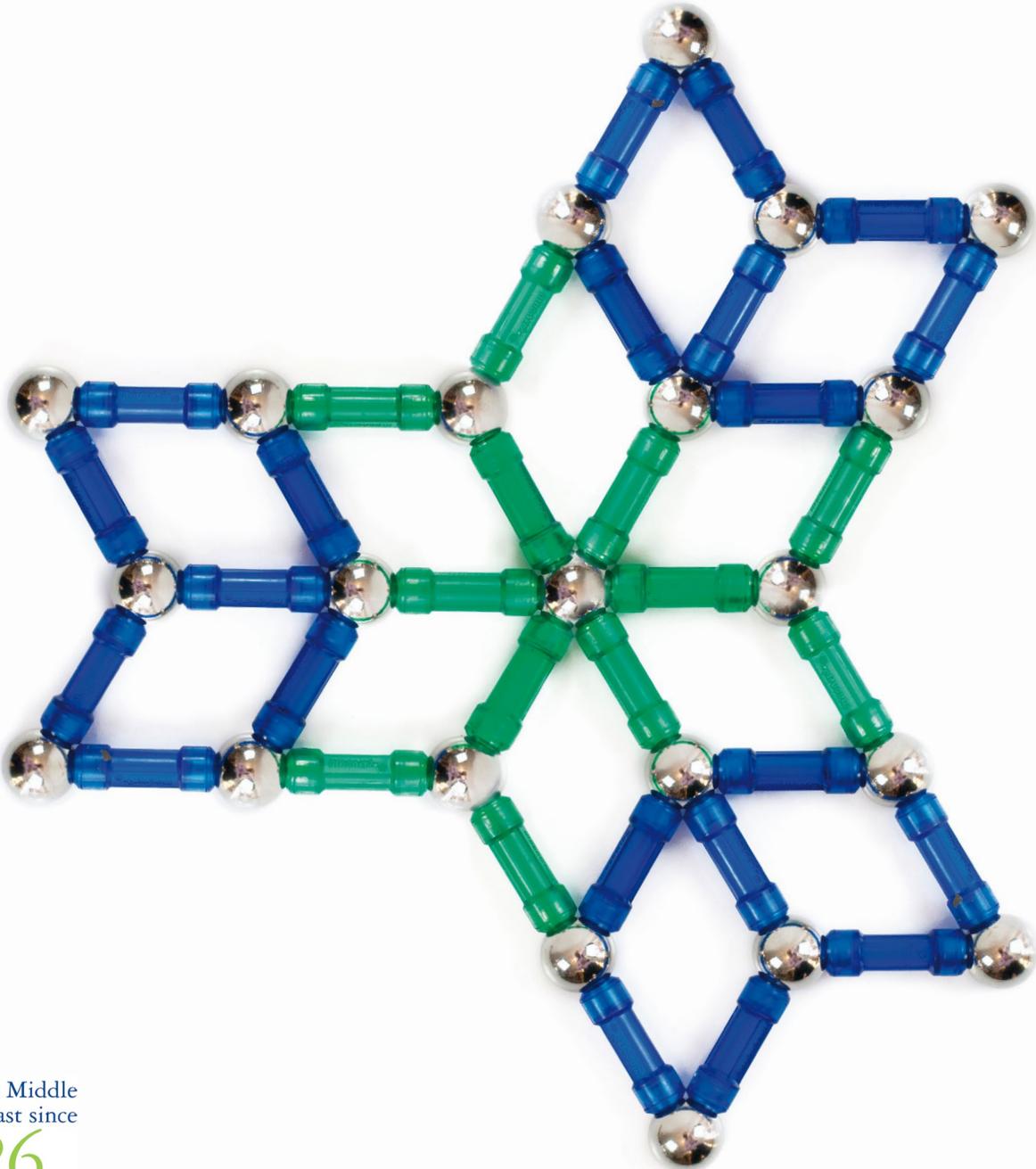


Technology, Media &
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Predictions 2014
Middle East



SME adoption of ICT services: catching up but still a long road ahead...

