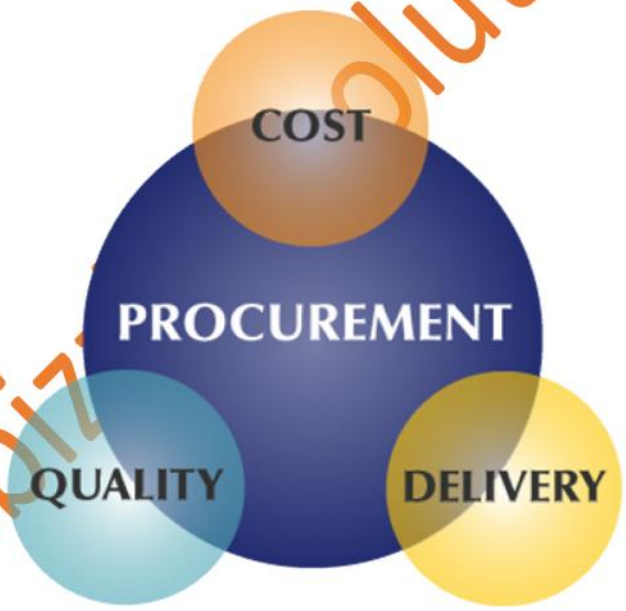
BUSINESS PLAN

PROCUREMENT HOUSE

YOUR COMPLETE PROCUREMENT DEPARTMENT OUTSOURCING SOLUTION



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INTRODUCTION

This document represent a business plan for a Procurement House– your complete procurement department outsourcing solution. This is a newly established company in 2016 with main focus to help SME's get the professional procurement help they deserve. The company will be located in one of Dubai's free zone. The business plan starts with an **external** analysis looking at the PESTEL analysis, continued by industry and competitor analysis, in order to see whether the market is big enough to be profitable. Then the business plan provides **internal** overview of the company followed by a SWOT – a summary of the external and internal analysis. Finally the financial section provides forecasted sales, costs and profitability of the company.

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EXTERNAL ANALYSIS

This market research report has aim to provide an overview of United Arab Emirates (UAE) and investigate the possibility for establishing a procurement company.

The report uses PESTL analysis in order to see the Government and its environment on the industry.

PESTL ANALYSIS

PESTL analysis (Political, Economic, Social, Technological and Legal analysis) describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

POLITICAL ANALYSIS

The United Arab Emirates (UAE) is a federation of seven states formed in 1971 by the then Trucial States after independence from Britain. The states are: Abu Dhabi, Dubai, Ajman, Fujairah, Ras al Khaimah, Sharjah and Umm al Qaiwain and they maintains a large degree of independence – each emirate retains a high amount of political and economic independence within the federal system. In addition, each emirate has control over its own natural resources and regulates its commercial activity. This leaves the central government to make laws dealing only with defense, foreign policy, communications, and immigration.

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The UAE is governed by a Supreme Council of Rulers. The ruling family of each Emirate is a member of the Supreme Council, which is responsible for policy-making and electing the president and vice president for five-year terms.

The President is the Head of State of the United Arab Emirates. Officially he is elected every five years by the Federal Supreme Council, but because the ruler of Abu Dhabi customarily also holds the presidency of the UAE, the office is de facto hereditary. The President is also Supreme Commander of the UAE Armed Forces and Chairman of the Supreme Council and Supreme Petroleum Council. The current President is Khalifa bin Zayed Al Nahyan. Nahyan became President on 3 November 2004, following the death of his father, Zayed bin Sultan Al Nahyan.

Although UAE is a political stable country, instability in neighboring and regional countries have resulted in heightened sensitivity and increased security.

The United Arab Emirates is a member of the Gulf Cooperation Council, which consists of Oman, Bahrain, Saudi Arabia, Kuwait and Qatar. It is consisting of all Arab states of the Persian Gulf, except for Iraq. The objectives of the Council are:

- Formulating similar regulations in various fields such as religion, finance, trade, customs, tourism, legislation, and administration
- Fostering scientific and technical progress in industry, mining, agriculture, water and animal resources
- Establishing scientific research centers
- Setting up joint ventures
- Unified military (Peninsula Shield Force)
- Encouraging cooperation of the private sector
- Strengthening ties between their peoples
- Establishing a common currency

The main external political situation confronting the UAE is its ongoing dispute with Iran over three islands: Abu Musa and the Lesser and Greater Tumbs. The UAE claims that the Islands, now controlled by Iran, belong to them. They were occupied by the Shah in 1971. The Iranians insist the islands are under its sovereignty. In 1999, the situation caused tension between the UAE and Saudi Arabia after the latter hosted a visit by Iranian

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President Mohammad Khatami. The UAE denounced the visit and accused Saudi Arabia of sacrificing regional allies to improve relations with the Islamic Republic.

On the domestic front and in an effort to curb the problem of illegal laborers, the government passed a law expelling all foreign laborers in violation of their visas. In reality though, the government needs the foreign workers because nationals refuse to accept labor jobs.

Though Emiratis are traditionally conservative, the UAE is one of the most liberal countries in the Gulf, with other cultures and beliefs generally tolerated, especially in Dubai. However, politically it remains authoritarian. It was the only country in the region not to have elected bodies until 2006, when it convened a half-elected federal assembly, which was however restricted to a consultative role.

ECONOMIC

Before oil was discovered in the 1950s the UAE's economy was dependent on fishing and a declining pearl industry. But since 1962, when Abu Dhabi became the first of the emirates to begin exporting oil, the country's society and economy have been transformed.

The late Sheikh Zayed, ruler of Abu Dhabi and president of the UAE at its inception, was quick to seize on the potential of the oil industry. He oversaw the development of all the emirates and directed oil revenues into healthcare, education and the national infrastructure. The oil industry has attracted a large influx of foreign workers who, together with expatriates, now make up more than three quarters of the population. But the UAE's authorities also tried to reduce its dependency on oil exports by diversifying the economy, creating booming business, tourism and construction sectors.

The global financial crisis of 2008, tight international credit, and deflated asset prices constricted the economy in 2009. UAE authorities tried to blunt the crisis by increasing spending and boosting liquidity in the banking sector. The crisis hit Dubai hardest, as it was heavily exposed to depressed real estate prices. Dubai lacked sufficient cash to meet its debt obligations, prompting global concern about its solvency and ultimately a $20 billion bailout from the UAE Central Bank and Abu Dhabi-emirate government that was refinanced in March 2014. Dependence on oil, a large expatriate workforce, and growing inflation pressures are significant long-term challenges. The UAE's strategic plan for the next few years focuses on economic diversification and creating more job opportunities for nationals through improved education and increased private sector employment.

