

# Entrepreneurial Ecosystems Around the Globe and Early-Stage Company Growth Dynamics

January 2014



# Cupola Group MEA

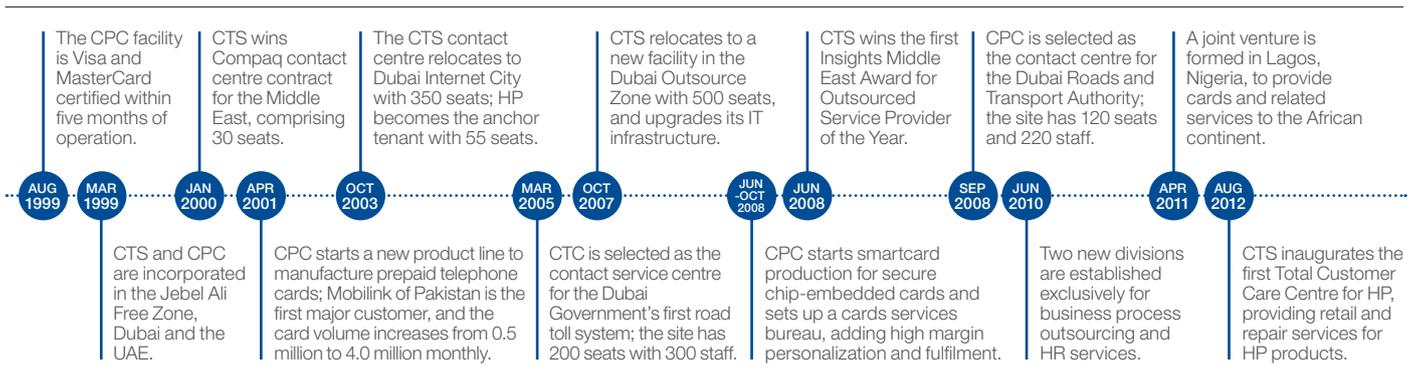
## United Arab Emirates (UAE)

Prepared by Antonio Davila and George Foster

### Overview

Cupola Group MEA consists of two businesses, Cupola Teleservices (CTS) and Cupola Plastic Cards (CPC). The businesses were established in the United Arab Emirates in 1999. They share ownership and are operated by the same senior management. CTS is the first outsourced contact centre and business process outsourcer (BPO) in the Middle East. Over the past 14 years, headquartered in Dubai, CTS has acquired a client base that covers major international and regional banks, IT companies, public sector entities and large retailers. Services include setting up and operating contact centres, offering outsourced customer relationship management (CRM), providing high-quality personnel, managing human resource functions, and providing document management and logistics support. CPC is a Visa and MasterCard accredited facility catering to financial institutions and telecoms in the Middle East and Africa. The main products are branded plastic cards. In addition, CPC provides value-added services including personalization and fulfilment. CPC is a supplier to almost all the international and regional banks and some of the telecoms. With close to 800 staff from 31 countries and conducting business transactions in more than 10 countries, Cupola Group MEA is a service provider and product supplier to a large number of multinationals and regional businesses.

### Timeline/Key Events



### Quotations

Kazim Raza Awan is the Chief Executive Officer of the Cupola Group MEA. He played a leading role in establishing and growing a number of Cupola Group businesses, including CTS and CPC. He has extensive experience in strategic planning, project development and business operations. He has served as a member of the Board of Directors for the International Card Manufacturers Association (ICMA) for three years, since 2009. His career also includes stints at the Islamic Development Bank and the London School of Economics. In 2011, he was recognized for his contribution to the business process outsourcing industry by being voted "Market Pioneer in the UAE".

Humaira Majid is the Chief Operating Officer of CTS. She has over 14 years of experience in client relationship management, contact centre services, project management, change management and business process outsourcing. Her career includes working with British Telecom as Business Manager ICT for the EMEA region. As Chief Operating Officer, she is focused on delivering operational excellence. Her key responsibilities include exceeding industry operational benchmarks, delivering clients' Key Performance Indicators, and working closely with the sales team to increase revenue from existing clients and prospects. She has been recognized for her contribution to the industry, having won several awards for contact centre and customer relationship management.