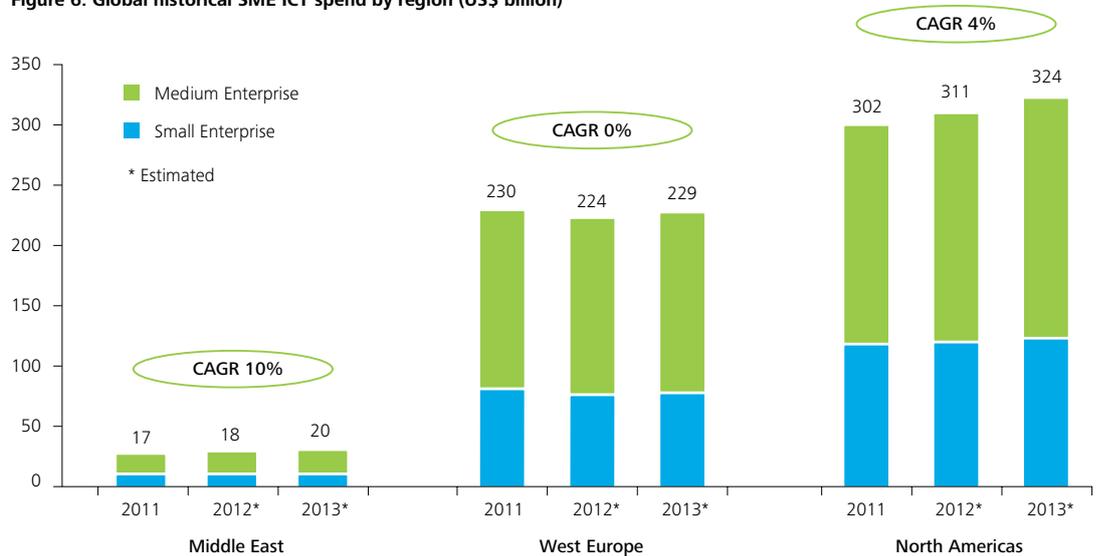
Deloitte predicts that in 2014, small-to-medium sized enterprises (SMEs) in the Middle East will increase their expenditure on ICT services by over \$2 billion to \$22 billion, 10 percent over 2013¹⁸³. In 2014, the SME share of ICT spending in the region will be just over 23 percent¹⁸⁴, driven by ongoing expansion in the number of SMEs and their needs for key ICT services, such as web-presence, e-commerce and cloud computing.

Although there is no clear-cut definition of an SME, headcount is the region's most commonly used measure of quantification. We have therefore defined an SME as an enterprise which employs 100 people or less¹⁸⁵. Under this definition, there are over 1 million SMEs across the GCC, with Saudi Arabia and the UAE containing the highest number at 68 percent and 23 percent respectively¹⁸⁶. As an ICT customer segment, SMEs in the region have also grown quite considerably. For example in the UAE, thousands of SMEs are being added annually¹⁸⁷.

In the 21st century, the proliferation of internet connectivity, e-commerce and cloud services has reduced barriers to entry for SMEs and enabled them to develop across all economic sectors, all over the world, in ways which were never even possible years ago. At least in the Western world, this has evolved into a huge SME market for ICT services, with spending in Western Europe and North America in their hundreds of billions¹⁸⁸. By contrast, the SME market for ICT services in the Middle East in terms of spending is massively underdeveloped, as SME ICT spending in the region is ten times less than the Western world. This reflects the stark difference in maturity between the regions in their SME development and adoption of ICT services.

With an estimated average annual ICT spend of around \$20,000 per SME, SMEs in the Middle East have not been using or spending anywhere near the real amount on ICT services that they could. This is underlined in key GCC markets such as Qatar, where a recent survey in 2012 revealed that 83 percent of Qatari SMEs spent less than 10 percent of their budget on ICT services, the majority of which spent even less than 5 percent¹⁸⁹.

Figure 6: Global historical SME ICT spend by region (US\$ billion)



Source: Deloitte research & analysis¹⁹⁰

However, the digital economy of the Middle East, although still nascent, is now expanding at a faster pace than other developed markets, offering existing, new and potential SMEs in the region a better platform for development. A number of economic and SME sector indicators below suggest that SMEs across the region represent significant growth opportunities in general and in their ICT needs, especially if provided with the right support.

In **Saudi Arabia**, SME investment is forecast to grow to over \$70 billion by the end of 2015, expanding its share of GDP by two percent¹⁹¹. With the Kingdom representing the vast majority of SME's and ICT spend in general, we expect this to be one of the leading growth factors in regional SME ICT spend.

In **Qatar**, the SME ICT market is forecast to grow annually by as much as 10 percent per annum over the next three years to almost \$6 billion by the end of 2014, over double the annual growth rate seen over the past three years in North America¹⁹². A range of surveys also indicates that 85 percent of SMEs have strong expansion plans¹⁹³ with another showing over 50 percent forecasting an increase in their capital investment¹⁹⁴. A third survey indicates that a significant 62 percent of Qatari SMEs plan to increase their expenditure specifically on ICT services¹⁹⁵.