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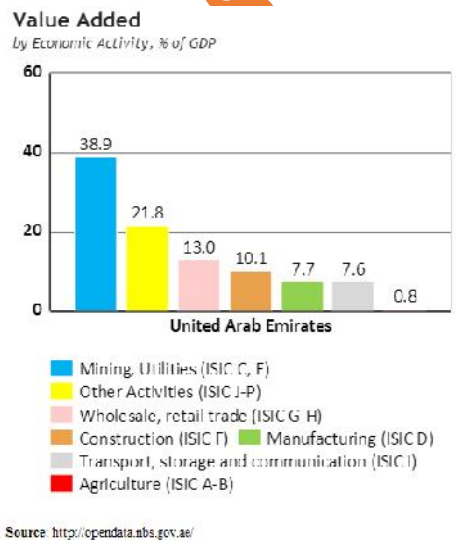
United Arab Emirates is now the second-richest country in the Muslim world. This is because the UAE claims the world's third largest proven oil deposits. Here are some basic macro-economic indicators:

Indicator	**Value**
GDP (purchasing power prity) 2014	$599.8 billion (33rd in the world)
GDP (official exchange rate) 2014	401.6 billion
GDP - real growth rate 2014	3.6% (64th in the world)
GDP - per capita (PPP) 2014	$64,500 (13th in the world)
Currency	Emirate Dirham (Dh or AED)
Imports – commodities	machinery and transport equipment, chemicals, food
Imports – partners (2014)	China 15.7%, India 13.4%, US 8.9%, Germany 5.3% (2014)
Fiscal Year	1st January to 31st December
Value of exports (million $) Value of petroleum exports (million $)	380,347 107,853

Looking at the industries, here are the most important industries in UAE:



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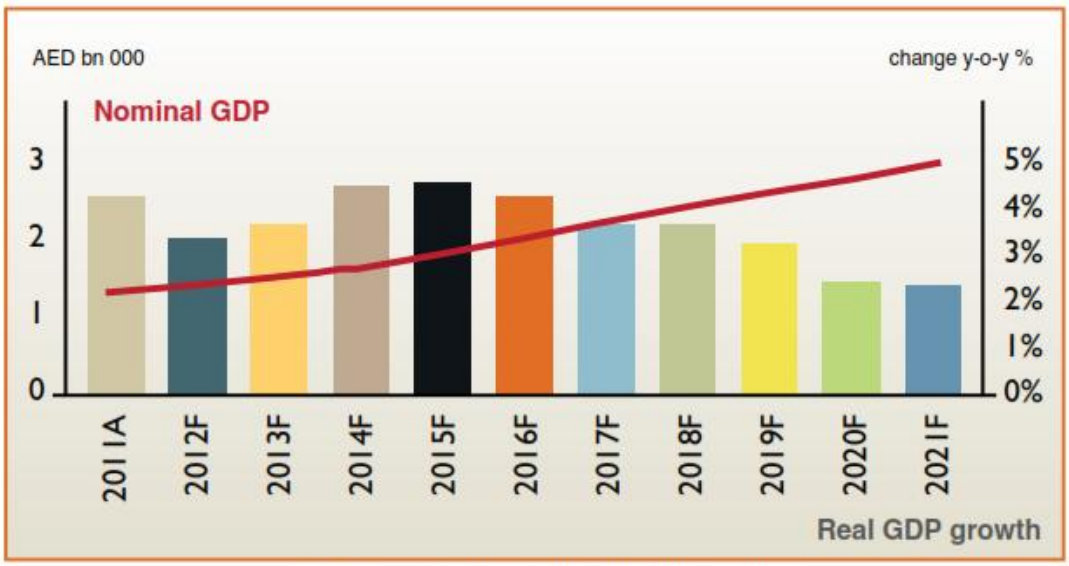

GDP forecasts (Nominal GDP; YoY growth)

Out of three million population of UAE 60% of them are in the workforce. In the UAE economy the level of FDI is very high. Globalization has helped improve the UAE economy greatly by bringing in thousands of workers, services and products from throughout the world. UAE is member of World Bank, WTO and The country has huge wealth and has experienced trade surplus of approximately over 100 billion dirham in the past year (Tomlinson, 2010).

According to Emirates Identity Authority Strategic Plan 2014-2016, tourism and financial sectors have robust forecasts for medium-term growth. High-class tourism and international finance are the new sectors starting to be developed. Also, the Dubai International Financial Centre was announced, which offers 100% foreign ownership, no tax, freehold land and office space and a tailor-made financial regulatory system with laws taken from best practice in other leading financial centers like New York, London, and Singapore.

FREE ZONES

What is interesting as economic factor in UAE are the Free Trade Zones. With the number of zones increasing, their impact on the UAE economy has deepened. Total investment is estimated to be more than $4000 million. The UAE Free Trade Zones saw a 16.4 per cent

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increase in exports, which reached Dh 97.46 billion in 2008. And re-exports reached Dh 345.78 billion, a rise of 33.4%. Setting up a company in one of the numerous UAE Free Trade Zones can be an attractive option for foreign investors and businesses alike. In fact all seven Emirates already have and are developing more such economic zones (source).

Free Zone Incentives	Free Zone Limitations
100% Foreign company ownership	A Free Zone Company is not allowed to trade directly with UAE market. The Free Zone Company can undertake the local business only through the locally appointed distributors.
100% Repatriation of capital and profits	Custom Duty 5% is applicable for the local business.
100% Corporate, Personal Income Tax exemptions	
Exemption from all import and export duties	
Abundant and inexpensive energy	
Inexpensive workforce and easy recruitment procedures	
One-stop-shop' Administration services	
On-site customers inspection	
Companies at Free Zone can operate 24 hours a day	Source: http://www.uaefreezones.com/

It is interesting how the free zones can be applied for service providers: “The rule against trading directly with the rest of the country is clear when it comes to manufactured goods. But the trade in services and intellectual property is a big grey area where many companies may be exposed to legal risks. Consultancies and other service providers often end up "working day-to-day outside the free zones" - even when they should not be, says Quentin Lowcay, the managing partner of the Kensington Swan law firm in Abu Dhabi.“ (source)

Here is a list of all free zones in UAE per state:

List of Free Zones in UAE			
Dubai Free Zone		**Abu Dhabi Free Zone**	
1	Dubai Airport Freezone		Masdar City
2	Dubai Silicon Oasis		Abu Dhabi Ports Company
3	Jebel Ali Free Zone		Abu Dhabi Airport Free Zone
4	Dubai Multi Commodities Center		twofour54
5	Dubai Internet City	**Sharjah Free Zone**	
6	Dubai Media City		Sharjah Airport Free Zone

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7	Dubai Studio City		Hamriyah Free Zone
8	Dubai Academic City	***UAQ Free Zone***	
9	Dubai Knowledge Village		Ahmed Bin Rashid FZ
10	Dubai Outsource Zone	***Ajman Free Zone***	
11	Enpark		Ajman Free Zone Authority
12	Intl Media Production Zone	***RAK Free Zone***	
13	Dubai Biotech Research Park		RAK Investment Authority
14	Dubai Auto Zone		RAK Free Zone
15	Gold and Diamond Park		RAK Maritime City
16	Dubai Healthcare City	***Fujairah Free Zone***	
17	Dubai Intl Financial Centre		Fujairah Free Zone
18	Dubai Logistics City		Fujairah Creative City
19	Dubai Maritime City		
20	Dubai Flower Centre		
21	Intl Humanitarian City		
22.	**Jumeirah Lakes Towers**		

Free zones were created to assist Industrial growth, such as Jebel Ali Free Zone in Dubai. Also, in Technology sector, the Dubai Internet City was established & attracted high-profile firms such as Microsoft, IBM, HP, & others. However, the over whole economy of UAE keeps on fluctuating due to its main dependence on oil & gas that have fluctuating prices , since 70% to 80% of government revenues come from oil. Nevertheless, these revenues are spent in enhancing other sectors which had grown rapidly in recent years, such as trade, tourism, construction, & others.

