

مؤسسة محمد بن راشد للتنمية
المشاريع الصغيرة والمتوسطة
DUBAI SME



إحدى مؤسسات دائرة التنمية الاقتصادية - حكومة دبي
An Agency of the Department of Economic Development - Government of Dubai

**A SMALL AND MEDIUM ENTERPRISES DEVELOPMENT
PERSPECTIVE OF THE
TOURISM INDUSTRY
IN DUBAI**

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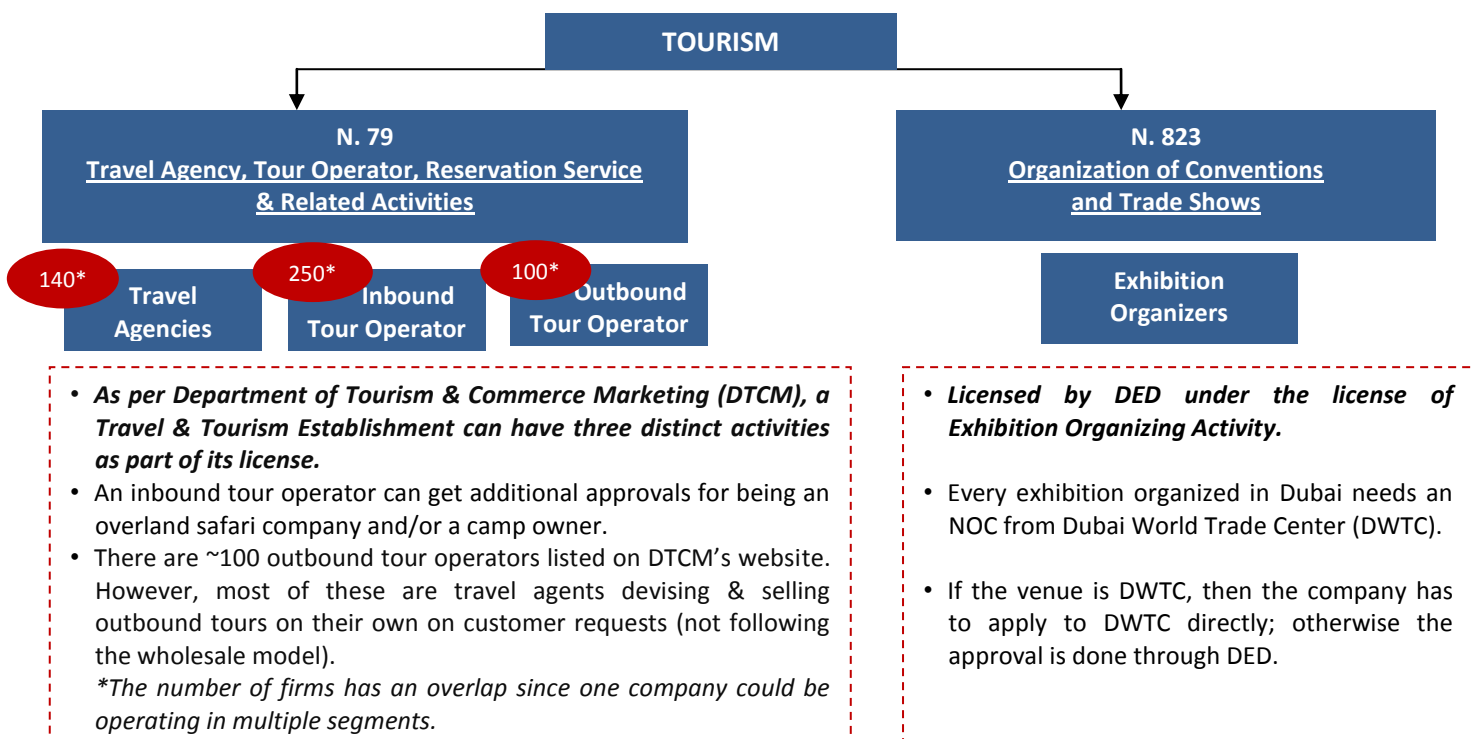
Industry Cluster Studies: Tourism Industry

The Travel & Tourism industry has a high significance to Dubai's economy (direct contribution of 20% & 6% to Dubai's GDP and total employment, respectively)¹. Dubai is one of the Top 10 tourism destination cities in the world, primarily driven by business and leisure (shopping, beach, etc.).²

The establishment of world-class infrastructure and landmark projects (such as Burj Khalifa, Dubai Mall, Meydaan racecourse, etc.) coupled with marketing initiatives by Emirates and DTCM have been the key drivers for Dubai's tourism industry. On the other hand, high disposable income and a high proportion of expats are the key drivers for outbound travel from the city.

A strong government focus to develop tourism through diversification into new tourism segments (cruise, medical tourism, sports tourism, etc.) is expected to further drive growth of the industry.

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



Note: ISIC Classification does not define tourism separately. Thus, the relevant tourism activities (based on DTCM's role & Dubai context) have been considered as part of tourism industry for the purpose of the study; N - Administrative and support service activities.

