Sector Monitor Series

Dubai Business Services Sector

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تُتنفيذ ملمصق في الأعمال الخدمية حول عمارة تقدم إلى رئيس بشكل دراسة. هذه تنغمس في السوق هذه في العمل والخدمات التي الشركات وخصوصًا.

تنمو توقعات استكشاف إلى دراسة تسعى كذلتك، كماقبل الأعوام في الأعمال الخدمية. أكتوبر في 2006 توظفت ودبي في الأعمال الخدمية شركات وسط استبان جراء 365 شركته بما يدير لديها ترتيب معدل بلغة 16٪.

التسويق خدمات هي في القطاع على الأعمال الخدمية أنها تستجيب وندبي في الأعمال الخدمية شركات وسط استبان جراء 365 شركته دومت 16٪ من النسبة 19% SERVICES الإمارة والخدمات تليهما 18% وخدمات الإيجار، 17% الفنية والخدمات 16%. توضيح مختلف شركات قبل استخدام الاجزاء التجارية للاعمال كنزكاز دببي في الأعمال الخدمية، كنأس، كافريات، شمالي الشرقي، التعاون مجلس دول إلى انطلاق الكويت، كناسبة بيزنس، الشمالية، وهو، كل هذه انطلاق بسبب 31% القيادة وشمال الشرقي.

47% حجم صغيرة تعتبر للاستبان استجابتها التي الشركات من) بين بما يدير 1 إلى 9 موظف، (32% حجم المتوسط بين فيها الموظف عدد يترافق 10 إلى 49 (21% حجم كبيرة بما يدير 50 وأكثر موظف.

70% الأعمال في العمل بين المحافظة العليا المتوسطة بين مهارات يمتون فيها الموظف، (22% حجم مختصرة من همارات الموظف من) ثانوية دبلومات على حاصلين (و8% ليست مهارات لديهم دراسية موعزة ببدون.

تقدم حكوميا للتدخل محدود نطاق وحناك السوق للأحكام، معظم الشركات، دببي في الحالات الأعمار من الأسعار تتم من جميع، إلى تكلفة على وردت، (64% الأسعار يبحثون عن مبادلة لخدمته، 18% الأدبي، الأسعار، 4% الأسعار المنخفضة من الشركات، 1% الأسعار من المطاعم، 95% من الأعمار تقبل هذه الأسعار من الشركات بين مطاعم.

تتم الطريق وطريق تدول إلى، يمكن أن، للإجابة على歌唱 كنودك، في بعض قرار، كنودك في الاجلة بيتك. 16% من أي،lying in، يمكن أن، للإجابة على歌唱 كنودك، في بعض قرار، كنودك في الاجلة أين
هذه الأعمال المصلحة للحماية المنظمة هي جيزة لوجود تلك التأثيرات، وذلک الظروف وراء الكرات، وضع المعلومات لتبادل الأفعال. يمكن الأعمال الشبكية ووجود الأفعال في وقت الأعمال الخدمات للمجاك والمجالات الرئيسيات، كذرک أخرى، جهة من 51% تحايل ووجود الكرات من الأعمال الممارسة التكلفة الأفعال. ذكرت 24% في التواجهات التي الرئيسيات تتكون من الأعمال الممارسة التكلفة ارتفاع تجدونها الكرات من 15%. 14% الكرات أمام معوقات الصارمة والتشريعات القانونية تجدونها الكرات. 13% الحركة الأنساب أن تجد، وصول النمو الواقعة على. 12% صعوبات إحدى بمتابة التمويل توفر عن ذلك تجدونها الكرات. 11% مشكلة بمتابة الجودة مقياس غياب أن تجد. 9% اللوجستي الدعم توفر عن ذلك تجدونها الكرات. 2% نموها أمام معوقات الطويلة الأجراءات مثل أخرى أشياء تعترف.
Executive Summary

- The primary objective of this study is to give an overview of Dubai business services market and the characteristics of the business services companies operating in the market. In addition, to explore the growth outlook of the business services market in the coming years. In October 2006, DCCI conducted a survey among Dubai business services and 365 companies have responded to the survey, with a response rate of about 16 per cent.

- The survey results have shown that the dominant business services in Dubai are the marketing services, 19 per cent, the professional services, 18 per cent, the renting and leasing services, 17 per cent, and the technical services, 16 per cent. The dominance of the marketing services shows the role of Dubai as a business trading centre that companies of different nationalities are using as a marketing springboard to the countries of the GCC, Middle East and North Africa, Asia, Africa and other neighbouring regions.

