

مؤسسة محمد بن راشد للتنمية  
المشاريع الصغيرة والمتوسطة  
**DUBAI SME**

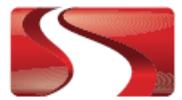


An Agency of the Department of Economic  
Development – **Government of Dubai**

## **SMEs Business Optimism Survey**

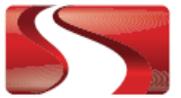
**Q3 - 2011**

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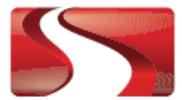
### AT A GLANCE

- Overall, SMEs established in Dubai reported slow performance in the third quarter of the year 2011 (July-Sept), as compared to the previous quarter (April-June), with key performance indicators: sales revenue, volumes sold and selling prices witnessing a moderate declining trend over the two quarters. This coupled with a large proportion of firms reporting rising raw material costs has resulted in a profit squeeze.
- A more positive development points towards more stability in key direct and indirect costs of labor, rental and finance as well as stability in current workforce levels.
- Sector-wise, the survey shows that SME Trading sector performed relatively better than Manufacturing and Services sectors in terms of sales revenues. On the other hand, the SME Manufacturing sector performed relatively better than Trading and Services sectors in terms of profits.
- The composite confidence index for SMEs in Dubai in Quarter 3, 2011 is at 115.7 points, relatively higher as compared to the index for large companies and the overall business community.
- Majority of the firms are optimistic about the next quarter (October – December, 2011), reporting expectations of rising sales revenue, primarily driven by an increase in expected volumes. Consequently, SMEs are more optimistic about their profits as compared to Q3. The SME Services sector's expectations are more upbeat in comparison to the SME Manufacturing and SME Trading sectors.
- In the order of intensity, key challenges cited by businesses are: insufficient demand for products and services, rising raw material costs, competition, increasing government fees and lack of clarity & transparency in business regulations.
- The survey shows that firms are moderately less optimistic about their capital investment outlook: around 41% (vs. 55% in Q2) of them plan to upgrade their technology and 49% (vs. 61% in Q2) plan to expand capacity in the next 12 months.



The Department of Economic Development (DED) is a government organization in Dubai that has the mandate to help achieve the key strategic objectives of fostering ‘Sustainable Economic Development’ and strengthening the ‘Competitiveness of Dubai’. In order to gauge the perceptions of the business community in Dubai, DED has launched Dubai’s Quarterly Business Surveys with the key objective to prepare a snapshot of Dubai’s current economic activity and outlook. One of the key objectives of this is to provide an indication of the current state and prospects of businesses in the Emirate.

This document presents a summary of the inaugural survey conducted in the 3<sup>rd</sup> Quarter of 2011. The document provides an overview of key findings of the survey conducted with 475 SME businesses in Dubai. In addition to the current situation and future expectations, it examines key challenges to growth and development of SME businesses in Dubai and summarizes the investment outlook of SME businesses over the coming twelve months.



## METHODOLOGY

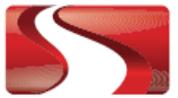
The quarterly business survey for Q2, 2011 was conducted for a total of 475 SMEs across the Emirate of Dubai. The sample included a mix of small and medium enterprises, as per the Dubai SME definition, and ensured a representation from Manufacturing, Trading and Services in proportion of their respective contribution to Dubai's GDP.

Distribution of survey respondents across industry groups						
	Trading (160)		Manufacturing (60)		Services (255)	
	Employees	Turnover	Employees	Turnover	Employees	Turnover
Micro	<= 9	& <= AED 9 mn	<= 20	& <= AED 10 mn	<= 20	& <= AED 3 mn
	45		9		65	
Small	<= 35	& <= AED 50 mn	<= 100	& <= AED 100 mn	<= 100	& <= AED 25 mn
	48		20		104	
Medium	<= 75	& <= AED 250 mn	<= 250	& <= AED 250 mn	<= 250	& <= AED 150 mn
	67		31		86	

● Number of Respondents

From the perspective of tapping 'business outlook' or expectations, the survey focused on key indicators, such as *sales, selling prices, volumes sold, profits and No. of employees*. Respondents were asked to indicate if they expect an 'increase', 'decrease' or 'no change' in these indicators. Additionally, the survey gathers feedback / observations on 'current business activity' or performance, as well as on cost related items (labor, raw material, cost of finance etc).