SOCIAL

From social aspect, the UAE has its unique sets. All of UAE citizens have high living standard, a western lifestyle and continues rising financial positions. The society remains free and open to all types of restaurants, tourism, sport and recreational activities. The multicultural nature of society and economy existing in UAE allows fir many of the foreigners to work there in well paid positions (Cateora and Graham, 2007).

The country has low illiteracy rate (7%) and the Emiratis are perceived to be tolerant, forward-looking people with strong sense of tradition. If a person wants to do business in UAE, one needs a network of people in order to expand opportunities. Also trust must be gained before any business transaction occurs. Islam also plays a large role in business. Women are seen as equals and are protected by rights and privileges laid down by Islam.

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UAE has received some critics based on how they treat foreign works. The United States Department of State has noted widespread instances of blue collar labor abuse throughout the United Arab Emirates businesses. In addition, it is a common practice for managers and employers in the UAE to hold employees' passports for the duration of their employment contract. The UAE government has been criticized by many human rights agencies. One of them, the Human Rights Watch, has criticized the government for not acting when discrimination against Asian workers in the emirate is present.

According to Emirates Identity Authority Strategic Plan 2014-2016, UAE population growth expected to slow over next four years. Still, expatriates will continue to make up the majority of residents, and the gender and the age distribution will remain same.

SALARIES IN PROCUREMENT INDUSTRY

According to Morgan McKinley's 2015 UAE Salary Guide (Link), the procurement and supply chain jobs has an increasing trend. Procurement has moved to a more strategic function although at a slower pace in comparison to the rest of the world. 2015 should see further development in the strategic recognition of both supply management and procurement functions. The UAE is investing billions in its logistics sector with the expansion of free zones, airports and maritime port such as Dubai World Central, Abu Dhabi International Kizad and Khalifa Port – the expansion of local manufacturing has seen a surge in import and export trade volumes. The salary and compensation forecast in Supply Chan industry is forecasted to have increased salaries and compensation by 5-6% for 2015 (Link).

According to the same source, here are the monthly salaries in Supply Chain and Procurement (salaries are gross in AED per month).

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SUPPLY CHAIN & PROCUREMENT | PERMANENT (AED per month)

ROLE	0-3 YEARS' EXPERIENCE	3-5 YEARS' EXPERIENCE	5-8 YEARS' EXPERIENCE	8+ YEARS' EXPERIENCE
SUPPLY CHAIN DIRECTOR	31,000 - 40,000	40,000 - 58,000	58,000 - 68,000	68,000 - 83,000
SUPPLY CHAIN MANAGER	23,000 - 31,500	31,000 - 42,500	43,000 - 52,500	53,000 - 63,000
DEMAND/SUPPLY PLANNING	14,000 - 19,000	20,000 - 25,000	26,000 - 31,500	-
MATERIALS MANAGER	16,000 - 20,000	21,000 - 26,000	27,000 - 36,500	-
PROCUREMENT DIRECTOR	36,500 - 45,000	45,000 - 58,000	59,000 - 73,000	73,000 - 93,000
PROCUREMENT MANAGER	23,000 - 35,000	36,000 - 42,500	43,000 - 53,000	54,000 - 68,000
CATEGORY MANAGER	18,000 - 23,000	24,000 - 30,000	-	-
BUYER	16,000 - 19,000	20,000 - 26,000	-	-
GENERAL MANAGER	26,000 - 37,000	37,500 - 47,500	48,500 - 58,000	59,000 - 68,000
OPERATIONS MANAGER	21,000 - 31,500	32,000 - 37,000	38,000 - 47,500	47,500 - 63,000
LOGISTICS MANAGER	14,000 - 21,000	22,000 - 26,000	27,000 - 37,000	38,000 - 42,000
WAREHOUSE MANAGER	14,000 - 18,000	19,000 - 23,000	24,000 - 31,000	31,000 - 42,500
SENIOR CONTRACTS ENGINEER	14,000 - 19,000	20,000 - 31,500	32,000 - 47,500	-
BID MANAGER	16,000 - 21,000	21,000 - 31,500	26,000 - 36,500	47,500 - 58,000
TRADE COMPLIANCE MANAGER	16,000 - 21,000	21,000 - 31,500	26,000 - 37,000	42,000 - 52,500

Source: Morgan McKinley's 2015 UAE Salary Guide **http://www.morganmckinley.ae/sites/morganmckinley.ae/files/salary_survey_2015_uae.pdf**

TECHNOLOGICAL

The UAE population comprise of young and extremely technologically knowledgeable professionals. The IT industry aids tourism, hotel and IT service sector. The IT software industries and internet usage in the gulf region is double the rate of Europe. The UAE population has the largest users of internet, satellite and mobile phone within the Middle East (Cateora and Graham, 2007).

The UAE is investing heavily in adopting and implementing Information and Communication Technology (ICT) in its government and private sectors. The Global Information Technology Report 2010-2011 indicates that the UAE leads the MENA region in leveraging ICT for increased economic diversification and competitiveness. Dubai holds

Gulf Information Technology Exhibition – one of the 3rd biggest exhibition of its kind, hosing 150.000 attendants, place where in 2009 Microsoft released Windows 7.

Another effort of UAE is the eGovernment programme as a key initiative of the UAE Government Strategy 2011-2013 that lays the foundation to achieve UAE Vision 2021.

LEGAL

(Source) Although the core principles of law in the UAE are drawn from Sharia, most legislation is comprised of a mix of Islamic and European concepts of civil law, which have a common root in the Egyptian legal code established in the late 19th to 20th centuries. The French influence is most clearly demonstrated by the adoption of the civil law by most countries in the region similar to those in European states, rather than the common law system in the UK.

In addition to specific legal legislation covering agencies, company law, labor law, and intellectual property, the UAE has enacted civil and commercial codes. Although the system has led to the development of comprehensive and structured legal systems, these are rigid and inflexible to some degree, and this constitutes the bureaucracy of regulation that is associated with countries in the Middle East region as a whole.

The structure of the legal system is complex with both dual courts, Sharia courts and civil courts operating in parallel, but covering different areas of the law. For example in the UAE, each Emirate has its own federal court of first instance, although Dubai and Ras al Khaimah have their own separate judicial frameworks.

UAE's Legal System as of the other Legal systems in the Gulf is usually quite complicated and those unfamiliar with their workings can find this very difficult. The fact is that these systems are completely different to those in the west with a whole different language, which makes it worrying for those who want to transact in business in the UAE and the Gulf states.