**Q1: What was the source of the initial idea, and how did that idea evolve into a viable, growing company? How did it change over time?**

**Awan:** “CTS and CPC were part of a handful of green field projects that were initiated by Cupola Group to exploit the rapidly expanding IT sector in the 1990s.

“The buzz initiated by the ‘Millennium Bug’, or the Y2K issue, was focusing minds on outsourcing IT services to India. We saw Dubai as a better alternative to the Indian sub-continent for various reasons, including the fantastic infrastructure being developed in the UAE, the location of multinational companies’ regional headquarters in Dubai and a multilingual expatriate labour force. CTS started as a dedicated call centre offering outsourced customer support to businesses in the Middle East and the developed English-speaking economies in the West, mainly the US and the UK. Our original concept was to combine the advantages that Dubai offered with the labour arbitrage possible by locating the majority of agents in India/Pakistan. However, due mainly to political and some technical barriers, this model never came to pass. The testing of nuclear bombs and the resulting tensions between India and Pakistan meant that we could not locate facilities on the sub-continent. The ban on VoIP (which continues today) ensured that the distant markets would not be accessed cheaply by us. It was no surprise that the volume business went to India and we struggled to find a niche.

“The genesis of CPC was the fact that the region was dominated by European card manufacturers and service providers with significant lead times and relatively high prices. We saw the opportunity to establish a local presence with an emphasis on quality, short delivery times and exceptional customer service. The other major consideration was the possibility of moving up the value chain from manufacturing to becoming a service provider in the card industry. Our ultimate target was to provide a full suite of services: printing cards, personalizing them and delivering to our clients, and finally to provide a platform for processing financial transactions for small to medium-sized banks.

“The growth of the financial market for cards turned out to be far smaller than we had estimated. Competition also came rapidly from local start-ups. Our saviour was the explosion in prepaid telephone cards in the region, fuelled by deregulation of the telecom industry and the phenomenal growth of mobile telephony. From producing hundreds of thousands of cards monthly, we began producing cards in the millions. The second factor that helped us grow was the push by central banks to improve security by mandating chip cards instead of using credit/debit cards with magnetic stripes. Adding card-related services was a significant milestone, as was the decision to go west to Africa.”

**Majid:** “Customer relationship management and call centres had started to become a buzzword in the West and we could see a great potential as there was no such business in this region. Initially, there was immense apprehension in the market towards outsourcing due to the fear of lack of control, sharing information and data security. It needed a lot of hard work, extensive awareness creation and marketing, but the change did come through and the rest is history.”

**Q2: What were the major growth accelerators for your company in the early years of high growth?**

**Awan:** “The two single most important factors that aided our growth were our location and rapid advances in the adoption of new technology in the region. Dubai, apart from driving its own phenomenal growth in the early to late 2000s, gave us access to the markets of the entire Middle East, South Asia and North Africa. Financial institutions and telecoms, two of our main customer segments, were reinventing themselves.

“Neither business grew the way we had planned. In retrospect, our biggest asset was the ability to read the changes in the market as they were happening and making quick decisions to benefit from them.

“The fact that CTS/CPC survived and eventually grew can also be traced to a few critical internal factors: a generous parent company that provided financial aid to cover a two-year budget deficit (hence, no pressure of debt financing); a dedicated management team that is incentivized with profit-sharing; tenacity and a belief that we will succeed; and we experimented and learned on the job.”