The report is a baseline study of the Tourism Industry in Dubai. The study encompasses travel agencies, and inbound & outbound tour operators. Exhibition organizers have been included due to a strong focus on MICE for Dubai and the notable tourism activity driven by exhibitions currently.

¹ Source: DTCM – News Articles

² Source: MasterCard Index of Global Destination Cities, Q2 2011

The study shall aid business plans for SMEs and aid decision-making for policy-makers.

For Entrepreneurs (New SMEs): Current Scenario and Opportunity Assessment

In addition to leveraging on Dubai's existing strengths in leisure & corporate tourism, a key growth opportunity for tourism businesses is to develop niche product offerings in line with DTCM strategies & global tourism trends. These opportunities for new & existing SMEs are highlighted in the following table.

Sub-sector	Current Scenario	Potential SME Opportunity
Travel Agents	<p>Travel agents in Dubai & UAE benefit from a resilient outbound travel market due to presence of a large expatriate population & large proportion of leisure & VFR trips³ (70% of the total outbound trips) being made by residents.</p> <p>The travel agencies landscape in Dubai is saturated with over 140 agents and is characterized by intense cost competition resulting in a decline in profit margins.</p>	<p>The opportunities in this sub-sector for existing firms to grow lie in offering higher value-added services, through diversification into new services or entering into online business models.</p> <p>A low current penetration of online travel portals; but a high growth potential offers opportunity for new SMEs (with unique product offerings) in the online travel agency model. The key requirements for starting an online travel portal are:</p> <ul style="list-style-type: none"> • Capital requirements of AED 4-5 mn over 3-4 years • Need a unique product offering rather than just a pure leisure OTA due to a high merchant bank rate (3%) making it infeasible to just focus on ticketing (since it leads to even lower margins than a brick & mortar travel agency).
Outbound Tour Operators	<p>The outbound trips from UAE are expected to increase by 2 million between 2010 & 2015.⁴</p> <p>Gap in the market for 'affordable & specialized tour packages'.</p> <p>The outbound tour operator market is dominated by large players. However, there are not many tour operators focusing on niche segments, which are growing in prominence worldwide & in the Middle</p>	<p>Companies are realizing the potential of offering outbound tour packages.</p> <p>SMEs can specialize by wholesaling packages for 1-2 specific countries or for niche segments (adventure tours, golf tours, etc.) in which they have already built good relations with the suppliers.</p> <p>The key requirements for SMEs would be to identify and assess potential for niche opportunities and accordingly train staff extensively on the niche segment/market.</p>

³ VFR - Visiting Friends & Relatives

⁴ Source: Euromonitor

Sub-sector	Current Scenario	Potential SME Opportunity
	East.	
Inbound Tour Operators	<p>Dubai has a positive future outlook for inbound tourism.</p> <p>Leisure (focused on desert safaris, city tours, etc.) & corporate tourism are the key focus segments for most of the inbound tour operators. There are 250 players offering these in Dubai facing high cost competition (especially for desert safaris).</p>	<p>Opportunities for new & existing players are emerging from:</p> <ul style="list-style-type: none"> ○ Focus on new tourism segments by DTCM provides opportunities for tour operators to target tourists for these specialized segments ○ Emirates' increasing network into new cities/countries offers opportunities to capture tourists from these new sources. <p>Setting up representative offices in focus countries (for bringing in tourists) and developing e-commerce capabilities are the other trends in the market.</p>
Exhibition Organizers	<p>There are an increasing number of visitors & exhibitors coming into Dubai⁵ to attend various exhibitions in Dubai.</p> <p>Dubai's strengths lie in its geographic location, strong air transport infrastructure & connectivity, availability of a range of accommodation options, facilities for organizing exhibitions, etc.</p>	<p>Dubai, being the center of business activity in the GCC & its infrastructure advantages, offers opportunity for exhibition organizers with a 'saleable' & 'sustainable' concept (a concept which will be able to attract growing number of visitors & exhibitors year after year).</p> <p>The key requirements for an exhibition organizing business are:</p> <ul style="list-style-type: none"> ○ Ability to sustain an exhibition for 3-5 years, ○ Ability to add credibility to the event & market it efficiently to attract quality exhibitors & visitors

⁵ DICEC attracted 1.4 million visitors from 155 countries & more than 32,000 exhibitors from 85 countries in 2010 from ~90 exhibitions held in 2010. This was a 14% & 5% y-o-y increase, respectively.