Although these systems are different, the basic legal principles and structure are logical and understandable. They have evolved over many centuries, in a similar way to the West and, especially in the UAE, are adapting to the changing needs of society with new developments in thinking for a modern age. More changes in commercial law have liberalized legal regimes, creating a more open and understandable environment for foreign businesses and investors.

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The basis of the legal system in the UAE is Sharia or Quranic Law. In the constitutions, Islam is identified as the state religion as well as the principal source of law. However, although the principles of Sharia influence criminal and civil laws, the direct influence of Sharia in the UAE is primarily confined to social laws, such as family law, divorce or succession. Most commercial matters are now dealt with by either civil courts or permanently established arbitration tribunals.

There are several core principles of Sharia which apply to business transactions and which have influenced the development of commercial codes that apply in the UAE. Although these concepts don't directly translate into commercial codes (although they may do in Islamic finance), they have exerted an influence over the drafting and interpretation of these laws. These are:

1. Usury or charging of interest (riba) is forbidden. According to Sharia, money is not a commodity, that can be traded, nor does it have a value over time if left unused. Therefore interest earned is an unjust income.

2. Risk should be shared. As income cannot be derived from interest payments, investors should share in profits or losses of an investment in proportion to the amount that the put into the transaction, and thus the level of risk they undertook.

3. Uncertainty (gharar) in a contract is prohibited: Both parties must undertake a contract with full knowledge of all the terms. This means that the amount of capital or goods should be agreed in advance and stipulated in the contract.

4. Competence. As is the case in most legal jurisdictions, the law also specifies that the parties in a contract must possess the legal capacity to understand and assume the obligations of the contract.

5. Consent. The parties to a contract should enter into it of their own free will and should not be subject to coercion or duress.

In relation to TAX, there is no federal corporate or income tax levied in the UAE (except on oil companies and foreign banks). Dubai introduced a local income tax under the Dubai Income Tax Ordinance of 1969; however, the tax has not been implemented and it is understood that there are no plans to do so. In addition, free zone entities are subject to a number of tax concessions. There is no value added tax or sales tax in Dubai or the UAE. There are no exchange controls on the remittance of profits or repatriation of capital and there are virtually no restrictions on foreign trade.

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STARTING A BUSINESS IN UAE

Doing business in UAE is challenging for foreign citizens. The UAE Commercial Companies Law requires that each company established in the UAE have one or more UAE national partner(s) who hold at least 51% of the company's capital. Companies that undertake certain activities are exempt from the 51% requirement, including oil companies with concession agreements, companies involved in the oil and gas industry, companies that produce electricity and gas, companies involved in treatment of water and transmission and distribution. Foreign banks are exempt from having to appoint a sponsor. Companies established in free zones are exempt from the 51% requirement, if the relevant free zone has special provisions regulating the company (Source).

According to UAE Embassy, Under UAE law, there are five types of business establishments applicable to foreign entities interested in establishing a formal presence in the UAE:

1. **Permanent establishment**. There are seven different methods by which this can be achieved:
    - **1. General Partnerships:** This entity may only be established between UAE nationals. A general partnership may be established between two or more general partners who are jointly and unlimitedly, to the extent of their personal assets, responsible for the company's liabilities.
    - **2. Limited Partnerships:** This entity is comprised of at least one jointly associated partner liable for the partnership's obligations to the full extent of their assets, along with at least one inactive partner liable for the partnership's obligations limited to this partner's capital contributions. This entity usually has one active partner who manages the company and a silent partner who does not participate in day-to-day management.
    - **3. Joint Participation (Ventures)**: This entity is an association between at least two partners who will share the profit and loss in one or more commercial businesses conducted by one of the partners in his or her own name.
    - **4. Public Joint Stock Companies:** This entity comprises any company whose capital is split into publicly subscribed negotiable shares of equal value or any company in which a UAE public body holds any share capital. There is a

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minimum capital requirement of AED 10 million and that capital must adequately achieve the objectives of the company. This entity requires a minimum of 10 founding members. It is important for foreign companies to understand that anyone who signs the initial memorandum and articles of association will be regarded as a founding member and therefore liable. UAE businesses involving banking, insurance or investment of funds on behalf of third parties must take the form of a public joint stock company.

- **5. Private Joint Stock Companies:** This entity requires a minimum of three founding members who, between them, fully subscribe to a minimum capital of AED 2 million. The shares of private joint stock companies may not be offered for public subscription. Private joint stock companies may be converted into public joint stock companies if (i) the company has operated for two or more financial years, (ii) the shares are fully paid up, (iii) the company has achieved net profits distributable to shareholders of an average of at least 10% of its capital during the two years preceding the application to convert, and (iv) a majority of the shareholders holding at least 75% of the company's shares adopt a resolution of the extraordinary general assembly to convert.
- **6. Limited Liability Companies:** This entity is defined as an association with a maximum of 50 partners and a minimum number of two partners. Each partner's liability is limited to the extent of its share participation in the capital of the company. LLCs are no longer required to meet the minimum capital requirements of AED 300,000 (in Dubai) and AED 150,000 (in Abu Dhabi and the other Emirates). A new test of "sufficient capital" is to be adjudged by the Department of Economic Development of the relevant Emirate (including consideration of the size and planned activities of the company). Foreign companies wishing to establish an LLC in the UAE should seek guidance on the current practice of the relevant Emirate regarding minimum share capital.
- **7. Partnerships Limited with Shares:** This entity is formed by general partners who are jointly liable to the extent of their personal assets and participating partners who are liable to the extent of their share participation in the company. General partners must be UAE nationals. The minimum capital required to form a partnership limited with shares is AED 500,000, and participating partners are prohibited from being involved with the day-to-day

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management of the partnership. They may, however, participate in its internal administrative affairs.

2. **Establish a branch/Representative/Liaison Offices**
    - **1. A branch office** has the same legal identity as its parent company and conducts business under the name of its parent company. While each Emirate has its own licensing rules for branch offices, this type of entity can carry out a variety of activities (as approved by the Department of Economic Development of the relevant Emirate). Branch offices are regarded as fully-fledged businesses permitted to perform contracts or conduct other activities as specified in its license.
    - **2. representative/liaison office** is limited to promoting its parent company's activities. This means that a representative office is only permitted to perform such activities as gathering information, soliciting orders, and marketing projects to be performed by the company's head office. This type of office is also limited in the number of employees that they sponsor (usually three to four).
3. **Create an entity in a UAE free zone**
    - UAE allows foreign businesses to operate within "free zones." Free zones allow for up to 100% foreign ownership and are subject to reduced or different trade barriers, tariffs, and quotas. However, free zone companies may only operate within the free zone boundaries and are generally limited to performing solely those activities listed in their license(s). If a free zone company chooses to operate outside these boundaries, it must adhere to the requirements of the UAE Commercial Companies Law in compliance with the licensing procedure in the applicable Emirate. Generally, free zones are designated by the government to a specific commercial sector. For a non-exhaustive list of free zones in the UAE, see below.
    - Different types of licenses that can be issued in a Free Zone are:
        - General Trading License
        - Trading License
        - Industrial License

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- Service License
- National Industrial License

4. **Civil company (currently limited to Sharjah and Dubai)**
    - It is currently possible in Dubai and Sharjah to create a civil company. These entities are establishments which are sole traders operating under a license. Civil companies are usually not intended to trade (e.g., engage in the purchase and sale of goods, contracting, transport, banking and finance, and other similar transactions) and are typically used by the professions. Civil companies may not be formed within the Emirate of Abu Dhabi.
5. **Commercial agency agreement**
    - Foreign companies may engage in a commercial agency arrangement which is defined as any arrangement whereby a foreign company is represented by a UAE agent to distribute, sell, offer, or provide goods or services within the UAE for a commission or profit. The agent must either be a person holding UAE nationality or a company that is 100% owned by UAE nationals. The agent must be registered with the Ministry of Economy. Unless otherwise agreed in writing between a foreign company and its commercial agent, an agent is entitled to receive a commission on the sale of products in his or her designated Emirate, irrespective of whether such sales are made by or through the agent.