- The overwhelming majority of Dubai business services companies are small to medium size. 47 per cent of the respondent companies are small size (with 1 to 9 employees). 32 per cent of them are medium size (with 10 to 49 employees). 21 per cent of the companies are large size (with 50 and more employees).

- The skill distribution of the employees in the business services companies has shown that 70 per cent of the employees possess medium to high skills (with university and post-university degrees). 22 per cent with low skills (with higher school diplomas). And 8 per cent are unskilled (with no school qualifications). Therefore, the overwhelming majority of the business services employees are skilled and this is expected given the nature of the support services these companies are providing to the businesses.

- The level of competition in Dubai business services is relatively high. 71 per cent of the respondent business services companies think that competition is at high level. 24 per cent of them think that competition is at medium level. Therefore, 95 per cent of the companies think that competition is medium to high. On the other hand, 4 per cent of the companies think that competition is at low level and only 1 per cent thinks there is no competition.
The prices of business services are set according to the market rules and there is a limited scope for government price controls. The majority of the companies, 64 per cent, set the price for their services based on the cost of the provision of the services, that is, cost-plus pricing rule. According to some business services companies, 30 per cent of the companies, the market leaders set the price which implies an oligopolistic market structure. Only 4 per cent of the companies reported government price controls in their field of business.

The business services are profitable field of business. The overwhelming majority of the business services companies, 97 per cent of the companies, are making profit that ranges between less than 5 per cent to more than 15 per cent. Only 3 per cent of the companies reported losses.

When the turnover is used as a measure of a company size, then 35 per cent of the respondents companies are small size, with turnover of less than AED 1 million. 39 per cent of the companies are medium size, with turnover range of AED 1 million and less than AED 10 million. 26 per cent of the companies are large size, with turnover of AED 10 million and more. This confirms the dominance of small and medium size companies in Dubai business services which has already been established when using the number of employees per company. 75 per cent of companies’ turnover is from clients inside UAE while 25 per cent is from clients outside UAE. 80 per cent of these clients are private businesses, 11 per cent are governments and 9 per cent are households.

The primary focus of Dubai business services companies is GCC and non-GCC Arab countries' markets, with some degree of coverage for the Asian and African markets. 61 per cent of the companies serve GCC and non-GCC Arab countries markets. 18 per cent of the companies serve the Asian markets; 13 per cent serve the African markets; and 8 per cent serve other markets such as EU, US, Canada, Australia and Russia.

Dubai business services companies are optimistic about the market growth in the next 3 to 5 years. The overwhelming majority of the companies, 98 per cent, expect the market to grow by less than 5 per cent to more than 15 per cent. A minority of companies, 2 per cent, expect the market to decline.

The majority of the companies, 68 per cent, find market based entry barriers such as tough competition and low profit margins, high set up cost, and the
small size of the market are the dominant ones as opposed to government regulatory barriers. 20 per cent of the companies find government laws and regulations as an entry barrier to the market. 11 per cent of the companies find foreign market restrictions as entry barrier. 1 per cent of them find other things such manpower and visa restrictions as entry barrier to the market.

- The existence of associations and groups in the field of business services is not that prevalent. Almost half of the respondent companies, 49 per cent, reported that there are no associations and groups in their field of business or the law does not allow the formation of these associations and groups. The implications are that there are no organized business bodies to protect their business interests and there are no business networks that the companies can use to exchange information and set quality standards for business services. On the other hand, 51 per cent reported that there are business associations and groups in their field of business.

- The most pressing issue that is facing Dubai business services companies is the cost of doing business in Dubai. 24 per cent of the respondent companies find the high cost of doing business as one of the critical issues that are facing businesses in Dubai. 15 per cent of them find government restrictive laws and regulations as a pressing issue for the companies. 14 per cent find that the scarcity of skilled labour is a critical issue. 13 per cent find traffic access and parking as a critical issue. 12 per cent find the unavailability of finance as critical issue. 11 per cent find the absence of quality standards as a pressing issue for the companies. 9 per cent find logistics as a pressing issue for them. 2 per cent find other things such long procedures as pressing issue for them.
1. Introduction

1.1 Background
Traditionally, economic analysis has focused on the importance of manufacturing sector for economic growth and development. In recent times and in developed and emerging economies manufacturing has been outperformed by the services sector, both in terms of output and employment. This shift from an industrial to a service economy is a structural pattern that is observable in all economies over time and varies depending on the level of economic development of the country. It is a fact in the developed countries and a discernable trend in the emerging ones.

