TOP 10 PREDICTIONS

Middle East Top 10 ICT Predictions, 2014

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PREDICTIONS

1. The Middle East will feature among the fastest-growing IT markets in the world, with spending exceeding $32 billion in 2014.
2. Dubai's Smart City rollout will lead to an acceleration of Smart City initiatives in other GCC countries.
3. Multi-channel strategies will drive citizen/resident services penetration and usage in the GCC; mobile will be a game changer.
4. Governments will focus on strengthening security for national information assets, and expanding agencies that monitor and protect the national frontline against cyberattacks.
5. CIOs will adopt a "mobile-first" approach to IT deployments.
6. Small screen and low-cost options, as well as rapidly growing demand from commercial sectors, will shape tablet adoption.
7. Predictive and operational intelligence will drive adoption of advanced analytics; Big Data deployments will progress from "pilot" to "production."
8. Acceptance of cloud will accelerate, with private cloud and SaaS adoption dominating investment plans.
9. The skills gap will widen as demand for 3rd Platform technologies rises and supply of local skills lags.
10. Telcos will further strengthen and "verticalize" current IT services portfolios and build new professional services and SaaS capabilities.

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This IDC study provides a detailed overview of the top 10 themes that IDC believes will affect ICT markets in the Middle East in 2014. IDC believes these trends will have the greatest commercial impact on the overall IT market. IDC's predictions draw upon the latest research and analysis from IDC analysts across the Middle East, as well as key industry events, user trends, vendor strategies, and economic measures.

SITUATION OVERVIEW

In 2014, the Middle East will become one of the fastest-growing IT markets in the world, with geographic clusters such as the Gulf Cooperation Council (GCC) countries of Saudi Arabia, the UAE, Qatar, Kuwait, Bahrain, and Oman contributing to the region's overall growth and resilience. However, political and economic instability within the Levant and Egypt are expected to persist over the next 12 months.

IDC predicts that the Middle East ICT market in 2014 will be linked to how organizations in the region deal with the disruption caused by the 3rd Platform, as mobility, cloud, and Big Data adoption accelerate. Investment will be further fueled by businesses seeking to better tackle challenges around skills, costs, and a complex threat landscape.

FUTURE OUTLOOK

1. The Middle East Will Feature Among the Fastest-Growing IT Markets in the World, With Spending Exceeding $32 Billion in 2014

Spending on IT products and services in the Middle East (including Egypt, but excluding Israel and Pakistan) will exceed $32 billion in 2014, growing at 7.3% year on year. The region is expected to be one of the fastest-growing IT markets in the world, along with Latin America (8.4%) and Central and Eastern Europe (7.5%), and exceeding growth in the Asia-Pacific market (6.7%). All the GCC countries are expected to show strong economic performance in 2014, with Qatar predicted to post the highest GDP growth (5.3%) and Bahrain the lowest (3.2%), according to forecasts by the Economist Intelligence Unit (EIU). Growth in these markets will be driven by economic stability and resilience, supported by increased government spending. The economic outlook for the rest of the Middle East is somewhat mixed. The economies of the Levant region are expected to remain volatile, as the political situation in Lebanon and Syria is still uncertain. The recent agreement between Iran and global powers could ease sanctions and significantly improve the economic prospects for the country. Egypt remains in political turmoil, and growth is expected to remain flat. Iraq continues to make progress, and is predicted to grow rapidly (8.5%). The consumer, public, communications, and finance sectors are expected to be the biggest IT spenders in the region, contributing nearly 74% of total Middle East IT spending in 2014. The fastest-growing sectors in the region will be transportation, the public sector, and energy (which includes utilities and oil & gas). Large-scale infrastructure upgrade projects undertaken by governments, especially in the GCC countries, are a major factor driving growth. These multi-faceted infrastructure upgrade plans are primarily focused on enhancing the transportation, utility, and communications networks. "City-focused" investments will gain momentum in Dubai, Doha, and Abu Dhabi as they vie to attract tourists and investors, and gear up to host high-profile events such as the FIFA World Cup 2022 (Doha) and the World Expo (Dubai). Public sector investments for improving government services, education, and healthcare services will also continue to be key drivers in the GCC.