Based on these information, the most acceptable way is to establish the company in one of the Free Zones.

COUNTRY RISK ASSESMENT

Country risk is that risk that is associated with investing in a foreign country. These risks are major in affecting the profitability & the value of assets of the investment. Hence, the thorough analysis & study of these risks is essential prior to any investment. Country risk is complicated because of the numerous factors affecting it, which range from business environment, financial, political, economic factors. This leads that in order to analyze country risk, an associated analysis & study should be undertaken for these affecting factors, where economic sectors should be studied, financial positions must be analyzed, political issues is a major field of concentration in the analysis. According to the UAE

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Country Risk Analysis, published in European Journal of Business and Management (2012), UAE was assessed and graded based on several risks:

Sovereign risk

Sovereign risk is that risk when the foreign country of investment changes its foreign exchange regulations.

This could lead to reduce the value of foreign investment contracts or even nulling them. In the UAE, sovereign risk is rated as “Stable”. It was previously rated as “Positive”, but the rating was decreased because of the impact of the Dubai World crisis. Nevertheless, the UAE as a whole is trusted to meet its debts & obligations, thanks to its high oil reserves in Abu Dhabi.

Currency risk

Currency risk arises from changing the price of one currency against another currency. Currency risk is usually not compensated with higher rate of return. In the UAE, currency risk is rated as “Stable”. This rating was based on the authority’s commitment to maintain the UAE’s currency price & stability, even though they will not participate in the GCC’s proposed single currency.

Financial risk

Financial risk happens when a corporation or government defaults on its bonds, causing its bondholders to lose money. It also means when a company does not have sufficient cash flow to cover its debts, which could lead for the shareholders to lose their money.

Many kinds of risk ratios are used to assess the financial risk on an investment, such as:

- The debt-to-capital ratio: the higher its value, the more risk is involved.
- The capital expenditure ratio: it demonstrates how much cash left for running the business after paying its debts.

For the UAE, the financial risk is rated as “Moderate”. This rating was based on the fact that DUBAI (which now has more risk than other emirates) has the Dubai International Financial Center (DIFC), which is a free trade financial zone, & this center is regulated by the Dubai Financial Services Authority, a recognized entity by the federal UAE government. So, government regulations keep risk level moderate.

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Banking sector risk

The Dubai World debt caused banks to be hesitant to lend until they will fully recover from this, where UAE banks still need to book these non-performing loans. New regulations from the Central Bank led to increase lending by 35.5% in 2011. In general, the banking sector risk in UAE is rated as "Stable".

Political risk

Each emirate is ruled by its own emir (sheikh), & all UAE emirates are known for its political stability. So it is obvious to rate the political risk in the UAE as "Stable".

Economic risk

Oil sector is the dominant one in the UAE, especially in Abu Dhabi that accounts for 90% of the total UAE's oil reserve. So high oil prices is a very huge supporter for UAE's economy. Non-oil sector, such as trade, finance & real estate, especially in Dubai that accounts for 70% of the total UAE's percentage, is showing a start for stability. Still, the construction sector is depressed. Overall, the Economic risk of the UAE is rated as "low to moderate".

COMPETITORS ANALYSIS

After extended research of UAE market, we've managed to identify several direct competitors. Direct competitors are local and international procurement companies that work in the UAE market. The table below provides list of companies and their description.

No.	Company/Web	Description
1	Emirates Procurement Services (Web)	• **Specific Industry:** Oil & Gas Industry • **Services:** Back Office & Procurement Services • **Presence:** UAE and India • **Other:** Very limited web site. Have 15 clients in reference
2	FEBC (Web)	• **Specific Industry:** Hospitality Industry • **Services:** Procurement of Furniture, Fixtures and Equipment. Operating Supplies & Equipment. Interior Styling services • **Presence:** 3 Regional offices and 9 Country offices. Regional one in Dubai • **Other:** Fancy web site
3	Bellelli Emirates LLC (Web)	• **Specific Industry:** Oil & Gas Industry • **Services:** Main focus in engineering and construction, but also offer Procurement & Logistics • **Presence:** Italy (Headquarters), UAE and USA
4	GMK International –	• **Specific Industry:** Hospitality Industry • **Services:** Procurement and Project Management, FF&E

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	formerly Gulf Mobile Kitchens (Web)	(Furniture, Fixtures & Equipment) • **Presence:** Head office in Dubai, and other offices in Shenzhen, China and India
5	IPS Trade FZE (Web)	• **Specific Industry:** Oil & Gas, Power Generation, Petrochemical • **Services:** Large variety of procurement & logistic services • **Presence:** Offices in Dubai • **Other:** Member of IPS Group (Dutch company)
6	Kellogg Brown & Root Services (KBR) (Web)	• **Specific Industry:** Hydrocarbons and Government • **Services:** Engineering, Procurement & Construction, Consulting, Industrial Services, Automation, Training solutions • **Presence:** Offices in 40 countries, and 25.000 employees • **Other:** Looks like huge corporation
7	MIRK Group (Web)	• **Specific Industry:** Hospitality Industry • **Services:** FF&E (Furniture, Fixture & Equipment), Operating Supplies and Equipment, art and accessories, building materials • **Presence:** Office in Dubai • **Other:** The group is parent of 3 companies (1) Architectural and Engineering, 2) Hospitality & Procurement and 3) Electro Mechanical)
8	Ocean Blue (Web)	• **Specific Industry:** Not specified • **Services:** Procurement • **Presence:** Office in Dubai • **Other:** States that it has over 20 years of procurement experience. Looks like it have products, and procurement is not main focus. Site is very weak
9	Quadrem Middle East (Web)	• **Specific Industry:** General • **Services:** delivers a complete portfolio of sourcing, procurement, catalogue, and settlement solutions, coupled with tailored professional services. Digitalization of supply network. • **Presence:** Office in Dubai – ARIBA is global company • **Other:** Bought by ARIBA, in January 2011, but remained as independent entity. ARIBA is part of SAP.
10	The Parker Company (Web)	• **Specific Industry:** Hospitality Industry • **Services:** Managed Project procurement, FF&E and OS&E. Sports and Events procurement • **Presence:** Offices in Dubai, London, Miami, Rio De Janeiro, Shanghai, Zurich • **Other:** 45 years old company
11	Theodor Whille Intertrade (Web)	• **Specific Industry:** General • **Services:** Large variety of procurement and logistics services • **Presence:** Work on 3 continents • **Other:** have Dubai Procurement and Logistics Integration Center and Abu Dhabi 8600 square foot warehouse and 3600 square foot open yard. Have 11 procurement people in UAE.