The exact economic definition of services is not that easy and straightforward. Some define services as “activities directed at creating changes, transformation in some entities”. The transformation that is brought about by these activities may be of form, place or time of availability, and the entities involved may be goods, people, the natural environment, data, etc. This broad definition can cover a very heterogeneous range of activities, such as legal activities, software supply, management and technical consulting etc. (Metcalf and Miles, 2000).

Business services may be defined as activities that are particularly aimed at creating changes in business entities. That is, they are activities that aim at solving problems and tasks related to the production in, organisation of and/or administration of, business enterprises. Such activities include legal and technical services, managerial services, administrative services, marketing services, etc. The business services contribute to production in a manner comparable to traditional production factors, that is, business services make up an input that contributes directly to production, as well as from a more indirect knowledge perspective, where business service inputs contribute with knowledge that can improve the production efficiency (Drejer, 2002).

The business services comprise of a wide variety of services that are delivered mainly to other businesses. Such services are essentially intermediate activities, that is, providing inputs for the production of goods and other services. For example, starting companies need business services such as how to incorporate, how to write a business plan, how to find financing, and how to find business opportunities. Established companies need sales and marketing services, e-commerce services, legal services,
accounting and auditing services, etc. These services vary depending upon what services the companies need during the stages of establishment, production of product/service, and delivery of product/service to customers.

1.2 Objective

The primary objective of this study is to give an overview of Dubai business services market and the characteristics of the business services companies operating in the market. In addition, to explore the growth outlook of the business services market in the coming years.

1.3 Research questions

This study will answer the following research questions, among others:

1. What are the characteristics of Dubai business services market in terms of business activities, size of companies, employment and skills?

2. How the prices of business services are set and what are the profit margins in the market?

3. What is the level of competition in Dubai business services market and what are the market entry barriers?

4. What are the most pressing issues for Dubai business services companies and are there any government laws and regulation in this field of business services?

5. What are the growth expectations of the business services market in the next 3 to 5 years?

1.4 Methodology and data

A questionnaire was sent out to business services companies in Dubai to collect primary data on certain aspects of their business. DCCI membership database was used to draw a study sample from the business services companies registered with DCCI. MS Excel and SPSS software were used to enter, process and analyze the collected primary data. In addition, secondary data from the Federal Ministry of Economy and Dubai Municipality Statistics Centre and other local sources was used. Statistical methods will be used to analyze the data and draw conclusions.
1.5 Outline of the study

The paper is further divided into four sections. Section two discusses the role of the business services in the economy from the perspective of the economic theory. Section three describes the survey methodology that is used in the collection of primary data from business services companies in Dubai. Section four presents the results of the analysis of Dubai business services survey. Finally, section five concludes the study.
2. Business Services and the Economy

2.1 Why study business services?

The trend of post-industrial modern economies is the growth of business services. The rapid growth of business services tend to be concentrated in the metropolitan areas in the industrialised world in US, EU, and Japan with increasing links to South East Asia and Latin America. To a large extent, the business services in the industrialised countries have been linked to growth in international trade and transnational corporations.

Traditionally, economists have perceived business services as unproductive, that is, as a cost rather than as a necessary input to production. Recently, economic research on producer services tend to have a more differentiated look on business services as both a prerequisite for production and as a consequence of it. At the same time as services represent a cost, they also provide access to resources, technology, qualified manpower and markets. In the increasingly open economies, business services are of growing importance and a necessity for the development of a growing and diversified production and export base. There is therefore a need for a better understanding of the role of business services in economic growth and development. There are a number of studies of the development of services in at the global level (Riddle 1986, Daniels 1993). The business services play an important role in the policies to create an enabling business environment for the development of the private sector.

2.2 What are business services?

The distinction between goods and services becomes increasingly blurred. This is because services are increasingly being built into products. In industrial countries, about three quarters of the cost of an industrial product consists of services. Also, because goods are sold in packages comprising both goods and services, for example, credit, transport, training, maintenance and repair services.

Service related literature distinguishes between consumer and business services. Consumer services are services which cater for individual persons or households, for
example health services, general education and retail trade. On the other hand, business services cater to a market of private and public enterprises. Business services may be produced by both private and public enterprises or by civic organisations, and many services operate at the interface between the public and private sectors.