2. Dubai's Smart City Rollout Will Lead to an Acceleration of Smart City Initiatives in Other GCC Countries

Smart City initiatives have gained momentum in the GCC in recent years, with three countries announcing projects for future Smart Cities: six economic cities in Saudi Arabia, three projects in Qatar – Lusail's Smart and Sustainable City, Pearl-Qatar Island, and Energy City Qatar – and two projects in the UAE (Masdar City in Abu Dhabi and Smart City Dubai).

Dubai's recent plans to transform the entire emirate into a Smart City are expected to take Smart City initiatives in the GCC to the next level. The project involves using smart sensors and devices across three tracks: "Smart Life," which deals with health, education, transport, communications, public utilities, and energy services; "Smart Economy," which deals with developing smart companies, port services, smart stock exchanges, smart jobs; and "Smart Tourism," which deals with providing a smart and convenient environment for visitors to the emirate, including visa, flight, smart gates, and smart hotel services. With most of the underlying infrastructure requirements in place, Dubai is well placed to transform itself into a true smart city. The significance of Dubai's Smart City plan to the region lies in the fact that the emirate's physical and technology infrastructure is sufficiently developed to embrace smart technologies across six dimensions: smart government, smart services, smart mobility, smart energy and environment, and smart buildings. The UAE is the regional egovernment leader, and Dubai recently announced its Mobile Government initiative, taking it one step closer to smart government as well as smart services. Considering the second dimension, smart mobility, Dubai is way ahead of its peers with an integrated transportation system already in place, which involves intelligent smart cards that can be used across multiple modes of transport. The emirate has already integrated smart gate functionality into national ID card (Emirates ID), and envisages it to becoming single card for residents to access a myriad of services in the future. The Dubai Electricity and Water Authority (DEWA) has already commenced a five-year project to implement 250,000 smart meters across the emirate. Dubai is also taking a major step toward green buildings through the Dubai Green Building Code, which is expected to be unveiled soon. This is likely to result in a surge in use of smart building technologies to reduce carbon footprints.

IDC expects the Smart City initiative in Dubai to accelerate other Smart City projects in the GCC, with the emergence of new Smart City plans, as well as projects to implement "smart" concepts expected in 2014. As Smart City initiatives in the region accelerate, IDC expects a surge in related ICT investments, especially in upgrades to ICT infrastructure. The use of sensors to collect real-time data will result in increased machine-to-machine (M2M) communication and additional investments in network infrastructure. IDC predicts total spending on M2M connections in GCC countries to increase by 19.0% in 2014 to reach $223.80 million. Analytics will be a key part of smart initiatives, and we foresee increased spending on storage, data management solutions, data analytics, and reporting tools.

3. Multi-Channel Strategies Will Drive Citizen/Resident Services Penetration and Usage in the GCC; Mobile Will Be a Game Changer

IDC predicts that government channel-shift strategies and tactics in the GCC will increase the preference for electronic self-service transactions. Mobile devices will increasingly be a key facilitator of these interactions. Much progress has been made by countries such as Bahrain, Saudi Arabia, the UAE, and Qatar in the automation and provisioning of online transactional government services. These four countries in particular have steadily risen in the UN's global rankings for egovernment development, and now rank among the top 50 countries globally. Services such as payment of utility bills, health card renewals, payment of traffic fines, and applications for visas among other services have seen good traction among citizens and residents.