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12	Optimum Procurement (Web)	• **Specific Industry:** General • **Services:** Procurement Consulting, Training and Outsourcing • **Presence:** Offices in Manchester, London and Dubai • **Other:** Have own software Optimum SourcePlus. It is a class-leading software suite that delivers spend efficiency and control whilst meeting the demands of organizations of all sizes, types and locations.
13	Global Procurement (Web)	• **Specific Industry:** Oil & Gas Industry, Petrochemical & Refineries, Power Plants • **Services:** Off-shore & On-shore procurement • **Presence:** Offices in UAE, UK, Shanghai, Iraq • **Other:** Non-functional web site. Offer products.
14	Aditya International (Web)	• **Specific Industry:** General • **Services:** Engineering, construction, logistics and procurement • **Presence:** Offices in UAE, Afghanistan, and South Sudan • **Other:** Has ISO 9001:2008. In collaboration with parent company Blue Bell Shipping – offer logistics services
15	Empower Engineering resources (Web)	• **Specific Industry:** Oil & Gas Industry • **Services:** Contract Procurement, Engineering Service, Consultancy, Fabrication and MEP Contracting, Oil & Gas Field Plant Construction Works, QA/QC Services, Underwater Diving Works, Project Management & Technical Manpower Supply • **Presence:** Offices in UK & UAE • **Other:** Has ISO 9001
16	Tejari (Web)	• **Specific Industry:** General • **Services:** software toolkit supports the full supply management lifecycle across myriad industries, geographies and business models. • **Presence:** International company with offices in UAE • **Other:** Have nice reports on procurement here. Maybe not direct competitor.

Procurement companies without web site available:

- A To Z International Procurement Supplies Fze
- Abdul Raheem Group of Companies

BENCHMARK COMPANIES

Companies or business that work in procurement but not target UAE. Therefore they are not competitors, but these can be further investigated to see potential best practices and ideas (benchmark)

1. Pelican Procurement Services (http://www.pelicanprocurement.co.uk/services)

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- Their services are categorized in 3 categories (which looks very organized): 1) Purchasing, 2) Operations, 3) Finance
- Members of Chartered Institute of Purchasing and Supply
- Social responsible company – donates to charities

2. AROMCO Procurement & Logistics (http://www.aramcoservices.com/Home.aspx)

- US based procurement company
- Material procurement, logistics, contracting, Travel & effects, Strategic sourcing

3. Synergy (http://www.synergy-procurement.co.uk/)

- In addition to product they have service procurement
- At the bottom have nice case studies – company and how much they've saved for them
- Have 3 different revenues models: 1) only on saving achieved (larger %), 2) fixed fee per item processed (then the saving is not touched), and 3) combination – small fee + small % of saving

4. GEP (http://www.gep.com/outsourcing)

- Offices in Offices in India, China, Singapore, Australia, UK, Czech Republic, USA, Brazil, Mexico, Costa Rica
- Have software SMART – Unified Procurement Platform: offers spend analysis, saving tracking, sourcing, contract management, suppliers management, procure-to-pay. See video
- Have free white paper PDF - Here and research reports - here

5. https://www.accenture.com/us-en/service-bpo-procurement-overview-summary.aspx

INTERNAL ANALYSIS

COMPANY BACKGROUND

After the extensive external research, a gap was identified on the market regarding professional procurement services. SME's have a need of professionals that will take their procurement on the next level, while improving their quality and reducing their costs. In response to this opportunity, the Procurement House was established by XYZ in 2016. The

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company intends to start operating in free zone and slowly increasing its personnel and scope of operations.

PRODUCT/SERVICE SPECIFICATION

The main focus of the company are SME's that have a need of professional procurement services. The company will not target one specific industry (like oil or hospitality), but will be offering its services cross-industry.

The end-to-end service that the Procurement House offers is a fully outsourced procurement department, cutting costs by finding the right suppliers. This end-to-end service can be broken into several sub-services:

- **Indirect costs** procurement services – with this service the client can choose to transfer to us all the procurement related to indirect costs: office supplies, equipment, facilities, etc. This way we can ensure minimum overhead for the client.
- **Direct costs** procurement services – with this service the client can transfer all the direct costs procurement activities to us: selecting the highest quality materials. This way we can enable the client to focus on its core business
- **Services** procurement – in addition to the direct and indirect tangible costs, the client can transfer the procurement of services as well. Our company can find the right experts to help the client meet his company's goals
- **Consulting** services – Aside the actual procurement, our company can offer first class knowledge and experience transferred to the client. We can review your annual costs and find the top 3 categories that are taking the majority of the costs, and provide a plan on how to minimize and control them.

Although these sub-services can be used independently, the main benefit can be felt with the synergy among them all. Therefore, we encourage our clients to trust as and let us take care of their complete procurement.

Based on the amount of procurement orders, we've identified 3 categories of clients. Based on this categorization we would be able to provide more tailored services depending on category they belong:

1. **Small clients** – these are companies that have up to 200 PO monthly, and can occupy up to 2 junior buyers.

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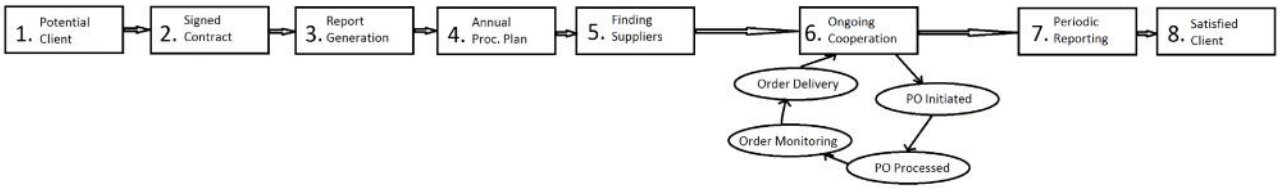
2. **Medium clients** – these are companies that have 300-600 PO monthly, and can occupy 3-6 junior buyers.
3. **Large clients** – these are companies with above 600 PO monthly, and need more than 6 junior buyers.

PROCESS WORKFLOW

This is a quick overview of how we turn a potential prospect into happy client. The chart shows an overview of the steps, and below is a description on each of the steps.