Traditionally, business services are defined as activities that do not produce or modify physical goods. They are immaterial and cannot be stored, transported or owned and must therefore generally be both produced and consumed locally, but they can be bought and sold. Information generation, handling and utilisation are important elements of many business services. Business services can generally be characterised as relations between the service provider and the service user which changes the conditions of the user. Generally, business services attempt to reduce transaction costs, improve learning processes and build capacity. The fact that business services are characterized as relations between the provider and the user means that both the provider and the user are involved in the provision of the service and that requires a high level of trust between the provider and the user.

Because the state and the legal system often is unable to guarantee the fulfilment of contracts, business agreements tend to be based on what is called “strong ties” which is individual trust either ascribed to family or clan members or earned often through many years of mutual testing and collaboration. Therefore, as businesses are often confined to rather narrow circles of business people, the economy is highly fragmented in small networks. This is in contrast to the dynamic enterprise structure now developing in the industrialised world, where entrepreneurs continuously search for new market opportunities and shifting alliances. To a large extent, such a dynamic structure relies on what is called “weak ties”. However, such weak ties only develop where there is a basis for extended or systemic trust guaranteed by the state or large corporations. This requires effective infrastructures and a legal system which is enforced and accessible to both large and small enterprises. In developing and emerging economies this is not the case and therefore small enterprises tend to rely even more on “strong ties” than large enterprises do (Granovetter, 1985).

In the industrial countries, business services have become important because they serve as brokers of “weak ties”, brokers of knowledge and contacts between the
business and its outside world. As a broker of information, the service firm also filters and controls the information flow, ideally to the benefit of the enterprise it serves; but it may also misuse its position to filter information to the benefit of itself or somebody else. Therefore the use of a business service requires a high level of trust of the service provider; a high level of trust which in the developing and emerging countries only exists within the narrow circles of “strong ties”. Yet, it is precisely to break the limitation of the fragmented economy that trustable business services are needed.

2.3 The role of business services in economic development

In economic literature, there are five main positions regarding the role of the services in economic growth and development and these are as follows (Illeris 1996; Pedersen 1998):

(I) Services play a passive or dependent role: In this view, manufacturing industries are seen as the driving motor of the economy and the services are seen as non-basic and their growth dependent on growth of manufacturing. This position is represented by the Keynesian and Marxist economics.

(II) Service activities cause a cost-disease, which will eventual stop economic growth: This position is originally developed by Baumol (1967) and states that as productivity in services increases slowly, if at all, and wages in services tend to follow the rest of the economy, increasing shares of services in the economy will lead to falling productivity and increasing costs and prices, which will eventually stop growth.

(III) The value of services should not be measured in terms of the productivity of the services themselves but through the reduction of transaction costs, productivity increases and innovations they create in other sectors that use the services.

(IV) Service activities are considered the independent motor of economic growth, by creating new economic circuits with new production and employment. This view is known as the post-industrial position.
(V) Because services, and especially business services, play a very important role for the access to resources and productivity of the economy, control over the business services may give control over resources circulation in the economy and open up for monopolistic practices and rent seeking, which increases the transaction costs rather than reduces them.

2.4 The demand for business services

In general, the purpose of business services is to help businesses improve their access to resources, markets, new technology, skilled labour, etc. In earlier times, the demand for business services was satisfied internally in the companies by recruiting of more staff. Therefore, large companies were established in order to be able to maintain a large specialised staff. In recent years, the new development is that business services are no longer only produced in-house, but are increasingly outsourced from specialised service companies.

Nowadays, the total demand for business services has increased due to globalization of markets, rapid technological development and increasing specialisation and interdependencies both within the private sector and between the private and public sectors. All sectors of the economy (i.e., agriculture, manufacturing and services) have been using the business services. Therefore, there is a growing important market for business services. This is a result of increasing specialisation not only in goods production, but also in the provision of services.

Most of the time, the internationalization of production has been discussed in terms of foreign direct investment and foreign trade, but in reality a large part of the internationalisation of material production takes place through the establishment of trading offices, franchising contracts or sale of licences. These activities lead to growth in export of services rather than transfer of material production. This is especially true in the case of services which can only be exported by establishing local services outlets.

The importance and the demand for business services is not limited to large multinational services companies and does not only focus on trade and
internationalisation in services. The small businesses appear to be more dependent on external business services than large companies because they have limited capacity to produce their own services in-house. On the other hand, it is also more difficult and expensive for small businesses to satisfy their demand for business services from outside sources. This is one of the reasons and the justification for the government support to small businesses when it comes to business services.