*For the purpose of the survey, each quarter is defined as follows: Q1 is the period between January and March, Q2 is the period between April and June, Q3 is the period between July and September, and Q4 is the period between October and December each year.*



## SME Business Confidence Index Calculations

The Business Confidence Index (BCI) is a weighted average score of the following 'business outlook' indicators,

- Selling Prices
- Volumes Sold
- Number of Employees
- Profits

For each indicator, 'Resultant scores' are calculated using the net balances method:

**(% of positive responses - % of negative responses) + 100**

For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their parameter weights to arrive at a weighted average Index score. The composite index score is finally rebased so that Q2, 2011 = 100.

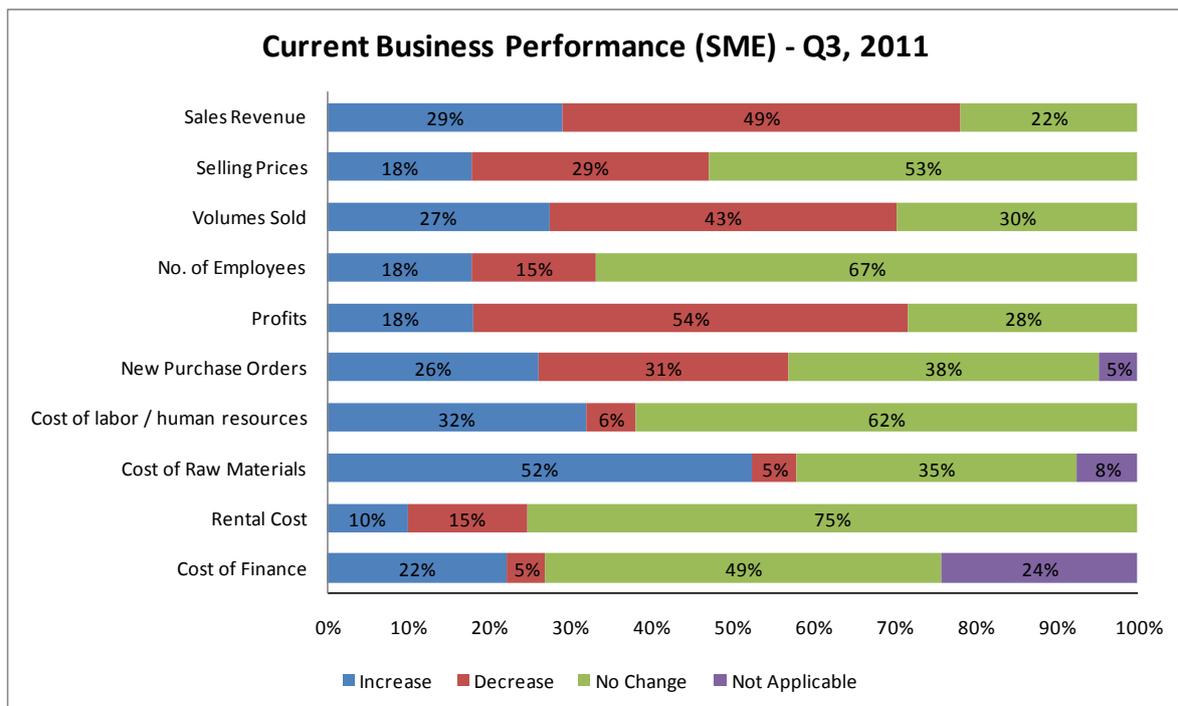
BCI scores are classified in the following three groups:

- ***BCI < 100, business expectation is negative / decreasing***
- ***BCI = 100, business expectation is stable / unchanged***
- ***BCI > 100, business expectation is positive / increasing***



## DUBAI SME PERFORMANCE – Q3, 2011

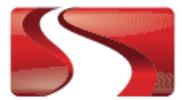
The results of the survey reveal a slow performance of SMEs across sectors on key business performance indicators between Q3 and Q2.