1. **Potential client** – At this stage we have a prospect that have expressed interest in using our services. At this stage we organize a meeting where we present our services and the benefits that come with them. If the client is still interested, we continue toward signing the contract.
2. **Signed contract** – The signing of the contract is confirmation that the client is agreeing to disclosure its annual costs, and make a commitment with us for at least a year.
3. **Report generation** - The first part of the service is to review the current procurement practices. This assumes looking at the annual books of the client for the last 2-3 years, look at the costs per category and identify the top 3 categories. Once the top 3 categories have been identified, we will draft a report that will outline the weakness of the current procurement policies and how they can be overcome. In addition, it will outline the top 3 categories where the client can save on. The client needs to choose whether will outsource its entire procurement department, or parts of it – by giving us an annual procurement plan.
4. **Annual procurement planning** – At the beginning of each year, an agreement is made with the client on the annual procurement. This plan can be established from

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previous years of experience from the client or from the report that has been generated by us.

5. **Finding suppliers** – Once the annual plan has been agreed, Our employees will start looking for the right suppliers, agreeing on the annual quantity, quality, delivery terms.
6. **Ongoing cyclic cooperation** – This is ongoing cooperation and it is consisted of several sub steps:
    a. **PO initiated** - Throughout the year, as the client has a need, they will fill a PO and send it to us.
    b. **PO processed** – As we receive the request, our employees will process the PO and forward it to the supplier
    c. **Order monitoring** – Our employee will continue monitoring the order status, inspect the quality, and if it passes all internal inspection, will approve the order.
    d. **Order delivery** – once the order pass the internal inspection, the order will be forwarded to the client.
7. **Periodic reporting –** Our company will quarterly deliver an comprehensive report to the client in terms of what has been done for the client up to date (filled orders, pending orders, saving, etc.)

ORGANIZATIONAL STRUCTURE

In order to ensure maximized customer satisfaction, the Procurement House will have the following organizational structure:

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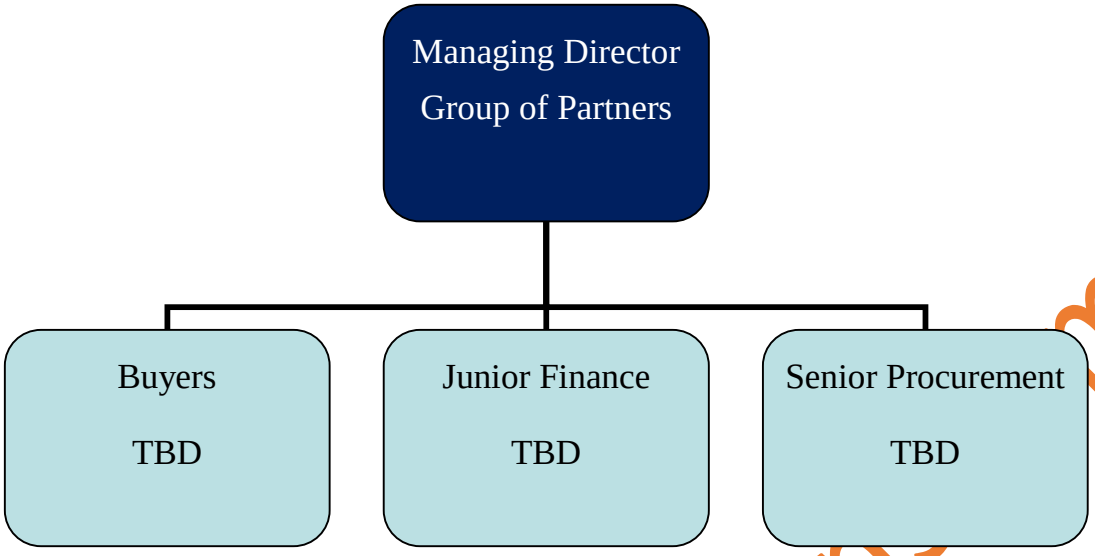

At the initial stage, the organization structure will be flat, as there will be only x people in the company.

Here are more details on the job positions. The salary calculations are taken from the Morgan McKinley UAE Salary guide for 2015 (Link):

1. **Managing Director (2 partners)** – The MD position will be split among the 2 partners, ensuring the company is on the right track.
    a. **Responsibilities:**
        i. Overall responsible for the company
    b. Activities:
        i. Recruitment and management of the team
        ii. Talking to clients
        iii. Marketing and sales activities
        iv. Focal point for any pending issues
        v. Participation of tenders (for procurement partner)
2. **Senior Procurement**
    a. **Responsibilities:**
        i. Account Management – Focal point for clients
        ii. Operational responsibility management

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iii. Responsible for the profitability of the company

iv. Responsible for Junior Buyers (delivery of trainings, ensure retention)

b. Activities:

i. Make sure that the operation cycle is running smooth

ii. Talking to clients

iii. Delivery of trainings to junior buyers

3. **Junior Buyer**

a. Responsibilities:

i. Transactional working

ii. Sourcing/closing deals

b. Activities:

i. Assistance

ii. Order Management

iii. Reporting

4. **Junior Finance**

a. Responsibilities:

i. Financial aspect of the company

b. Activities:

i. Bookkeeping

ii. Help in work with clients: Reports, P&L, Daily Transactions

MARKET STRATEGY

During our analysis, we've identified the following market segments that have a need of procurement services. Our marketing strategy will be focused toward the following types of companies:

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1. **SMEs** – the micro companies does not have a need of dedicated procurement team, while the large corporation issue own tendering procedure. Therefore SMEs are perfect fit for procurement services.
2. **50-200 employees** – Also a size factor (as point 1), the companies we are targeting should not have less than 50 employees or more than 200.
3. **Located UAE** – Our primary focus will be Dubai, as city where we will operate, but we would be accepting clients from UAE in general.
4. **Be in industry that is procurement intensive** – The primary focus will be on companies that have physical goods and manufacturing capabilities - as these companies have direct/indirect and service costs and are more attractive to us. On the other side, service industries are less attractive as they have procurement need only for their indirect costs.

Based on these 4 criteria, we've identified the following industries as potential clients (and number of company per industry):

Industry	No. Companies with 50-200 employees in UAE
Information Technology	220
Construction	146
Oil & Energy	109
Hospitality	74
Mechanical or Industrial Manufacturing	59
Telecommunications	44
Hospital & Health Care	40
Electrical/Electronical Manufacturing	37
Retail	35
Automotive	32
Building Materials	31
Other smaller industries Add industry: Free Zones	173
Total	**1000**

VALUE PROPOSITION

In this section we will explain why companies should use our services and what value they will get. Our company will try to communicate this advantages to our potential clients:

1. **We are professionals**. Although we are a start-up, our founder and employees, are all high-level procurement experts who've spent 10+ years in procurement industry

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in the region. We have worked in many multinational corporations bringing our cutting edge experience and know-how on the market. We are confident of what we are doing, and we need your trust so we can help grow your company.

2. **We do our research**. We don't just dig right into the procurement. We first do the research – both internally and externally. Internally, we are looking at all available historical data on the company – going backward for several years looking for patterns and business intelligence. We categorize all spend, in order to bring some meaning to them. Based on this insight we are able to make future anticipations and future procurement needs of the company.
3. **Process improvement**. We don't stop with categorization of the costs. We look for patterns, irregularities in your procurement process, anything that an experienced eye can catch. We also provide recommendations on how to improve your procurement process.
4. **We work with top tier suppliers on the market**. Externally, we do our homework. We evaluate each potential supplier, based on our rigid selection criteria, we carefully inspect their products and based on our experience we choose only the best ones.
5. **We make commitment**. We don't just give advices – we deliver results. Based on the internal analysis, we will be able to give you a strong commitment: "How much money can we save you per month". This is a bold statement, which we are ready to make. If we don't deliver, you are not obliged to pay us* (Please refer to the terms and conditions that apply)
6. **We treat you as partners**.