The demand for businesses services differ between the large and the small businesses. Generally, the large businesses demand both general routine business services and more specialised business services. The large businesses produce in-house those services which are part of their core activities on which they base their market position. On the other hand, they may outsource more routine functions and especially the seasonal and cyclical peaks of such functions, but they may also outsource more specialised functions related to specific short term jobs or to the development of their own technology, organisation or resource base. On the other hand, the small businesses are usually less specialised, and they often have a number of common management problems related to their small size, which can be eased through outsourcing of more general business services.

The decision of businesses to either produce their own business services in-house, to buy them from specialised external service company or not to use them at all, depends partly on the local supply of business services. If business services are not available locally and at a reasonable price, most small businesses will abstain from using them, while larger businesses will be forced to establish their own service provision or import the service from abroad. When the large businesses provide their own services this will reduce the local market for business services and thus reduce the possibilities for operating local business services for small businesses profitably. Such possibilities may be offered in business clusters where business services are offered.

The decision of an enterprise to produce a service in-house or obtain it from an external source is similar to the decision to hand out a subcontract. According to the transaction cost theory it depends on how crucial the service is to the product of the business, how frequent it is used, and how large the fixed costs of producing it is compared to the size of the production (Williamson 1993).
2.5 The supply and structure of business services

Traditionally, business services have been characterised by local markets. Despite the fact that the development of telecommunication and transportation has made it possible to deliver business services over long distances, a large part of the business services still depends on proximity to the market. On the other hand, the increasingly specialised business services require geographically large markets which are usually only available in large cities. Therefore, the business service sectors generally have developed three types of service enterprises based on different strategies, which with varying success compete for the service market:

(i) Small general business services suppliers provide rather simple and non-specialised business services which are mostly demanded by small and medium-sized businesses.

(ii) Small and medium-sized highly specialised business services suppliers provide highly specialised narrow business services to specific types of businesses. Although these service providers may find a sufficient market in specialised business clusters, but they may require a wider national or regional markets.

(iii) Large national and transnational business services suppliers deliver their business services through networks of branch offices or franchisers to benefit from proximity to the local market. They usually provide a broad range of specialities through their branch offices. These suppliers often serve transnational companies and they are closely linked to the international economy.

Usually, the abovementioned three types of businesses coexist, but which dominates depends on the type of business services provided, the access to resources and qualifications, the structure of the market and the existing legal framework. In some developing and emerging economies business services organisations have been set up as public or parastatal organisations to serve the markets which are not served satisfactorily by the private sector. Examples of such organisations are vocational training schools, credit schemes, technological institutes, and small enterprise
development institutes. Such organisations are often geared towards small and medium-sized enterprises.

In the highly segmented business environments with strong division lines between indigenous and non-indigenous businessmen and different nationalities with limited mutual trust, it may be difficult for business services companies to serve more than one segment. This will limit the supply of business services and force more businesses to produce their own business services in-house.

In addition to the specialised business services suppliers, business services may also be supplied by manufacturers and wholesalers who sell goods together with a package of services, such as credit, transport, training and maintenance, and often competing on those services rather than on the goods themselves. In other cases business services are also sold and delivered in a package with other services, such as management consultancy. Such packaging of services may improve the access to business services and thus the efficiency of the service user, but it may also give the supplier a monopolistic position in the market for services.

Many types of business services are linked to and depend on the development of infrastructure. Thus the development of transport, telecommunication and power networks is a prerequisite for the development of many business services.
3. Survey Methodology

In October 2006, Dubai Chamber of Commerce and Industry (DCCI) conducted a survey among Dubai business services companies. The survey questions has covered business services activities; location and branches; employment and skills; competition and entry barriers; pressing issues facing business services companies; regulations and business associations; prices and profits; business acquisition and business expansion methods; turnover, market coverage and clients; and expectations of market growth. This section discusses how the survey has been conducted, how the sample is designed and the questionnaire response rate.

The sample used in this study was drawn from DCCI membership database as of the second quarter 2006. According to Dubai standard classification of economic activities, an activity being performed within the range of divisions 71 to 74 by member companies has been categorised as business services. Broadly, these cover computer related services; professional services; technical services; marketing services; renting and leasing services; research and development (R&D); labour recruitment and personnel services; operational services; and other business services. DCCI membership database contains information about 4,069 members that perform such activities. Unfortunately, the DCCI membership database lacks important contact and fax numbers information on many of its members. Therefore, a further cleaning up of the data available reduced the size of business services company population to 3,112 members. Since the business services company population on the membership database is relatively small in number and more diverse in terms of sub-activities within the business services relative to other major activities, the entire population of 3,112 members was chosen.