The current quarter performance of the SME sector mirrors the performance of Dubai's overall business.

The current quarter survey results reveal a downward pressure on the sales revenues of SMEs in Dubai with almost 50% SMEs reporting a drop in revenues in Q3. In comparison, the sales revenue performance of large firms reflects a trend of stability. The SME Trading sector performed marginally better, with respect to sales revenues in Q3, in comparison with the SME Manufacturing and Services sector.

A breakdown of revenues into unit prices and volumes reflects that while selling prices have remained largely stable, the declining trend in volumes has impacted the overall revenue performance of the SMEs.



Commensurate with the trend observed in sales performance in the current quarter, majority of SMEs either indicated 'no change' (38% of SMEs) or a decline in new purchase orders (A Net Balance of negative 5% was observed on new purchase orders).

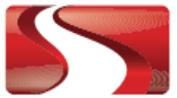
Overall, SMEs maintained the same levels of employment in Q3 as compared to Q2 (67% of business respondents indicated 'no change' in the size of their current workforce). Although employment is stable for the overall SME community, Manufacturing SMEs have indicated a net increase in employment, while Trading and Services SMEs have cited a marginal net decrease.

Current quarter performance reflects a trend of stability on cost of finance, with 49% SMEs stating a 'no change' on this parameter, significantly higher than a net balance of positive 17%.

Trends in rental prices also reflect stability, largely reflective of the prevalent / current market trends in Dubai's commercial leasing market. A few respondents (10%) who experienced an increase in rentals have attributed this increase to an actual increase in per square feet rental rates in select commercial areas such as Deira and other shopping malls. A small proportion also indicated a rise in rental payout attributed to expansion of shop floor / warehouse facilities on the back of expansion plans undertaken by these firms.

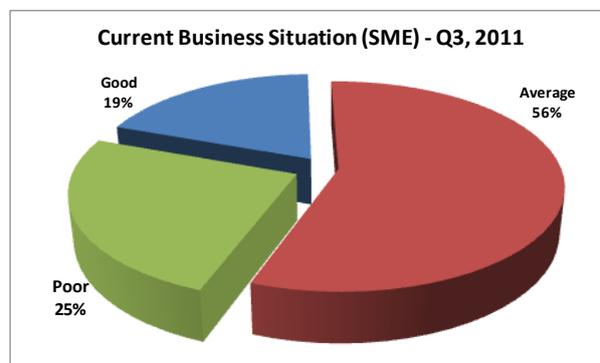
The cost of labor has also remained stable in the current quarter with 62% SMEs citing stability in labor costs, compared to a corresponding 49% of SMEs in the previous quarter, who cited 'no change' on labor costs.

It is also apparent from the current quarter results that increasing costs of raw materials had a downside impact on margins. As expected, this increase impacted Trading and Manufacturing SMEs more than the Service SMEs (Net Balance of positive 61% and 54% for cost of raw materials for Trading and Manufacturing, respectively against a corresponding Net Balance of positive 37% for Services).

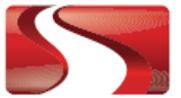


Current quarter profit performance results show that profits are under pressure (Net Balance of negative 35% in Q3 vs. negative 30% in Q2) largely due to decrease in sales revenues coupled with increasing costs of operations, particularly the cost of raw materials. SMEs across the three sectors (Manufacturing, Trading & Services) witnessed a decline in profit margins (Net Balance of negative 41% for Manufacturing SMEs, negative 34% for Services SMEs and Trading SMEs).

SME performance on profits has still been better when compared to large firms with large companies registering a net balance of negative 48% on profits in Q3, higher than the corresponding SME net balance of negative 35%.