**Majid:** “Key accelerators for our growth and sustainability include the following:

- **Flexibility:** The willingness to never say no. We have always implemented projects in extremely aggressive timeframes, while taking on board most of the client’s wishes and requirements.
- **The will to learn:** Everything has a first and we admit it but always learn and give it our best shot. Some experiments have failed but others have been huge successes.
- **Customers come first:** Our unrelenting commitment to customers and the focus on offering a complete customer experience. There have been painful encounters and misunderstood expectations, but the key lies in managing the customer well.
- **Diversification:** Our management philosophy is to acknowledge that unless we reinvent ourselves regularly, we will not survive. We constantly need to be creative, and to identify needs and opportunities.
- **Effective use of technology to increase productivity and operational efficiency:** From the start, we invested in technology to enhance reliability, showcase ourselves as a leader and reduce costs.
- **Retention and motivational policy:** Attracting the right profile of employees and retaining and keeping them engaged and motivated in the initial growth years gave us a stable base to work with.
- **The Cupola values and culture:** We devised our simple core values, which were easy to understand and relate to and were easily adopted by the young and energetic team. These include: **ownership** (complete ownership and accountability for our work), **excellence** (outstanding service delivery in all areas), **trustworthy** (we do what we say we will), **helpful** (we work as one team), **inspiring** (we create new possibilities), **straight-forward** (we make things clear) and **passion** (we believe in what we do).”

**Q3: What role did key aspects of the entrepreneurial ecosystem surrounding your company play in the growth of your company?**

**Awan:** “**Availability of accessible markets:** Given the small domestic market, access to overseas markets was critical. Fortunately, the GCC (Saudi Arabia, Bahrain, UAE, Qatar and Oman) has almost no import tariffs – an added bonus for us. However, significant non-tariff barriers hamper access. Africa is a bigger challenge, primarily due to our lack of local knowledge, but establishing relationships with local partners has provided access to growing markets in Nigeria and Ghana.

“**Availability of workforce:** This was a major consideration for CTS, which currently employs about 700 people and growing. Salaries are the major cost of business, and acquisition of outsourcing business starts with cost savings for the clients. We compete with India in the outsourcing space, which puts a limit on our pricing. Three factors helped us in this regard. Indian salaries have been on an upward trajectory; we provide bilingual support to at least 60% of our clientele; and Dubai as a destination attracts young people from all over the Middle East. At a managerial level, Dubai has attracted the best human capital from all around the globe.

“**Availability of funding/finance:** Bank finance for SMEs anywhere in the world is difficult. Dubai is no exception. We managed to attract venture capital. Past the first couple of years, cash generated by the businesses funded our growth. In this region, good performance can provide access to non-bank equity or mezzanine financing.

“**Availability of mentors and advisers:** Given the fact that some of the senior managers of the Cupola Group came from a financial and project development background, there was not much need for outside support. We tried to hire senior managers from the industry to kick-start our various businesses.

“**Favourable regulatory framework and infrastructure:** There are no taxes in the UAE, which was a major consideration for being located in Dubai. Setting up businesses in the Free Zones in the UAE is another bonus, allowing for 100% foreign ownership. The infrastructure is probably the best anywhere. This has reduced costs of doing business, especially in providing 24/7 services.

“**Cultural and societal support and respect for entrepreneurship:** The UAE is the best example of a free market in practice. The private sector and entrepreneurs are celebrated – definitely a major reason why we came to this country. However, differentiation on a local/non-local basis is a challenge.”

**Q4: What key aspects of the entrepreneurial ecosystem surrounding your company that were absent (or existed only in a weak form) created the greatest challenges for growing your company? Please describe and discuss how you met/were impacted by these gaps in the ecosystem and their resultant challenges.**

**Awan:** “We faced three key challenges: As foreigners, we cannot own majority equity in any business outside the free zones in the UAE. Similar restrictions apply in other Gulf countries. Second, there are significant restrictions (conditions) that apply to free-zone businesses, mainly in access to the public sector, which limits our access to a major segment of our target market. Third, there are limits on the number of work visas that we can get.

“To win public sector projects (such as our Build, Operate and Transfers with the road toll authority and the Dubai Metro) we partnered with well-known multinational corporations (MNCs). The latter negotiated the contracts with the public entity and we have back-to-back agreements with them (namely, Avaya and Transcom) to provide our services.”