Questionnaires were sent out to the selected 3,112 business service companies through fax. It turned out that 750 out of the 3,112 business services companies did not have the right fax numbers and therefore they bounced back. Thus, the questionnaires that actually went through the fax were 2,362. After several rounds of follow ups with the business services companies that received the questionnaires, 365
companies responded and this gives a response rate of about 15.5 per cent (i.e. 365/2362). Previous experience with surveys conducted by DCCI indicates that the response rate, in studies similar to this one, ranges between 15 per cent and 25 per cent.
4. Results of Dubai Business Services Survey

This part analyses the responses of the 365 Dubai business services companies that have responded to the survey. It covers business services activities; location and branches; employment and skills; competition and entry barriers; pressing issues facing business services companies; regulations and business associations; prices and profits; business acquisition and business expansion methods; turnover, market coverage and clients; and expectations of market growth. Each of these issues is discussed below.

4.1 Business services activities

This section analyzes the distribution of the respondent business services companies over the different economic activities of the business services sector in Dubai. The survey has used the standard classification of economic activities in Dubai economy to divide the business services into different activities. The survey results have shown that the dominant business services in Dubai economy are the marketing services, 19 per cent, the professional services, 18 per cent, the renting and leasing services, 17 per cent, and the technical services, 16 per cent. Please refer to Figure 4.1 below. The dominance of the marketing services shows the role of Dubai as a business trading centre that companies of different nationalities are using as a marketing springboard to the countries of the Gulf Co-operation Council (GCC), Middle East and North Africa (MENA), Asia, Africa and other neighbouring regions.

Within the marketing services, advertising and public relations represent 41 per cent; directing marketing is 26 per cent; market research is 14 per cent; and other marketing services represent 19 per cent. Within the professional services, management consulting represents 31 per cent; book keeping, accounting and auditing is 19 per cent; legal services is 15 per cent; and other professional services represent 35 per cent. Within renting and leasing services, renting and leasing of automobiles represent 56 per cent; renting and leasing of machinery and equipment is 16 per cent; and other renting and leasing services represent 28 per cent. Within the technical services, engineering services represent 40 per cent; architectural services is 18 per cent; survey
services is 11 per cent; testing and analysing of materials and products is 6 per cent; and other technical services is 25 per cent.

![Figure 4.1: Distribution of business services by activity (%)](image)

Source: Dubai Business Services Survey, October 2006.

4.2 Location and branches

The survey results have shown that the overwhelming majority of the respondent business services companies, 80 per cent, have their head offices based in Dubai; 9 per cent are based in foreign countries; 7 per cent are based in Dubai Free Zones and 4 per cent are based in other Emirates. Please refer to figure 4.2 below. The implication of this distribution is that the overwhelming majority of the business services companies are subject to the laws and regulations of the city of Dubai that organize the business services activity.

![Figure 4.2: Distribution of company head office by location (%)](image)

Source: Dubai Business Services Survey, October 2006.
Regarding the number of the company branches, 79 per cent of the respondent companies have 1 to 2 branches; 7 per cent of them have 3 to 4 branches; 14 per cent have 5 and more branches. The implication of this branch distribution is that the majority of the business services companies are of small and medium size.

### 4.3 Employment and skills

The survey results have shown that the overwhelming majority of Dubai business services companies are small to medium size. 47 per cent of the respondent companies are small size (with 1 to 9 employees). 32 per cent of the companies are medium size (with 10 to 49 employees). 21 per cent of the companies are large size (with 50 and more employees). Please refer to figure 4.3 below.

The skill distribution of the employees in the business services companies has shown that 70 per cent of the employees possess medium to high skills (with university and post-university degrees); 22 per cent with low skills (with higher school diplomas) and 8 per cent are unskilled (with no school qualifications). Therefore, the overwhelming majority of the business services employees are skilled and this is expected given the nature of the support services these companies are providing to the businesses.

![Figure 4.3: Distribution of Companies by size class (%)](image)

*Source: Dubai Business Services Survey, October 2006.*

### 4.4 Competition and entry barriers

It seems that the level of competition in Dubai business services is relatively high. 71 per cent of the respondent business services companies think that competition is at
high level; 24 per cent think competition is at medium level. Therefore, 95 per cent of the respondents think that competition is medium to high. On the other hand, 4 per cent think competition is at low level and only 1 per cent thinks there is no competition.

