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gateway

Success

BOOM, BUST AND BLOOM

Late last century a number of Jordanian and regional investors dared to dream. They ventured into an emerging internet industry, betting their millions on a future where buyers and sellers are connected through the internet. What happened to them? And has the future finally arrived for them? The story of one Jordanian company tells the story of an industry. **By Bilal Hijjawi**



IN 2000, Aregon was established in Amman as a B2B e-market place and supply chain consulting solutions provider in the Middle East. Like thousands of newly-formed ventures worldwide, its founders were spellbound by the potential of connecting millions of people and markets virtually.

They calculated that sooner rather than later companies would embrace the new world of e-commerce and that a windfall of profits was sure to follow. Sadly their dreams didn't materialize as their projections were almost one decade ahead of the curve; the dotcom boom and bust of the late 1990s was short-lived worldwide. Most Arab investors hastily pulled the plug on their investments and the region's early web brands simply vanished.

Aregon, however, didn't close up shop. Instead, its then-CEO Hazem Malhas managed to restructure the company, keeping it alive with the support of Dubai-based Rasmala investment and other shareholders. He was convinced

Opportunity was knocking at Malhas' door again. But he couldn't afford to travel the slow scenic route

that a second surge in the market was around the corner and that what mattered was building a company rather than a "product" for a market that wasn't ready. He went on to redraw his company's market and product strategies.

"Of course the dotcom bursting world-



wide impacted us, but we also had to deal with the aftermath of September 11, 2001 and the Gulf war which sent technology spending downhill. So, we did what we could to maintain our shareholders' value," Malhas remembers.

As a pure B2B and supply chain management solution provider, Aregon was a pioneering company in the Middle East at the time of its launch. Its clients included the CCC, Arab Banking Corporation, and Saudi Oger, but it also had the strategic focus of developing its business in the Saudi market. Malhas, however, had to wait long for the market tide to return.

The early signs of recovery in worldwide demand for enterprise-wide connectivity solutions started to resurface in 2005. This had become evident when Cisco Systems and other technology suppliers reported in 2005 a substantial pick up in their global sales of networking gear for 2004.

By 2006, the world's IT markets were gaining noticeable momentum, driven by web 2.0, the term coined to describe second generation web tools that power online collaboration and social interaction. Confidence in the market strengthened further when News Corp. and Google forked out the hefty combined-sum of \$2 billion for MySpace and YouTube

respectively. Venture capitalists also got busy, pumping hundreds of millions of dollars into new dotcom startups in 2006. That was more than double their investment in the year before, according to reports from the international IT research group IDG.

In the Middle East, markets were quick to follow and in a couple of years after the 2003 invasion of Iraq they were in full recovery. This has also pushed demand for IT systems and upgrades. Even today and amid the global slump in real estate and credit availability, the region hasn't lost its market momentum.

The Fast Track

With Arab markets in an expansion phase since 2005, opportunity was knocking at Malhas' door again. But he couldn't afford to travel the slow scenic route.

Malhas needed a speedy entry into the market to realize his old dream. So he opted for a growth strategy based on mergers and acquisitions to gain immediate market share. "To cater to this historic boom in the Middle East an organic growth approach wouldn't have worked; so we opted for a fast-track strategy. We believe we're still witnessing the early stages of a regional boom that will continue for at least another 10, if not 25 years," says Malhas.

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This Middle Eastern boom in the IT markets, according to Malhas, has been assisted by a shift in technology trends. Spending by Arab businesses which were mostly family-owned has been on the increase. "The new generation of Arab executives, governments and businessmen were now more technology-centric; they realized the powerful role of technology as a tool for increasing market competitiveness and reach," adds Malhas.

Aregon and Malhas's good fortunes would soon come from teaming up with Rudain Kawar of Kawar Investments, a passionate and pioneering technology investor in Jordan and the region. The result of this new partnership and merger of visions was the creation of Optimiza in 2006, an investment vehicle backed by strategic investors.

The immediate next step was to form the core of the new company. The Kawar Investment Group, with the help of Capital Invest and Union Bank, acquired majority shares in Al Faris (CEB), a leading IT systems integrator, but also a public shareholding company listed on the Amman Stock Exchange (ASE) in July 2006.