**Majid:** “In the BPO space, we faced a number of challenges, not all of which we have successfully overcome:

- (a) “**Availability of accessible markets:** In the case of CTS, telecom services are regulated and this has hampered our growth in terms of using VoIP to make and receive calls from all the target countries. In addition, our telecom costs are very high relative to our competition’s costs, hence the danger of losing clients to less restrictive countries like Egypt, Tunisia or India. We have not been able to completely overcome this challenge. Sometimes we offer clients add-on services, or create value in proximity by offering additional services for free like daily reporting, frequent face-to-face reviews, etc. Dubai, being a safe and stable emirate, also helps in comparison to other cities in the region.
- (b) “**Availability of workforce/human capital:** Although human resources are available, challenges are encountered in English language proficiency, various accents, dialects, attrition and competition. The part-time work rules are quite stringent and students are not allowed to work part-time. Contrary to our early years, our staff turnover is now high. Our staff is highly employable and well trained in customer service. It is increasingly difficult to match the remuneration packages that some financial institutions, MNCs and airlines have to offer for similar profiles.
- (c) “**Work environment:** Retention and motivational techniques are less effective because of a growing labour market. Employees change jobs very quickly and we feel that we are constantly recruiting and training, which comes at a high cost. There is no permanent fix for this.
- (d) “**Availability of mentors and advisers:** Although individuals and consultants are available, it is difficult to set up a formal, registered trade body. We have been trying to set up a BPO association, but have not been successful. This has hampered the overall growth of the industry.
- (e) “**The level of education and training in the region:** One disappointment and challenge is that, because of their status, students are not allowed to work part-time in this region. We participate in career fairs and wait for students to complete their studies. Internship programmes are allowed, and Cupola engages students in these.”

**Q5: At what stage did you invest significant resources seeking to grow your company internationally/beyond your domestic country or region? What factors were pivotal in deciding when to seek growth internationally and where to seek that growth?**

Awan: "Right from the inception of our businesses, we had an agenda to take market share in the region and beyond. This was necessary given the small domestic market. CPC was always an export-oriented business. However, we were not financially capable of setting up sales offices in the target countries. The solution was to have a mobile sales team, with monthly visits to overseas customers and resellers. When we set up our services bureau at CPC, we were also able to start managing personalization centres for banks in Oman and Qatar in 2009. Our investments were not more than US\$ 100,000 in each case. The most significant investment we made was to establish a joint venture in Nigeria in 2010. Even in this case, we mostly converted sweat into equity while setting up a services bureau in Lagos.

"CTS, physically, is a UAE-based business. However, we service a large number of countries from our base in Dubai. Despite the telecom restrictions on VoIP, we have negotiated favourable rates with one of the telecoms and manage to provide services to countries in North and West Africa and the Gulf region. Attempts to acquire a call centre in Jordan (in 2009) did not work out. A lot of effort was and is being made to enter the nascent outsourcing market in Saudi Arabia. The laws and restrictions on hiring foreigners in Saudi Arabia have limited our progress.

"Our focus on foreign markets is dictated by existing business relationships, the need to operate in countries where operating margins are not shrinking and where regulatory requirements are not daunting. Because of our familiarity with banking clients, West Africa is our target. We are currently using our relationships with banks to implement CRM strategies and provide training. Our costs are limited to sales and marketing trips. We eventually hope to set up physically in this region.

"Overall, the post-2008 economic climate has reinforced the need to continuously seek additional markets."

Majid: "We were always keen to expand internationally in terms of physical presence, either through an acquisition or by setting up an entity from scratch. The driving factor came in 2008-2009 due to the economic recession. We lost some good contracts on pricing. This was the time when we realized that diversification is the key to survival and growth, and that could come from exploring other business lines internationally. Considerable time and investment was made in senior resources to work on identifying, sourcing and evaluating potential business in Jordan, Saudi Arabia, South Africa and India. We have recently started work in Nigeria related to our call centre business through the CPC joint venture."