Regarding the market entry barriers, it seems that market based entry barriers are the dominant ones as opposed to government regulatory barriers. 30 per cent of the respondent companies find tough competition and low profit margins is a barrier to entry; 25 per cent find high set up cost is a barrier to entry; 20 per cent find government laws and regulations is a barrier to entry; 13 per cent find the small size of the market as a barrier; 11 per cent find foreign market restrictions as a barrier to entry; and 1 per cent find other things such manpower and visa restrictions as barriers to entry. Please refer to figure 4.4 below.

![Figure 4.4: Entry barriers](image)

Source: Dubai Business Services Survey, October 2006.

### 4.5 Pressing issues facing businesses

It seems that the most pressing issue that is facing Dubai business services companies is the cost of doing business in Dubai. 24 per cent of the respondent companies find the high cost of doing business as one of the critical issues that are facing businesses in Dubai. 15 per cent of them find government restrictive laws and regulations as a pressing issue for the companies. 14 per cent find that the scarcity of skilled labour is a critical issue. 13 per cent find traffic access and parking as a critical issue. 12 per cent find the unavailability of finance as critical issue. 11 per cent find the absence of quality standards as a pressing issue for the companies. 9 per cent find logistics as a
pressing issue for them. 2 per cent find other things such long procedures as pressing issue for them. Please refer to figure 4.5 below.

Figure 4.5: Pressing Issues facing businesses

<table>
<thead>
<tr>
<th>Issue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of logistics</td>
<td>9%</td>
</tr>
<tr>
<td>Lack of skilled labor</td>
<td>14%</td>
</tr>
<tr>
<td>Lack of finance</td>
<td>12%</td>
</tr>
<tr>
<td>Access and parking</td>
<td>13%</td>
</tr>
<tr>
<td>Absence of quality standards</td>
<td>11%</td>
</tr>
<tr>
<td>High costs of doing business</td>
<td>24%</td>
</tr>
<tr>
<td>Restrictive laws and regulations</td>
<td>15%</td>
</tr>
<tr>
<td>Others</td>
<td>2%</td>
</tr>
<tr>
<td>Absence of quality standards</td>
<td>11%</td>
</tr>
<tr>
<td>High costs of doing business</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: Dubai Business Services Survey, October 2006.

4.6 Regulations and business associations

There are clear and enforceable laws and regulations in the field of business services in Dubai. This is confirmed by 73 per cent of the respondent business services companies who reported that there are clear and enforceable laws and regulations in their field of business. 21 per cent of the respondent companies think that the laws and regulations in their field of business are not clear and unenforceable. Only 6 per cent of the business companies think that there are no laws and regulations in their field of business. Please refer to figure 4.6.

It seems that the existence of associations and groups in the field of business services is not that prevalent. Almost half of the respondent companies, 49 per cent, reported that there are no associations and groups in their field of business and the law does not allow the formation of these associations and groups. The implications are that there are no organized business bodies to protect their business interests and there are no business networks that the companies can use to exchange information and set quality standards for business services. On the other hand, 51 per cent reported that there are business associations and groups in their field of business.
Figure 4.6: Governmental laws and regulations

Source: Dubai Business Services Survey, October 2006.

4.7 Prices and profits

The survey results have shown that the prices of business services are set according to the market rules and only a limited scope for government price controls. 64 per cent of the respondent companies reported that the price for their business services is based on the cost of the provision of the services, that is, cost-plus pricing rule. 30 per cent of the companies reported that the market leaders set the prices, which implies an oligopolistic market structure. Only 4 per cent of the companies reported that prices are controlled by government rules. 2 per cent reported that prices are set by other means whereby the level of competition and the forces of supply and demand determine the prices. Please refer to figure 4.7.

The overwhelming majority of the business services companies, 97 per cent of the respondent companies, are making profit that ranges between less than 5 per cent to more than 15 per cent. 20 per cent of the companies reported a profit rate of less than 5 per cent. 32 per cent reported a profit rate that ranges between 5 and less than 10 per cent. 26 per cent reported a profit rate that ranges between 10 to less than 15 per cent. 19 per cent of the companies reported a profit rate that is 15 per cent and more. Only 3 per cent of the companies reported losses.
4.8 Business acquisition and expansion methods

The business services companies use several channels to get business assignments/contacts. 41 per cent of the respondent companies reported that they use their business contacts to get assignments. 26 per cent reported that they use their personal networks to get assignments. 18 per cent of the companies get their assignments through tendering. 12 per cent of the companies get their assignments through business associations. 3 per cent of the companies get their assignments through other means such direct marketing, advertising, and exhibitions. Please refer to figure 4.8.