For instance, the Dubai government has disclosed that 38.1 percent of its services are now accessed via the online channel. Equally important is the satisfaction with these – a recent survey showed a satisfaction rate of over 90% for the Dubai government's online services, which is a positive sign for the future. When users are confronted with multiple service channels for interaction (such as DEWA's online bill payment facility), some users will inevitably gravitate toward those channels that are quicker, more intuitive, or more convenient to use. IDC expects the ongoing push toward greater mobile enablement of government services to further increase self-service utilization. Smartphones and tablets will quickly become the key contact point between citizens and government institutions. Mobile government is a leading strategic priority for the Dubai government; the emirate has recently launched a new initiative that will see all government entities provide their services via mobile phones and other portable devices by 2015.

In Saudi Arabia, the Ministry of Hajj is already encouraging pilgrims to use a smartphone app that will not only help guide them through their pilgrimage to the holy cities of Mecca and Medina, but will also allow them to pay any relevant fees (e.g., for permits) via mobile. Contactless payments also have the potential to make a profound impact, through near-field communication (NFC) in mobile phones. This is not only useful for Hajj pilgrims, but will become increasingly used by the various public transport systems being planned across the GCC such as metro transit systems and railways.

The projected increasing focus on mobility by the GCC government sector will have a positive impact on ICT spending, particularly in terms of mobile security, business analytics, customer relationship management (CRM), geo-localization software, mobile enterprise management (covering solutions for device management, application development, and application management), and mobile content management, among others.

4. Governments Will Focus on Strengthening Security for National Information Assets, and Expanding Agencies That Monitor and Protect the National Frontline Against Cyberattacks

The Middle East has become a hot spot for cyberattacks, as evident from the high-profile breaches of key energy and government assets, the defacing of government websites by "hacktivists," and ongoing attacks on banks and financial services organizations.

Potential threats to government and military installations are now receiving a great deal of attention. The increasing sophistication of such threats is forcing governments to step up national security readiness. The UAE has established the National Electronic Security Authority (NESA), which aims to monitor the frontline of the war against cyberattacks, protect the country's communications networks, and develop, modify, and use technologies required for electronic security. Saudi Arabia has set up the National e-Security Center to protect national systems from cyberattacks. IDC expects that in 2014, GCC governments will develop or strengthen national IT security policies and plans and implement them through national agencies, with these agencies assuming the coordination of activities among various authorities including the armed forces. Security policies for government agencies such as the Dubai government's Information Security Regulation (ISR), approved in mid-2013, and also the General Information Assurance policy (GIA) in Qatar, will be rolled out aggressively in 2014.

Given the above, IDC expects to see increased investments in network monitoring solutions, security operations centers and related services, and advanced security solutions by government departments, as well as by organizations in other key sectors such as finance and energy. There will be increased spending on security solutions that can predict and preempt breaches and thereby prevent large-scale attacks.

5. CIOs Will Adopt a "Mobile-First" Approach to IT Deployments

A mobility-first mindset is now clearly evident among Middle East CIOs, and organizations are expected to accelerated efforts, over the next 12 months, to transform IT systems for integrating mobility solutions, formulate bring-your-own-device (BYOD) policies and take measures to address associated security concerns. Remote collaboration and productivity improvements will remain key divers of investments in mobility solutions. Some organizations will also look to innovate around mobility and use it to improve the customer experience. We also expect mobility to be increasingly connected to the emerging elements of the IT mix: Cloud computing, data analytics, and social business; thereby making business more agile, efficient and dynamic.

The use of technologies such as M2M, radio frequency identification (RFID), and unified communications (UC) alongside mobility is expected to gain prominence in 2014. Additionally, integrating these with business intelligence solutions provides organizations with the necessary tools for gathering and analyzing data, optimizing processes, fostering employee collaboration, enabling faster decision making, and improving operational efficiency. However, such systems are complex and require integration with multiple technologies and alignment with multiple stakeholders. For this reason, we believe these solutions will see initial deployment among large businesses from verticals such as oil & gas, transport, logistics, and retail, which generally have more mature mobility strategies. However, to capitalize upon this potential and to expand market share, vendors will offer products and solutions that are specifically designed for mobile environments. Some of the new solutions will be specifically designed for small and medium-sized businesses (SMBs), enabling them to leverage cloud infrastructure and take advantage of pay-per-user pricing models.