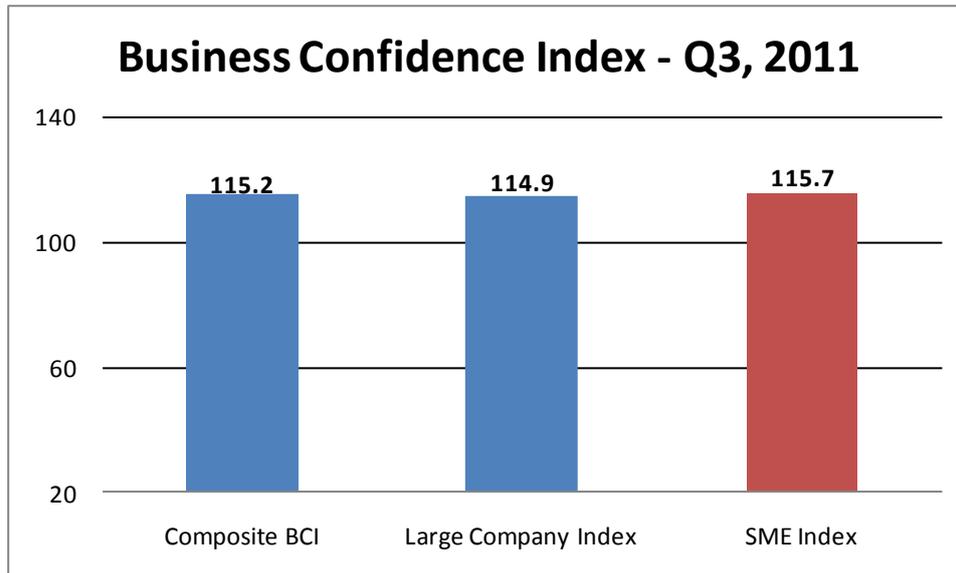


In terms of SME community's perceptions on the overall current business conditions in Dubai, majority of respondents cited the current business situation in Dubai to be 'Average' and another 25% cited the business situation to be favorable.



## SME BUSINESS CONFIDENCE INDEX – Q3, 2011

The Business confidence Indices (Composite BCI, and Large Company and SME Index) for Quarter 3 are as follows:



