Improving the competitiveness of Qatar manufacturing companies

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While small, the manufacturing sector in the State of Qatar could become a major driver of economic diversification. To realise their full potential and make their business sustainable, companies active in the sector will need to prepare for the post-World Cup future within the Qatar 2030 vision.

Qatar-based manufacturing companies willing to maintain their leading position in the local market and to increase their chance of success in the development of their international activities (export) will need to improve their competitiveness by addressing the strategic, organisational, operational, legal, and financial challenges they face today.

To support this transformation, the existing National Programs of assistance to the private sector, led by the Qatar Development Bank (QDB), could be expanded to make manufacturing competitiveness a priority and provide hands-on assistance to companies in their transformation.

Preparing for the future

The manufacturing sector in the State of Qatar contributes to a small 7% of total GDP[1]. The bulk of the activity (>70% of the sector's GDP contribution) and of exports (95% of manufacturing exports) in this sector is concentrated in downstream oil & gas and low energy prices-related (steel and aluminum manufacturing) activities.

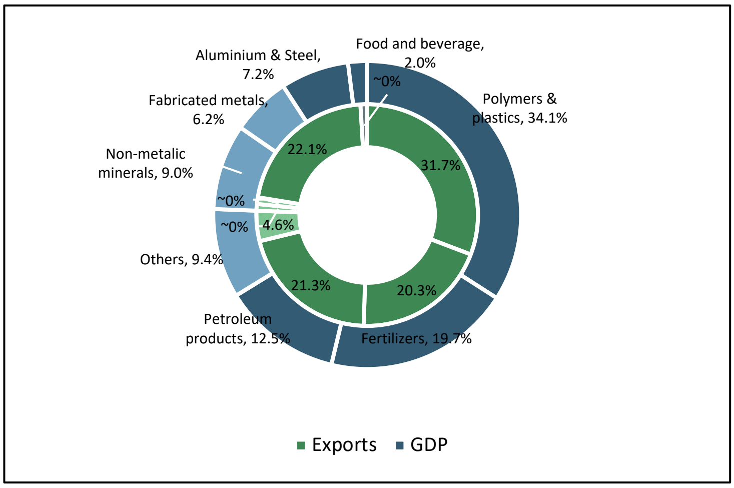

Figure 1 - Manufacturing sectors contribution to GDP and exports, 2020

Yet, the sector has recently developed in other activities with the number of factories in Industrial zones growing from 780 in 2017 to 915 in 2020, under the impetus of an import substitution drive (result of the blockade) and the opportunities created by the vast infrastructure developments related to the World Cup 2022.

As the World Cup projects come to an end and the blockade-related international trade hurdles are fully lifted in 2022, manufacturing companies in Qatar will need to devise a clear plan to ensure their sustainability in 2023 and beyond.

To succeed, given the small size of the domestic market and the need to compete with imports from neighbouring countries, this plan will need to centre around competitiveness improvement and export strategies.

[1] Source: Qatar Central Bank, 2020

The challenges for the manufacturing sector

The recent events (blockade and its lifting as well as the COVID crisis) have substantially impacted the local economy. While they have spurred developments in new manufacturing areas, they have also created or accentuated the six major challenges that local companies are facing today.

Firstly, because of the blockade, manufacturing companies have had to adapt their raw material and components sourcing, moving from small quantity customised imports from UAE or Saudi Arabia to bulk imports from farther suppliers. This has not only increased costs but also has created challenges in terms of inventory management.

Second, the cost of doing business in the country is slowly increasing, under the high cost of real estate, growing tax burden (with the announcement of a mandatory health insurance scheme funded by the employers) and increasing administrative costs and government levies (albeit both from a low base)

Third, manufacturing companies in Qatar suffer from a general lack of cost competitiveness. They seldom have a clear visibility on their cost structure, let alone on the unit costs of their production. Few know if they are working at or sub-scale and fewer have adopted a pricing strategy based on a cost-plus approach that ensures profitability of most of the production. This is partly a result of the first two challenges but also of the fact that most companies have not had to worry about competitiveness as they were operating in a "walled garden", unchallenged by cheaper imports and protected by trade and local products support initiatives. As the wall around the garden starts crumbling, it will be critical for companies to reach sufficient levels of competitiveness.

The fourth challenge that Qatar-based manufacturing companies face is the difficulty to find financing, among others to cover their increasing Working Capital Requirements (caused in part by payment delays). Levels of indebtedness in the sector have increased, and additional debt is hard to access due to a lack of appetite from commercial banks to fund SMEs, high levels of exposure to QDB lending, and lack of additional collaterals to secure more debt. Local currency borrowing remains expensive and companies that have foreign currency (EUR, USD) cash flows rarely explore cheaper foreign currency borrowing options.

Manufacturers in Qatar invest little in innovation and product development, leading to low levels of product differentiation, which constitutes the fifth challenge, especially for companies that need to export or compete with more innovative imports.

Finally, with the lifting of the blockade and the proximity of heavily investing Saudi Arabia, exporting appears as an attractive option for manufacturing companies in Qatar to address the potential slow-down in the already small local market. Yet, they seem ill-prepared to grab that opportunity: few have developed an export strategy or understand what it would take to be a successful exporter.

Building a plan to address these challenges will ensure the future sustainability of business.