In carrying out their business assignments/contracts, the business services companies use different methods. 56 per cent of the respondent companies reported that they provide the business services using their in-house staff. 39 per cent of the companies reported that they partly use in-house staff and partly outsourcing for providing the business services. Only 5 per cent of the respondent companies reported that they fully outsource the business services to other companies.
The business services companies adopt different strategies for expanding their business. 70 per cent of the respondent companies intend to expand their business through the penetration of new markets. 13 per cent reported that they intend to expand their business through vertical integration. 12 per cent reported that they intend to expand through mergers and acquisitions. 5 per cent of the companies intend to expand through other means such as adding new services and establishing new branches.

4.9 Turnover, market coverage and clients

When the turnover is used as a measure of a company size, then the survey results show that 35 per cent of the respondents companies have a turnover of less than AED 1 million, which can be classified as small size companies. 39 per cent of the respondent companies reported a turnover that ranges between AED 1 to less than AED 10 million, which can be classified as medium size companies. 26 per cent of the respondent companies reported a turnover of AED 10 million and more, which can be classified as large size company. Therefore, 74 per cent of the respondent business services companies are small and medium size companies. Please refer to figure 4.9. This confirms the dominance of small and medium size companies in Dubai business services that has already been established when using the number of employees per company as a measure of company size, which shows that 79 per cent of Dubai business service companies are small and medium size companies.
On the other hand, the business services companies cover a variety of markets that range from GCC and non-GCC Arab countries to Asian and African markets. 41 per cent of the respondent companies serve GCC markets. 20 per cent of the companies serve other non-GCC Arab countries. It is clear that the business services companies’ focus on GCC and the other Arab countries’ markets. 18 per cent of the companies serve the Asian markets and 13 per cent serve the African markets. 8 per cent serve other markets such as EU, US, Canada, Australia and Russia. 75% of the respondent companies’ turnover is from clients inside UAE while 25 per cent is from clients outside UAE. 80 per cent of these clients are private businesses, 11 per cent are governments and 9 per cent are households.

![Figure 4.9: Annual turnover](image_url)

Source: *Dubai Business Services Survey, October 2006.*

### 4.10 Expectations of market growth

Dubai business services companies have different expectations about the market growth in the next 3 to 5 years. 35 per cent of the respondent companies expect the market to grow by 15 per cent and more. 24 per cent of the respondent companies expect the market to grow by 10 to less than 15 per cent. 28 per cent of the companies expect it to grow by 5 to less than 10 per cent. 11 per cent of the companies expect the market to grow by less than 5 per cent. Only 2 per cent of the respondent companies expect the market to decline (i.e. negative market growth). Please refer to figure 4.10. It is clear that there are positive expectations among Dubai business services companies of the growth of their market in the coming years.
Figure 4.10: Expectations of market growth

- 15 per cent and more: 35%
- 10 per cent to less than 15 per cent: 24%
- 5 per cent to less than 10 per cent: 28%
- Less than 5 per cent: 11%
- Negative growth: 2%

Source: Dubai Business Services Survey, October 2006.
5. Conclusions

A survey was conducted among Dubai business services companies with the objective of determining the characteristics of the companies operating in the market. In addition, to explore the business services growth outlook for the coming years. The survey results have shown that the dominant business services in Dubai are marketing services, professional services, renting and leasing services, and technical services. The overwhelming majority of Dubai business services companies are small to medium size with skilled employees. The level of competition in Dubai business services is relatively high. The prices of business services are set according to the market rules and there is a limited scope for government price controls. The business services are profitable field of business and the overwhelming majority of the business services companies are making profit, with a minority of companies reporting losses. The companies’ turnover is mostly from clients inside UAE with few a limited turnover from clients outside UAE. The overwhelming majority of these clients are private businesses, with few clients from the governments and the households. The primary focus of Dubai business services companies is GCC and non-GCC Arab countries' markets, with some degree of coverage for the Asian and African markets. Dubai business services companies are optimistic about the market growth in the next 3 to 5 years. The overwhelming majority of the companies expect positive market growth, with a minority of companies expecting the market to decline (i.e. negative market growth). The majority of the companies find market based entry barriers such as tough competition and low profit margins, high set up cost, and the small size of the market are the dominant ones as opposed to government regulatory barriers.

The existence of associations and groups in the field of business services is not that prevalent. And the implications are that there are no organized business bodies to protect their business interests and there are no business networks that the companies can use to exchange information and set quality standards for business services. The most pressing issues that are facing Dubai business services companies are the cost of doing business, restrictive laws and regulations, scarcity of skilled labour, traffic access and parking unavailability of finance.
References