In addition to the above, growing usage of smart devices will continue to motivate many businesses across various verticals to launch dedicated customer applications. Many organizations view business-to-consumer (B2C) applications as a means to create differentiation. These applications open up new customer touch points for customer engagement and feedback. Many telcos have already invested in such applications, including STC (KSA), du (UAE), Zain (Kuwait), and Ooredoo (Qatar), as well as banks such as Mashreq (UAE), SABB (KSA), and QNB (Qatar).

6. Small Screen and Low-Cost Options, and Rapidly Growing Demand from Commercial Sectors, Will Shape Tablet Adoption

Tablets with smaller screen sizes (7 to 8 inches) will be in increasing demand and are expected to account for approximately 55% of the region's tablet shipments in 2014. Low-cost tablets running the Android operating system will also gain greater acceptance. Some of the lower-price tablet models in this segment, with prices ranging around $100 or lower, will continue to be bundled free with other IT or consumer electronics products, especially in the UAE. This is a segment in which local brands such as Touchmate, Eurostar, and Eklasse, as well as East Asian brands such as Coby and Axtrom, have so far maintained a strong foothold in the UAE market. In Saudi Arabia, some of the less brand-conscious consumers will start shifting from high-priced tablets (mainly from Samsung and Apple) to lower-priced options as their availability increases. Such options are being made available by several multinational vendors, like Lenovo and Asus, and they are expected to further expand their portfolios of low-cost Android-based tablets. As Egypt emerges from political turmoil, we expect the country's tablet market to record year-on-year growth of close to 70%, the highest in the region. However, due to higher price-sensitivity, the average selling price of tablets in Egypt is expected to be the lowest in the Arab Middle East region.

Tablets will continue to achieve increasing penetration in commercial sectors such as banking, hospitality, telecom, and aviation, as well as non-commercial ones like government and education. Several large-scale initiatives within the education sector are expected to be delivered in the region in the near future, including planned investments by the governments of Egypt, the UAE, and Qatar.

7. Predictive and Operational Intelligence Will Drive Adoption of Advanced Analytics; Big Data Deployments Will Progress from "Pilot" to "Production"

Increasing demand for "insights" from data, particularly from line-of-business (LOB) executives, will spur organizations to step up the implementation of analytics technologies, going beyond basic query and reporting tools towards data warehouses and data visualization tools (e.g., dashboards) and further, toward predictive analytical tools. We expect a shift in focus for analytics, from the traditional "management reporting" toward operational intelligence.

The use of Big Data technologies for analytics will remain low, but will gain some traction; however, identifying business-wide use cases will continue to be a challenge. We have already seen a few pilot projects among telcos, government organizations, and retailers, and demand will emerge from other verticals such as finance, transportation (mainly airlines), and oil & gas, particularly from Saudi Arabia and the UAE. The focus will be on predictive and sentiment analytics using Big Data technologies, largely in the banking, retail and transportation sectors.

In oil & gas organizations, we expect strong demand for Big Data technologies for exploration and production analytics, such as seismic analysis, reservoir characterization, and production process optimization.

Banks in the region will start actively "managing data," which enables them to target their customers with "location-driven retail offers" in partnership with retailers, or provide pre-approved spending limits and loans, on mobile devices. By enhancing the transactional propensity of the customer (as mentioned in an earlier prediction), the bank increases the frequency of interactions that the customer has with the bank. In turn, this will drive the number of transactions the customer undertakes, increasing fee generation for the banks. The dilemma is that these projects are being developed in different areas of the enterprise, and each technology is managed by various back-office systems. As a result, customers have no way of getting a single unified overview of their dealings with the bank, and the banks miss opportunities to cross-sell products and increase the lifetime customer value. By consolidating the disparate data sources into a single database, a bank's dedicated business intelligence team can then analyze it for various functions, such as developing new products in the mobile banking and payments arena. The investment in analytical models and key staff will be recovered rapidly, or even save the bank money from increasingly vigilant credit checking and delinquency reporting.