Addressing the competitiveness and export challenge

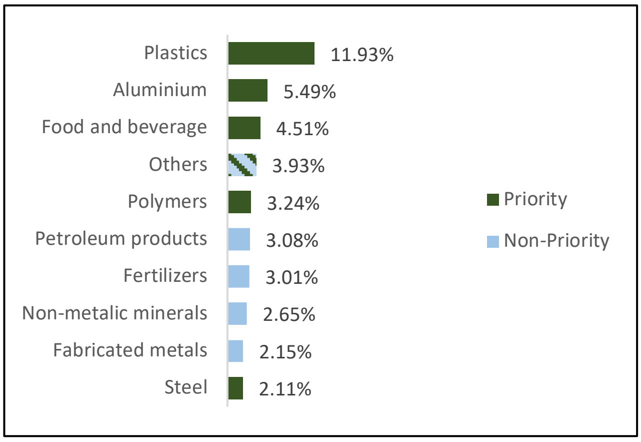

Figure 2 - MOCI manufacturing 2030 plan's growth expectations (CAGR, % per annum 2016-2030)

The Ministry of Commerce and Industry's 2030 plan has set ambitious growth targets for priority, advanced manufacturing areas. In this plan, the sectors in which several *existing* manufacturing companies are active are not a priority and have low growth ambition levels.

It is hence in the hands of the companies themselves to initiate, sooner than later, the business transformation that will guarantee their sustainability in 2023 and beyond.

Manufacturing companies in Qatar can be grouped in three main categories, each with their specific levers to sustainability:

- Well established (pre-2010) durable goods manufacturers. These companies should mostly focus on ensuring a sustainable order book beyond 2022, potentially through export. They should focus on reducing indirect costs (assuming their manufacturing costs are under control given their long history) and explore ways to diversify their funding (optimising their debt structure and sources);
- Recently established (post-2010) durable goods manufacturers. These companies are the most exposed to a local market slow-down as they were set up to substitute imports and capitalise on local projects. They should urgently look at export strategies but also explore consolidation to reach minimum competitiveness and manage production capacity. They should finally seek core competitiveness and optimise their supply chains as well as the cost of their production process;
- Domestic focused consumable goods manufacturers. These domestic market focused actors should seek improved competitiveness (cost transparency and reduction in supply chain, production process and indirect costs) and consider consolidation to reduce production capacity in the market.

As companies embark in their business transformation, they will typically look at five transformation axes: Strategy, Organisation, Operations, Finance, Legal. The accent laid on each specific axis will depend on the company's specifics.
All transformation programmes must start by building a shared understanding of the company's situation (positioning, competitiveness, opportunities), they continue with the identification of key areas of improvement and the development of a sturdy transformation plan. The implementation of this plan may take several months and needs to be carefully monitored to ensure success. In this transformation, Qatar-based companies generally seek external support.

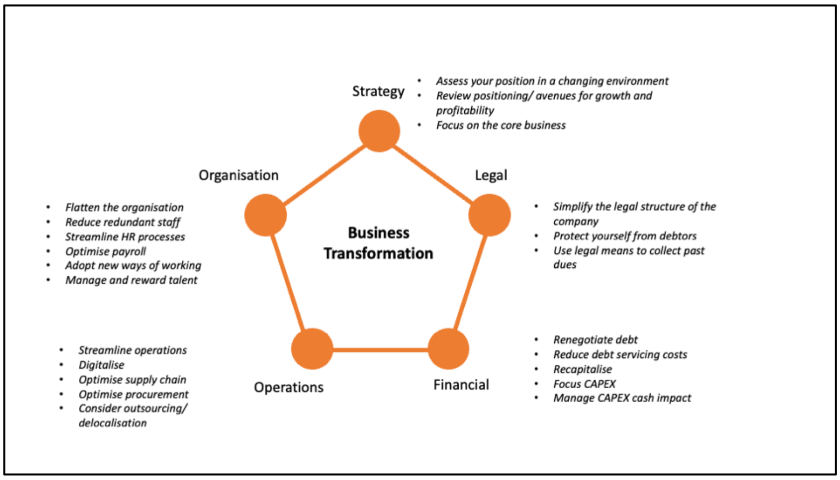

Figure 3 - Five axes of business transformation

In addition to individual companies' efforts, the National Programs have a role to play in supporting the manufacturing sector transformation. While numerous SME support programmes are already in place, many led by QDB, there is a need to build and accelerate the momentum for transformation. This could be done by 3 main initiatives:

- Making the improvement of the local manufacturing industry's competitiveness a priority and expanding existing programmes to support them including with an Equity SME Fund
- Providing access to financing for Import-Export activities (esp. for new exporters) and the consolidation of certain industrial sectors, conditional to the existence of a sturdy business plan
- Complementing the current support programmes (mostly grants, financing, and training) with the provision of extended hands-on advisory services. These could take the form of a "national champions programme" like those launched in Singapore, Malaysia or Canada that help companies step back from day-to-day business and think longer term with the support of a professional network and peer coaching.

While the National Programs may help accelerate the development of a sustainable manufacturing sector, existing companies should refrain from a wait-and-see strategy and explore *today* what will make them successful in the coming years.

Conclusion

While facing several challenges, the manufacturing industry in Qatar can prepare for the post-World Cup future and convert international export opportunities into profitable business development. This will require a clear commitment from the owners and managers of these companies to address competitiveness, financing, and strategic issues. The National Programs, led by QDB, could accelerate this drive by making competitiveness improvement a priority, providing conditional access to financing for Import/ Export activities and sector consolidation, and supporting company transformation with the provision of hands-on advisory services.