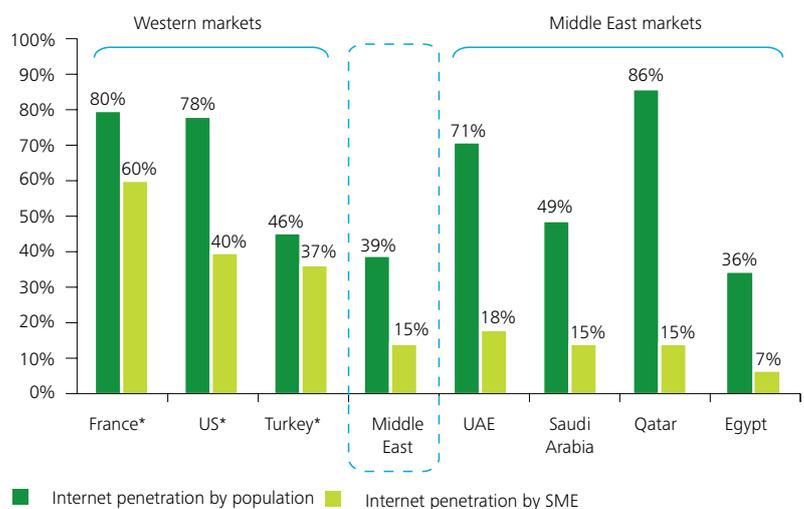
In the **UAE**, SMEs have also grown substantially in size and are now reportedly looking to continue expansion beyond its borders¹⁹⁶. In the last 12 months, as much as 26 percent of UAE SMEs expanded their operations overseas. This is impressive when compared to established exporting nations such as Switzerland (15 percent), Germany (8 percent) and Brazil (8 percent)¹⁹⁷. Recent developments, such as the upcoming Dubai World Expo 2020, are also expected to further boost the UAE SME sector with as much as \$40 billion expected to be pumped into the overall economy¹⁹⁸. In particular there has also been a rise in demand for technology SMEs, capable of providing ICT services themselves from many family businesses seeking lower cost ICT solutions¹⁹⁹.

Across **the region**, family businesses themselves are also driving SME growth as well, as their younger entrepreneurial generation establish, own and run SMEs. With 75 percent of private sector activity controlled by family businesses (unlike other economies), they are very powerful and influential in the region, representing another key growth driver for SMEs and their ICT adoption²⁰⁰.

While the environmental factors for overall SME ICT growth are in place, in terms of maturity, most SMEs are not as advanced as they are in the Western world, requiring more basic ICT capabilities. The massive need from SMEs in the region for these basic ICT services, where we are likely to see the most spending, is broken down into three areas.

Web presence. Although the Middle East enjoys a high level of internet and social media penetration, SMEs, compared to larger businesses and their consumers, are lagging behind in terms of their online web presence. This is shown in internet studies, which revealed that only 15-25 percent of SMEs in the Middle East have any online presence at all^{201 202}. The same is the case with social media. For example in Qatar surveys show over 55 percent of SMEs have no presence on social media and 69 percent do not make use of social media advertising²⁰³. This is a huge gap especially as Qatar has one of the highest internet penetration rates in the world and the highest in the Middle East²⁰⁴. The internet has a big impact on any economy and an even greater impact on the SMEs that use it. This can be seen in Saudi Arabia, the region's largest economy, where the internet contributed over \$9.8 billion to its economy, equivalent to 2.2 percent of its GDP²⁰⁵. For SMEs in the region to develop and grow, it is imperative for them to establish a web presence if they are to develop, grow and benefit from more advanced ICT services. With the large penetration gap that prevails, we would expect faster growth in SME ICT spend to start here.

Figure 7: Online presence by population and by SME (2012)