For Policy Makers: Key Issues for SMEs for Operations & Growth

Travel Agencies

Business Stage	Key Issue	Root Cause
Operations	Decline in Profit Margins	• Discontinuation of commissions by airlines
		• Oversupply in the market in terms of number of travel agencies
		• High cost competition due to lack of standard mark-up being followed by travel agencies
	Competition from Online Travel Platforms	
Growth – Cater to corporate clients	Difficulty in acquiring new corporate clients	• Competition from large players due to their ability to offer discounts and more favorable credit terms
		• Inability to assess creditworthiness of new & smaller corporate clients
	Difficulty in Managing Cash Flows from Existing Corporate Clients	• Delayed/non-payment from corporate clients
		• High interest rate from banks for loans to meet the cash flow needs
Growth – Offer higher margin / higher value-added services	SMEs need to be trained and advised on tapping into such opportunities	
Growth – Enter into Online Travel Agency Model	Issues for overall e-commerce industry in UAE	<ul style="list-style-type: none"> • Cumbersome procedures to get a payment gateway • Limited net-banking options (especially debit cards not being allowed for online transactions) • Cumbersome procedures to provide refund to customers for online transactions

Inbound Tour Operators

	Key Issue	Root Cause
Operations	Coordination & Communication with Government Authorities	• Lack of 2-way communication with DTCM
		• Lack of clarity of responsibilities amongst the three government departments involved – DTCM, RTA & Dubai Municipality
	Heavy Fines & Fees by DTCM & Other Government Authorities	• Lack of specific incentives / support to tourism companies
		• Heavy fines levied on desert safari companies without any warnings
	Visa-related Issues	• Cumbersome Visa & Immigration Procedures for certain nationalities, which have a significant contribution to Dubai's Tourism
• Present visa charges make group tours (esp. incentive tours) expensive		
• Difficulty in assessing reliability of tourists leading to visa fines (for over-stay)		
	Lack of Standardization for desert safaris	• High cost competition leading to companies cutting corners
		• Lack of training of safari drivers (from a hospitality perspective)
Growth - Business from New Countries	Non-Payment from Outbound Tour Operators in Other Countries	<ul style="list-style-type: none"> • Absence of credit checks on such companies • Absence of a platform to share non-payment instances with other DMCs
Growth - Diversify into related tourism products	Difficulty in managing inorganic expansion	<ul style="list-style-type: none"> • Lack of understanding of rules related to managing acquired companies

Exhibition Organizers

Business Stage	Key Issue	Root Cause
Operations	Difficulty in Licensing and conducting Exhibitions at DWTC	<ul style="list-style-type: none"> SMEs are not clear about Dubai World Trade Center (DWTC) profile protection policies
	High Costs & Complications due to DWTC Policies Related to Exhibitions	<ul style="list-style-type: none"> SMEs find the policies at DWTC quite inflexible, hindering them to hold their exhibitions in DWTC. High cost of holding an exhibition in DWTC (as compared to Abu Dhabi or other GCC countries)
	Getting Government Bodies to Support the Event	<ul style="list-style-type: none"> Reaching out to government bodies and getting them to participate in the exhibition is difficult for SMEs.
Growth	<i>The challenges to grow an existing exhibition or launch a new one are same as the operational challenges.</i>	

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.

	Dubai SME objectives	Possible Tourism Initiatives
ADVOCACY	<p>Advocating a pro-business environment for entrepreneurship and SME development</p> <ul style="list-style-type: none"> <i>Through:</i> Policy / Regulation changes at the Federal / Emirate level. These may require intervention by a Government body. 	<p>Initiatives focused on advocating SME issues with the key government authorities</p> <ul style="list-style-type: none"> A rating system for desert safaris will help the end customers to differentiate amongst the quality of services offered by the range of desert safari companies & to ensure a positive experience of tourists. Formulating clear parameters to evaluate percentage or the extent of overlap that is allowed in exhibitions. If such parameters are already in place they need to be shared with the exhibition organizers.

SEEDING	<p>Seeding a pipeline of innovative start-ups</p> <ul style="list-style-type: none"> • <i>Through:</i> 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 	<ul style="list-style-type: none"> • The presentation to serve as a guide for potential entrepreneurs.
GROOMING	<p>Grooming a pool of promising Dubai-based SMEs to be global enterprises</p> <ul style="list-style-type: none"> • <i>Through:</i> 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 	<p>Initiatives focused on promoting SMEs to grow</p> <ul style="list-style-type: none"> • Information sharing seminars to improve competitiveness of SMEs <ul style="list-style-type: none"> ○ Default Insurance Policy in Dubai through DTTAG ○ Promote use of Lodge cards (e.g. HSBC lodge cards already present in the market) • Tying up with credit rating agencies to offer credit ratings for potential partners at subsidized charges. • Program to raise service standards, train employees of travel agencies to be able to provide value-added services& handle increasing competition from online platforms • Enhancing role of DTTAG - which currently focuses on travel agencies only, covering all entities related to the tourism industry: travel agencies, inbound tour operators, outbound tour operators, surface transport, airlines, etc. • Provide certain incentives to SMEs, such as subsidizing participation fees in international travel exhibitions (World Travel Market in London, etc.) • Dubai SME to facilitate meetings between SMEs in exhibition organizing & other government bodies

Overall, Dubai's Tourism industry has a positive future outlook, leading to a positive growth expectation for businesses in the tourism industry. Adopting initiatives to address these challenges will lead to further enhancement of the business environment for the SMEs. However, a coordinated

effort between industry leaders, SMEs and the government will be required to adopt & execute the appropriate initiatives.

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