Then in January 2007, Al Faris increased its capital from JD5 to JD25 million. This move sent a clear message to the market, that Al-Faris "Optimiza" is the new force in the regional IT market.

In April 2007, Al Faris completed its acquisition of 7 Jordanian, Saudi and regional companies and in December of the same year, it acquired the Amman-based regional Human Resources Management Software Company MenaITech, which has a strong grip on HR enterprise systems in the Arab world.

With their Amman-based operations well integrated and their reputation in the region rising, the young Optimiza was starting to emerge. The decision now was to expand investments in the Saudi market by acquiring 70% of Royah, a Saudi company specialized in the development of Systems Integration and implementation of Oracle solutions. The company's aggressive expansion strategy has transformed the Optimiza network into a Technology, Management Consulting, Human Capital Development and Outsourcing services powerhouse of more than 570 employees in two years. "Our revenue will be JD35 million by the end of this year, compared to last year's JD13 million," adds Malhas.

Optimiza's main business focus is to capitalize on the segments of the regional market that include medium size integration and infrastructure projects in banking, telecom, government, education, healthcare and the enterprise market.

Crossing Borders

Since the early days of Aregon, Malhas has known that Saudi Arabia was the primary market for his enterprise. "The market size in Saudi Arabia provides the best opportunity in the next decade."

"Royah brought us IT contracts with Saudi Telecom, the Jeddah Municipality and others. We now have a solid track record in Saudi Arabia and we've just

closed a new deal with Riyadh Bank," Malhas adds.

Saudi Arabia and the Gulf present a new set of challenges for Optimiza's growth strategy. The markets are substantially more robust than those of the Levant, making them thicker with multinational players and a few other large GCC IT companies. Optimiza has to compete for business against formidable global Indian companies, such as Wipro, Tata and other multinationals.

The company, however, managed to dig in and according to one regional survey, says Malhas, Optimiza was recently voted as the 6th top systems integrator in the Middle East. "The whole idea of Optimiza is to carve a piece of the market and not to leave it to foreign companies. If we are able to win large projects, finance them and deliver them, we want to say that we can do it."

Malhas also sees the region's IT markets expanding further and creating room for many large and trusted suppli-

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ers of IT infrastructure services, be it for companies or governments.

"As a Jordanian, I see Jordan's IT industry closer to that of Ireland... as in delivering high quality consulting and systems integration at various scales, solutions that are more centric to a customer's special needs. The Indians can deliver large scale projects that require more labor input better than we can," he explains. "We do, however, seek to partner with Indian and international companies on the larger projects. Anyone who wants to be a leader in the market

has to partner."

Even in Jordan, Optimiza partnered with STS, the Amman-based IT integrator that is also well established in the region. They formed a joint venture to implement large government projects. "They're a clear competitor to us in the market but when the project calls for collaboration, we respond positively."

To expand its resources as solution provider of higher technology, Optimiza continued to seek new partnerships internationally. "We partnered with a European company to implement RFID for the Saudi Post and with Bearing Point, ATKearney, Cisco, Microsoft, HP, EMC, Juniper, BULL and a European partner to bid for smart cards for the government." Optimiza, says Malhas, is ultimately geared towards securing outsourcing contracts for the long term with its large clients.

According to Malhas, Optimiza's main service pillars are to manage its own intellectual property products (IP's); Integrating IT infrastructure, which starts from cabling to enabling and, "Our most important pillar in the long term is what we call verticalization; this is a service dedicated to specific sectors: telecom, banking, insurance, enterprises, healthcare, education and government. Such sectors require specialized business development resources, technical resources, expertise and partners."

What has also been supporting IT markets in the region is that large companies, which once relied on building their own IT capacity, are now outsourcing such services. Finding IT talent, however, is tough; especially with global demand continuing to increase strongly.

"We have in our database 10,000 resumes. I spend on recruiting an average of one hour interviewing daily. There is enough talent in the market but to attract it, you need to offer a success story." Optimiza has been successful in repatriating Arab professionals from Australia, Canada and other markets. "It's a strategic decision; not something we do on the side. It's what we do for a living, a survival instinct. You cannot have people on the bench if you want to supply our solutions. We're in the area of supply chain management, which requires cutting-edge expertise." ●