* Overall business online presence

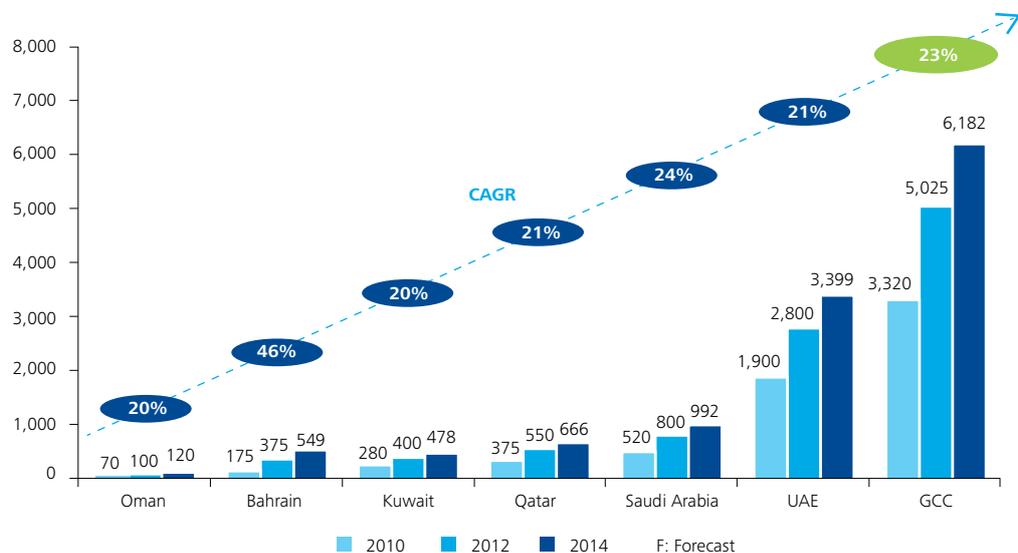
Source: Google^{206 207}, Internet World Stats²⁰⁸, Deloitte research & analysis²⁰⁹

E-commerce. Overall there is great potential in the region for e-commerce to grow. E-commerce in the region is relatively nascent as the Middle East is still a cash-based society, especially in the GCC where business-to-consumer (B2C) sales represent only two percent of overall retail sales volumes²¹⁰. With such a gap, there is plenty of room for e-commerce to expand. Already, consumers are rapidly migrating from cash to online payments. From 2011 to 2012, growth in online sales in the GCC alone was greater than the 20 percent world average, with MENA at 45 percent becoming one of the fastest growing regions for online sales in the world²¹¹. This e-commerce shift is being led by consumers in the UAE, where 71 percent of all purchases made in the country are researched online first, a result of the country's high internet penetration rate, which is now translating into a wider shift in commercial behavior and deeper economic benefit²¹².

However, in spite of the impressive growth in e-commerce, SMEs have not utilized it as another consumer sales channel, as they face several challenges in setting up their own e-commerce platform. This is the case in Saudi Arabia, where most SMEs are still at the stage where establishing a website or adopting e-commerce is the main issue²¹³. In countries such as Qatar, SMEs are also reluctant to adopt e-commerce as they do not trust it as a viable platform. Lack of transaction security, poor delivery services and lack of affordable and reliable payment platforms were all cited in a recent SME survey as reasons inhibiting e-commerce adoption²¹⁴.

However, regulations are being designed to offset this and encourage online payments, especially with new e-government initiatives aimed at fostering an online payment culture in the region. Good examples can be found in Saudi Arabia, the UAE, Lebanon and Jordan, where more than a fifth of banks now offer online services, from simple banking facilities to payment schemes²¹⁵. With 66 percent of new customers finding small businesses via online search engines and 60 percent of consumers more likely to engage with an advertisement relevant to their location²¹⁶, there is ample opportunity for SMEs to benefit from adopting e-commerce for consumers around them. E-commerce is another basic need for SMEs, but requires a web-presence to be established first. For this reason we would expect e-commerce platforms and services to be the next focus of SME ICT expenditure following web-presence adoption.

Figure 8: GCC B2C e-commerce sales volume (2010-2014, US\$ millions)



Source: Deloitte research & analysis, 2014²¹⁷

Cloud computing. Cloud services have had limited adoption by SMEs even though most are aware of it as a concept. This is certainly the case in Qatar, where only 1 percent of SME's surveyed in 2012 were using cloud services²¹⁸. However, early indicators now show that cloud service adoption is quick on the rise. In the same survey, another 42 percent of Qatari SMEs were planning to use cloud services within one to three years, 67 percent of which were interested in infrastructure-as-a-service (IaaS), followed by software-as-a-service (SaaS) and platform-as-a-service (PaaS). As IaaS helps SMEs to reduce their capital expenditure burden, it is expected to be adopted by SMEs the most.

Apart from cost savings, security and data storage services are also on top of the SME agenda. The Middle East is the most popular region in the world for cyber-attacks, with a recent report from Symantec highlighting a growing trend in attacks on SMEs. Last year alone, Symantec cited a 42 percent increase in targeted attacks on the region's enterprises, 31 percent of which were aimed at SMEs²¹⁹. Increasingly, SMEs are responding by turning more towards secure cloud storage services and disaster recovery solutions²²⁰. In 2012, an SME cloud adoption survey by Symantec found that 50 percent of the organizations are more likely to adopt cloud services if it would guarantee 24/7 protection of business critical information, with time saving another strong attraction factor²²¹. The impending need for cloud services by SMEs in the region is also recognized amongst the biggest international players, with software giant Microsoft announcing their commitment to empower some 10,000 Qatari SMEs with cloud technology²²².