Rapid growth in machine-generated data (as a result of increasing deployment of devices or machines such as smart meters in the utility sector, traffic meters, and road toll meters such as those used in Dubai's "Salik" toll system) and the opportunity to leverage the data for better services will lead to more use cases for Big Data analytics, especially in the public sector in GCC countries.

8. Acceptance of Cloud Will Accelerate, with Private Cloud and SaaS Adoption Dominating Investment Plans

Until now, most private cloud activity in the Middle East has centered around infrastructure virtualization, basic automation, and, in some cases, the development of service catalogs. There has been a general lack of motivation to implement all the elements of a true private cloud such as automation, orchestration, metering, and chargeback. In 2014, some organizations are expected to realize that they can derive even greater benefits from a full-fledged private cloud implementation. Not only will this lead to growth in private cloud revenues, but it will also indirectly impact spending on hardware, software, and services as infrastructure and application environments are modernized as part of these broader private cloud deployments. Networking spending will also increase as enterprise networks are upgraded and optimized to support increased virtual cloud workloads.

In terms of workloads, software as a service (SaaS) will dominate investment plans in 2014. The benefits of SaaS, such as ease of use, low management overheads, and its low upfront licensing investment, resonate with many CIOs in the region. Heretofore, the leading workloads have been CRM, office productivity, and collaboration applications, and these are expected to continue contributing a large chunk of public cloud spending. Growth in the adoption of these applications can be attributed to the fact that providers such as Salesforce.com, Google, and Microsoft have only recently been actively promoting these services in the region. These workloads are generally not considered mission-critical, but have a wide impact in terms of numbers of business users, and are therefore deemed suitable for a move to the cloud. In 2014, workloads such as human capital management (HCM), project management, and enterprise resource planning (ERP) will increasingly gain traction. Large ISVs such as Oracle and SAP, along with newer smaller players such as Ramco, will see growing demand for their SaaS-based solutions. For many organizations in the Middle East, these investments will be the first investments they have made in these applications, and so are effectively adopting a "cloud first" strategy for these newer applications, preferring the lower upfront capital expenditure that SaaS offers in comparison to on-premises applications. The SaaS market in the Middle East is expected to grow by 59.2%, led by the key markets of Saudi Arabia and the UAE, which will grow by 47.2% and 57.3%, respectively. This will naturally result in the cannibalization of some traditional software licenses revenues. Established vendors such as SAP, Oracle, Microsoft, and IBM, which have yet to aggressively promote their SaaS offerings in the local market, will be in a critical position — choosing to either enter into partnership and put at risk their still-lucrative perpetual licensing sources, or continue to stick to an enterprise on-premises model in the Middle East and forego the potential opportunity to reach a larger (SMB) market through SaaS.

In the more mature markets of the Middle East, telcos, hosting services providers, and managed service providers have, over the past two years, been building out their cloud services portfolios with varying degrees of success. So far, the majority of these efforts and investments have involved different offerings of infrastructure as a service (IaaS). Often, these investments were built on large in-a-box cloud solutions from major vendors and lacked the scale to be truly competitive against much larger pure-play cloud providers. Many lacked pure on-demand provisioning. Consequently, success has been limited so far primarily due to the fact that these offerings didn't capture the true benefits of cloud in terms of ease of provisioning, shorter contracts, and cost-effective utility-based pricing. IDC predicts that these providers, specifically the telecom providers, will relook at their current cloud portfolio, and given the lack of scale, accelerate efforts more towards established and less risky software-as-a-service (SaaS) offerings.