**Q6: What were the biggest challenges in building growth internationally? How did you meet or adapt to those challenges?**

Awan: "The biggest challenge was not to burn money chasing the unknown. Getting to know a new market is a long and painful process. You build on the reputation you have established in your home market. We have managed to identify resellers in at least four important markets: Morocco, Kuwait, Nigeria and Ghana. Regular visits to prospects are of paramount importance. Finally, like the Indian outsourcing vendors (e.g. Wipro) did in the US, you promise more than your competitors and then actually deliver on those promises.

"With regard to setting up a legally incorporated business in new territories, we have been extremely cautious. Our main requirement has been to find reliable local partners who have skin in the game. Our only success has been Nigeria. We failed to do so in Jordan and Saudi Arabia for different reasons.

"The most novel idea that worked for us was to offer to manage facilities and operations of potential customers in new territories. We run the financial cards personalization bureaus for Oman Bank in Muscat and International Bank of Qatar. In Saudi Arabia, we rented call centre space with human resources from an existing call centre in Jeddah to service a multinational client of ours. In none of these situations did we need to incorporate a legal entity in these countries."

Majid: "Interestingly, the challenges were different in different countries, some due to the difference in culture and others in rules and regulations. For example in South Africa, our business partner company could not win the tender for which we had established a company there and were supposed to have a set up for. Business ethics issues that were more of a cultural practice there got in the way. We decided to continue trying and working remotely with our clients there, the way we currently do.

"In Jordan, in a potential acquisition, we faced challenges in trying to convince all 18 shareholders to sell. The management was for it, whereas the passive shareholders were not. It was quite an experience. We retracted the offer when it started looking like a hostile takeover.

"In Saudi Arabia, it took an extremely long time to incorporate an entity. We got tired of waiting and losing potential business opportunities. We then went ahead and formed an alliance with an existing company by renting space and resources in their facility. Currently this partnership is doing well."

**Q7: What major role, if any, did key aspects of the ecosystem in the country (or countries) you first sought international growth either promote or impede your ability to grow in those international markets?**

Awan: "The two most relevant aspects of the ecosystem that hindered our growth were the regulatory environment in various countries in the region, and access to markets.

"The requirements to set up businesses in most countries in the Middle East and Africa can be daunting. Our biggest failure has been the inability to develop a sizeable business in Saudi Arabia (the largest market in the Gulf countries) mainly because of legal hurdles.

"Although the Gulf region is a low-tariff area, which is a significant plus point, market access is not entirely easy. The main hurdles are non-tariff barriers, for instance unfavourable treatment of foreign entities in requests for proposals and tenders. Unethical practices are another significant barrier."

**Q8: Seeking international growth often has both high moments and dark (low) moments. Briefly describe one high moment and one dark (low) moment in seeking international growth.**

**Awan:** “One high point was winning a contract for supplying financial cards and personalization services to ECO Bank in Ghana in 2011. The contract was worth US\$ 5 million. ECO is an African bank covering about 32 countries. We won the contract by working through a well-connected Ghanaian reseller. The best part was that we won against the giants of the industry (Oberthur, G&D and Gemalto).

“Our biggest disappointment was the collapse of a potential joint venture in Saudi Arabia. We spent over 18 months (in 2010-2011) identifying, nurturing and negotiating with a potential partner to set up an integrated card personalization centre and a contact centre. The failure was caused by two factors. The joint venture partner had promised to provide business from its own businesses and its clout in the market. This value-add was never quantified or agreed upon explicitly. The second factor was the restriction on visas for foreign workers imposed by the authorities for our type of service industry.”

**Majid:** “My high moment definitely was being a key member of the due diligence team for our Jordan acquisition venture. It was an enlightening, engaging and wonderful experience. The highlight was when we felt we were very close to wrapping up the deal. I had planned for my entire operations handover, key resources to be relocated there, change management and the works. It was an exhilarating feeling. The low moment, obviously, was when the joint venture deal did not go through.”