as an investment option. Internationally, convertible preferred shares are the equity investment of choice in IT start-ups. • The secondary market for existing investments in small companies is relatively immature.
	Lack of understanding of IT companies by banks	• IT companies do not typically have extensive fixed assets against which they can borrow. • Banks have little understanding of IT businesses and have trouble evaluating businesses for creditworthiness.
Human Resources	Lack of encouragement and support to STEM students	• Lack of relevant entrepreneurship curricula and practical examples to encourage STEM skill students to become IT entrepreneurs.
IP Rights	Businesses not confident of enforceability of IP rights	• Lack of knowledge about legal system in UAE and IP enforcement mechanisms
Connections and Hosting	Bandwidth is considered too expensive for businesses, VOIP is not widely available	• This problem is rapidly improving as du and Etisalat roll out fibre optic connections more widely. VoIP is permitted only under certain conditions as a consequence of TRA regulation.
	Businesses not satisfied with available data-centers in the UAE	• This is caused by the scaling issues inherent in data-centres, as the market grows the cost is likely to ease and performance & customer service improve.

Based on the study and its findings, the report provides 'Possible Solutions' in the form of initiatives for: Advocacy, Seeding and Grooming for New and Existing SMEs.

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	Dubai SME objectives	Possible IT Initiatives
ADVOCACY	**Advocating a pro-business environment for entrepreneurship and SME development** • *Through*: Policy/ Regulation changes at the Federal/ Emirate level. These may require intervention by Government body.	**Initiatives based on creating an enabling environment for IT businesses in-line with leading IT destinations globally** • **Equity Ownership Structures** Work with regulatory authorities to develop shareholding structures suited to IT venture capital to promote VC activity in Dubai. • **Intellectual Property Regulation** Act as a voice for IT SMEs in discussions with federal authorities responsible for IP regulation to ensure that UAE IP landscape will continue to develop.

SEEDING	**Seeding a pipeline of innovative start-ups**
	
	• *Through:* Initiatives and programs which are directed towards SMEs by Dubai SME or with collaboration with Industry/government partners. **These are focused on initial set-up and new SMEs**
		Initiatives focused on molding STEM students to develop IT business ideas at an early-stage
		
		• **Direct Venture Funding**
		Early stage funding for IT projects and inviting family groups to Demo Camp series for initial funding
		
		• **SME tool-kit**
		The program can use the presentation as a check-list for SMEs.
		
		• **Business Plan Competitions**
		Organize IT sector specific business plan competitions for STEM students
		
		• **Mentorship**
		Mentorship schemes for young IT entrepreneurs through;
		  o Potential industry partners: Microsoft, Google, Oracle, Intel.
		  o Potential government partners: DIC, DSO, Knowledge and Human Resources Development Authority.
		  o Potential educational partners: Khalifa University, UAE University, HCT, AUD, AUS, Zayed University.
		
		• **Idea to Business**
		Study how many past Demo Camp participants have started businesses based on their ideas and the reasons why.
		Study past Demo Camp participants to understand what factors have led them to grow their businesses and which are holding them back.

		Initiatives focused on promoting innovative SMEs to grow
GROOMING	**Grooming a pool of promising Dubai-based SMEs to be global enterprises** • *Through:* Initiatives and programs which are directed towards SMEs by Dubai SME or with collaboration with Industry/government partners. **These are focused on operations & growth and Existing SMEs.**	• **IT SME Group** Presently the industry lacks a formal representation in the form of Government department or association • **Business Plan Development** Dubai SME could help SMEs develop their expansion plans and present their business plans to banks. • **IP Awareness** Ensure that IT SMEs understand relevant IP issues through briefing sessions and pamphlets. Effective marketing through websites and print can be used for the purpose. Provide access to IP lawyers for free consultations • **IP Licensing Assistance** Help developing SMEs license their IP across international borders. Provide advice on how to deal with infringement.

Overall, Dubai's IT industry has a positive future outlook, leading to a positive growth expectation for businesses in the industry. Adopting initiatives to address these challenges will lead to further enhancement of the business environment for the SMEs. However, a coordinated effort between the industry leaders, SMEs and the government will be required to adopt & execute the appropriate initiatives.