9. The Skills Gap Will Widen as Demand for 3rd Platform Technologies Rises and Supply of Local Skills Lags

The lack of availability of skills in 3rd Platform technologies such as mobility, analytics, cloud, and social, and enabling technologies such as security and virtualization, will put substantial pressure on IT providers and end-user organizations. Much of the supply of skills will continue to come from expatriates, as the availability of local ICT workers remains relatively low, and, although governments are investing substantially in the IT education and training of citizens, the development of such a pool of local skills will take time. Heavy dependence on an expatriate workforce creates many challenges; the transient nature of expatriates and the rising costs of employing them are significant constraints.

More recently, some countries in the region (such as Saudi Arabia) have undertaken drives to increase the proportion of their own citizens employed in the private sector. Although such initiatives will have a greater impact on illegal and blue collar workers, they will also have some impact on the IT hiring policies of organizations. Compliance with Nitaqat (the national policy mandating the employment of Saudi nationals in the private sector) has become a key priority for IT companies in Saudi Arabia, as it is becoming a major criterion for consideration for public-sector contracts. These initiatives will exacerbate the IT skills situation in Saud Arabia in the short term. They will pressure IT providers and end-user organizations to hire and train nationals more rapidly, and smaller companies that cannot afford to pay the higher salaries demanded by nationals and/or offer training will be adversely affected in the short term. It could also lead to delays in projects. Furthermore, existing contracts will face profitability pressures as resource costs go up. However, eventually the national talent pool will grow and the market will stabilize in the medium term. Taking a cue from Saudi Arabia, in 2014, other GCC countries may begin to accelerate their equivalent efforts. In this environment, onsite delivered services and "body shopping" will be adversely affected. Interest in automated, offshore, or remote service-level agreement (SLA)-driven managed services could grow.

10. Telcos Will Further Strengthen and "Verticalize" Current IT Services Portfolios and Build New Professional Services and SaaS Capabilities

Telcos will continue to develop and expand their ICT services portfolios by forging partnerships with vendors to gain new capabilities, and leveraging their infrastructure assets and network capabilities. Investment in datacenter-delivered services and managed services will continue to remain a focal point of operators' strategies as they look to add new services. Mobily (KSA), du (UAE), and Etisalat (UAE) took this route in 2013, and operators in other countries are likely to follow suit. Operators will also invest in developing their professional services capabilities, particularly focusing on integration services, consulting services for datacenter design and build, and implementation services related to disaster recovery and cloud. Vertical-specific services offerings will help operators accelerate their transformation into significant ICT providers.

With regard to cloud, as mentioned in an earlier prediction, the majority of cloud investments from telcos have so far involved different IaaS offerings. IDC predicts that telecom providers will look again at their current cloud portfolios, and, given the lack of scale, shift their focus toward more established and less risky SaaS offerings. At the same time, there is growing demand for locally hosted SaaS solutions. Established vendors such as SAP, Oracle, Microsoft, and IBM that have yet to aggressively promote their SaaS offerings in the local market may choose to partner with telcos to tap into the potentially large SMB market for SaaS.

ESSENTIAL GUIDANCE

In 2014, end-user organizations will increasingly seek to adopt 3rd Platform technologies — specifically, transformational forces such as mobility, cloud, Big Data, and social business — as they strive to align IT with the needs of business. ICT providers will need to consider enhancing their existing infrastructure and product and services portfolios to better cater to end users' rapidly evolving needs. Availability, security, and skills will be key to supporting these investments.

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- Turkey Top 10 ICT Predictions for 2014 (IDC #CEMA20580)

Synopsis

This IDC study provides a detailed overview of the top 10 themes that IDC believes will affect ICT markets in the Middle East in 2014.

"Organizations in the Middle East will be faced with a growing need to adapt in 2014, as the effects of the 3rd Platform continue to disrupt and change industries. Major ICT players in the region will make significant investments to enhance their infrastructure and products and services portfolios as they look to scale up their capabilities around the 3rd Platform. Information security will become more vital than ever." – Research Director Ranjit Rajan, IDC CEMA

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