The benefit of ICT adoption by SMEs

In every economy of the world, SMEs are the key engines and drivers behind sustained economic growth and development. The Middle East is no exception, especially as it needs SMEs to help create millions of jobs to keep up with its fast growing population²²³.

However, despite the fact that SMEs represent over 90 percent of GCC businesses, they do not contribute as much in employment (only 43 percent in 2011) and GDP (only 36 percent in 2011) as they potentially could²²⁴. The mismatch is explained by the relatively limited support SMEs have received in the GCC, compared to larger enterprises, which grew proportionally more in countries such as Qatar between 2008 and 2010²²⁵. Another reason is because SMEs in the GCC are generally still low tech and concentrated in relatively low value add sectors such as trade (47 percent in 2010) and construction (27 percent in 2010), creating a large productivity gap²²⁶.

The embracement of ICT services by SMEs is a key enabler and solution, which can help them and the wider Middle East region to accelerate in their economic development. By harnessing the power of ICT services, tech savvy SMEs have created more jobs and more revenue gains compared to their non-tech savvy counterparts. The adoption of cloud services is a good example of this, which can help increase cost savings substantially for SMEs²²⁷. ICT adoption can also help SMEs tackle rising competition and help them to reach a critical size, which by far are the main challenges faced by SMEs in the region. In helping SMEs to better reach out to their customers and better understand market conditions, ICT usage can even constitute a major competitive advantage.

Middle East perspective

Though the future holds great promise and potential, it is also fraught with key challenges, which need to be overcome if ICT adoption is to take hold in the region's SME sector.

Access to finance remains a key challenge for SMEs in the region. This is clearly reflected in SME lending activity, which in 2013 was just 8 percent²²⁸. However, in light of the current global economic recovery, SMEs in the Middle East are also expected to benefit the fastest with foreign direct investment flowing into the region, encouraging SME expansion and spend²²⁹. Governments should also work with SMEs and key ICT players to promote and financially incentivize ICT adoption to encourage development and spending. The Tamkeen program in Bahrain is a good example, where SMEs are eligible to obtain funding from Tamkeen for utilizing Batelco's ICT products and services²³⁰.

SME awareness and trust in ICT is also another issue that has inhibited mass adoption to date. Arab SMEs have traditionally avoided ICT adoption despite the anticipated benefits. Due to security concerns and linguistic barriers, many SMEs still rely on personal interactions and have still not moved their operations online²³¹. Both governments and ICT players therefore need to be very proactive in educating SME owners about ICT and its far reaching benefits.

SMEs need to develop their capabilities in terms of resources and more sophisticated business practices as well. Currently SMEs in the region have limited access to talent and expertise, especially for executive positions which places undue load and reliance on the owners experience, time and skills. Regional business networks also need to be developed to enable SMEs to expand, as they have limited internal and external resources to do so. The availability of business planning tools, which can make a huge impact to the success or failure of SMEs, is also lacking in the region.

To strengthen their ICT sectors and foster innovation, governments in the Arab region in partnership with key ICT players need to engage SMEs together to identify key focus areas for development, establish SME-friendly policies and regulations, make funding more widely available, improve ICT infrastructure, and develop the local ICT talent pool²³².

Encouraging initiatives across the region are in place, for example in Google's "Getting Saudi Businesses Online" initiative. As a SME tailored program for the GCC, the initiative aims to develop free websites for SMEs as well as offering one-on-one mentoring in how to turn online presence into profit. Launched in Saudi Arabia in 2012, the initiative is expected to be rolled out across the rest of the MENA region as well²³³. Telecoms operator du has also recently partnered with Google aiming to make business communications more effective for SMEs. Through a one stop shop approach, du is reportedly targeting to capture 50 percent of the SMEs ICT market by 2016²³⁴. A number of SME incubation programs are also in place including In5 (part of Dubai Internet City), Silicon Oasis, Seedstartup, TwoFour54 Ibtikar (focused on digital and media SMEs), i360 & Turn Accelerators (supporting SMEs in logistics and supply chain) and newly opened Afkar.me (for SMEs focused on digital product and content), which all provide some form of funding, access to office space as well as to experts. Government players such as ictQATAR are also very active in supporting SME ICT development, through their SME ICT Toolkit offering. International players such as SAP have also broadened their product offerings to SMEs in the region²³⁵, with Microsoft offering ICT support to SMEs in Qatar.

Governments, ICT players and SMEs across the Arab region should continue to build on and learn from the initiatives above. Economic and well-planned deployment of ICT is critical to the success of SMEs²³⁶.

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