MARKETING

Procurement House will use several marketing activities in order to promote its services to potential clients.

Lead Generation - This marketing activity has objective of identifying up to 500 companies that match the 'desired' client criteria and establish initial communication with them. This means that our company will pitch is services to these companies and see their interest.

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Free Zones Partnership – Our companies sees opportunity with the free zones as location where all of the foreign companies are established. We will create tailored affiliate program for free zones and we will approach them. Our objective is to encourage free zones to offer our services as their extended services

Free for the first 3 clients – in order to promote trial, our company will offer its services for free for the first 3 clients for 6 month. This way, it will have reference to show to other companies, as well as fine-tune its internal processes.

Company website – We will establish corporate website, where prospects could have a better look at our services, look at successful references or case studies, and approach us if interested.

Social Media Marketing – We will also promote our services through various social media like LinkedIn, Facebook, Twitter, trying to bring potential clients in the pipeline.

SWOT ANALYSIS

Based on the current research, we've compiled the SWOT analysis. The Strengths and Weaknesses are derived from the Internal Analysis, while the Opportunities and Threads from the External Analysis.

SWOT ANALYSIS

Strengths	Weaknesses
• Strong experience and know-how in procurement • Procurement accreditation • Tested and implemented methodologies in multinational companies	• Companies are not aware of our existence • No Reference/Credibility on the market • First start-up for the founder

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Opportunities	Threats
• To start the business in Free Zone • Lack of serious competition on the market • Expanding industry	• Not enough clients to remain sustainable • Entry of new competitors

RISK MANAGEMENT

There are several risks that have been identified during the External and Internal analysis, and they are addressed in this section. For each of the identified risk, we've assessed the probability of happening as well as weighting the impact from it. The table bellows is a summary of our identified risks, as well as strategies taken (avoid, mitigate - reduce the negative effect or probability, or transfer the risk to 3rd party).

Risk	Probability 1-5	Impact 1-5	Total	Strategy
Companies are not aware of our existence	5	5	25	If companies are not aware of our operations, there would be no interested potential clients, which leads to no clients at all. **Risk Mitigation –** We will reduce this risk by involving several marketing tools in order to improve awareness. These include our website, social media communication, initial approach to 500 companies, as well as promotion through the free zones.
No Reference/ Credibility on the market	5	3	15	If we don't have credibility on the market, companies will not trust us enough, to transfer their procurement activities to us. **Risk Avoiding** – In order to avoid this risk, our company will offer free services to 3 clients. From one side, this will give us reference (for other companies) as well as opportunity to fine tune the processes.
First start-up for the founder	5	5	25	Since this is first start-up of the founder, there is a high risk of many organizational mistakes.

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				Risk Mitigation – Being aware of this, we've set up this business plan, in order to anticipate all potential problems and plan the processes and workflows in advance. In addition, the founder will use a management consultant on per-need basis in order to ensure that he is on the right track.
Not enough clients to remain sustainable	5	3	15	If there are not enough clients, the company will not be able to continue operating. **Risk Mitigation** – With the lead generation, we will be approaching 500 targeted companies in order to identify their potential interest in this service. The outcome of this analysis will set our expectations.
Entry of new competitors	3	3	9	If new procurement companies enter the market, the competition will raise and it will be harder to obtain new clients. **Risk Acceptance** - As this is true for literally ever y industry, this is risk that each Entrepreneur needs to accept and take the advantage of early entry on the market.

MISSION AND VISION

Vision: Our vision is to support the growth of companies from the Middle East territory with access to professional procurement services, enabling them the opportunity to learn and prosper.

Mission: Procurement House provides corporate grade procurement services to SMEs that don't have the resources to do it in-house. We provide the know-how and support our clients from analysis, planning to implementation of the procurement plan.

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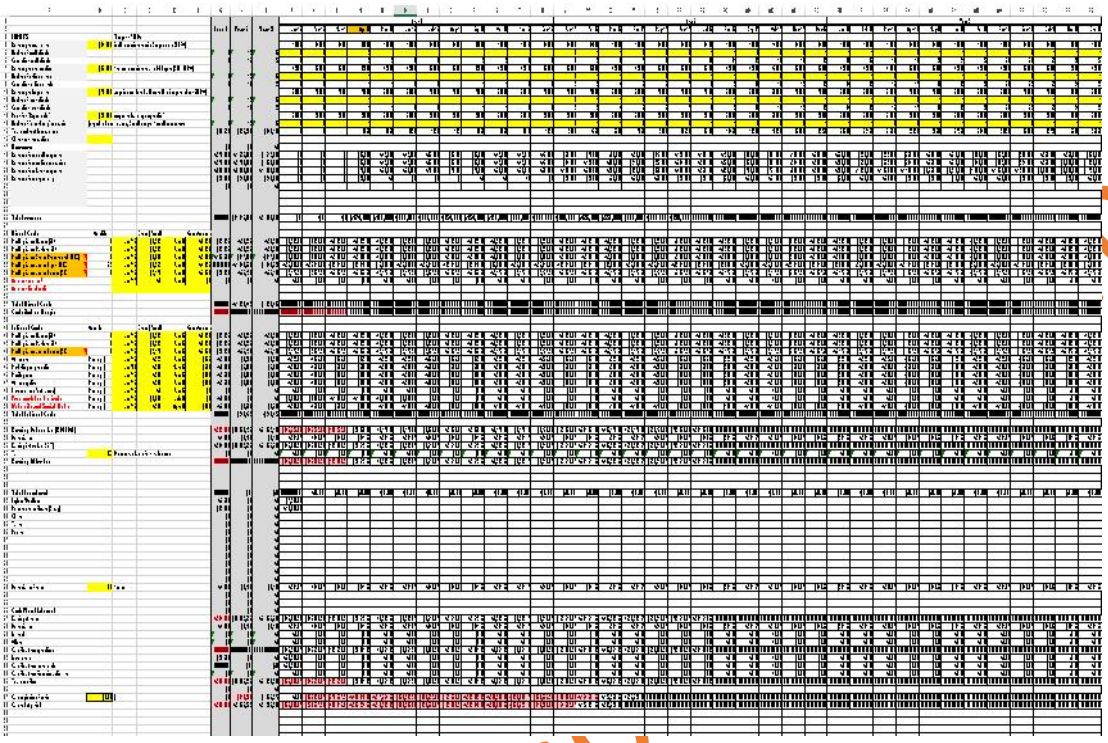
FINANCIAL PLAN



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***Some of the parts of the business plan have been changed/removed due to confidentiality.**

***The financial plan was made in a separate excel sheet. (Picture above)**