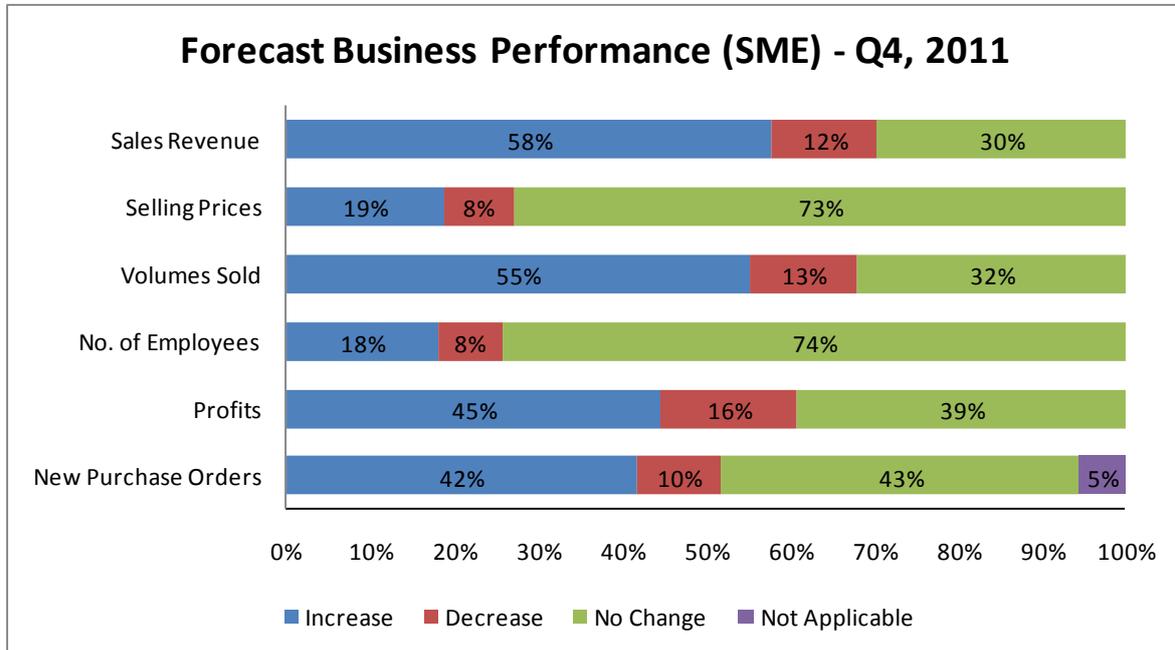
*(Base Quarter, Q2, 2011)*

The composite confidence index for the SME community in Dubai in Quarter 3 is at 115.7 points, indicating that business outlook for the coming quarter is positive and rising for the SME community in Dubai (A score of 100 indicates stable/neutral sentiments).

Notably, the confidence score for SMEs is higher as compared to the confidence score for Large businesses as well as the overall business community with scores of 114.9 and 115.2, respectively.



## OVERALL BUSINESS OUTLOOK – Q4, 2011



A look at overall business expectations for the coming quarter (Q4) shows positive trends, with 58% of firms optimistic about sales revenue prospects. Another 30% expect that their sales will remain stable. Service and Trading SMEs are more optimistic, in terms of expected sales revenues in Q4, as compared to their counterparts in the Manufacturing sector.

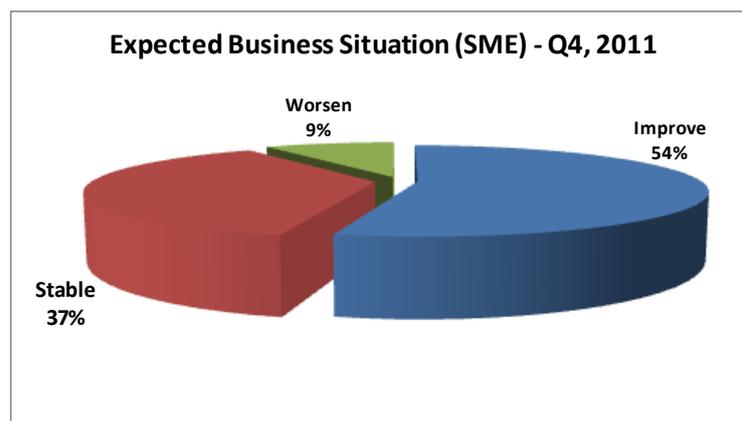
It is also interesting to note that these optimistic forecasts are driven by the expectation of higher volumes while prices are expected to remain stable (at an overall SME level), which signals a rise in the level of real economic activity in Q4 compared to Q3. To add to this, Manufacturing and Trading companies are also optimistic on rising selling prices in the coming quarter.

Commensurate with the positive expectation in volumes, new purchase orders placed by SMEs are expected to either increase or remain stable (as stated by an almost equal number of SMEs). These expectations are the strongest amongst Trading SMEs.

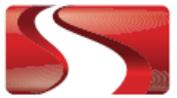


In terms of outlook for employment, on a consolidated basis, SMEs are planning to maintain their current workforce levels, which is a positive development. In spite of relatively lower optimism on sales revenue expectations, the large businesses are more optimistic as compared to the SMEs on hiring new employees in Q4 (as reflected by a Net Balance on this factor of positive 20% for large businesses, as compared to 10% for SMEs). From a sectoral perspective, Service SMEs are the most optimistic on hiring in Q4 as compared to the Manufacturing and Trading SMEs

SMEs are also optimistic about their future profits as 45% (vs.35% in Q3) expect rising profits and another 39% (vs. 30% in Q3) forecast stability in profits. On a relative basis, SMEs engaged in Services are most upbeat about future profit expectations. Around 53% of Service SMEs expect increases in profits in Q4 as against 42% Manufacturing and only 33% Trading SMEs.

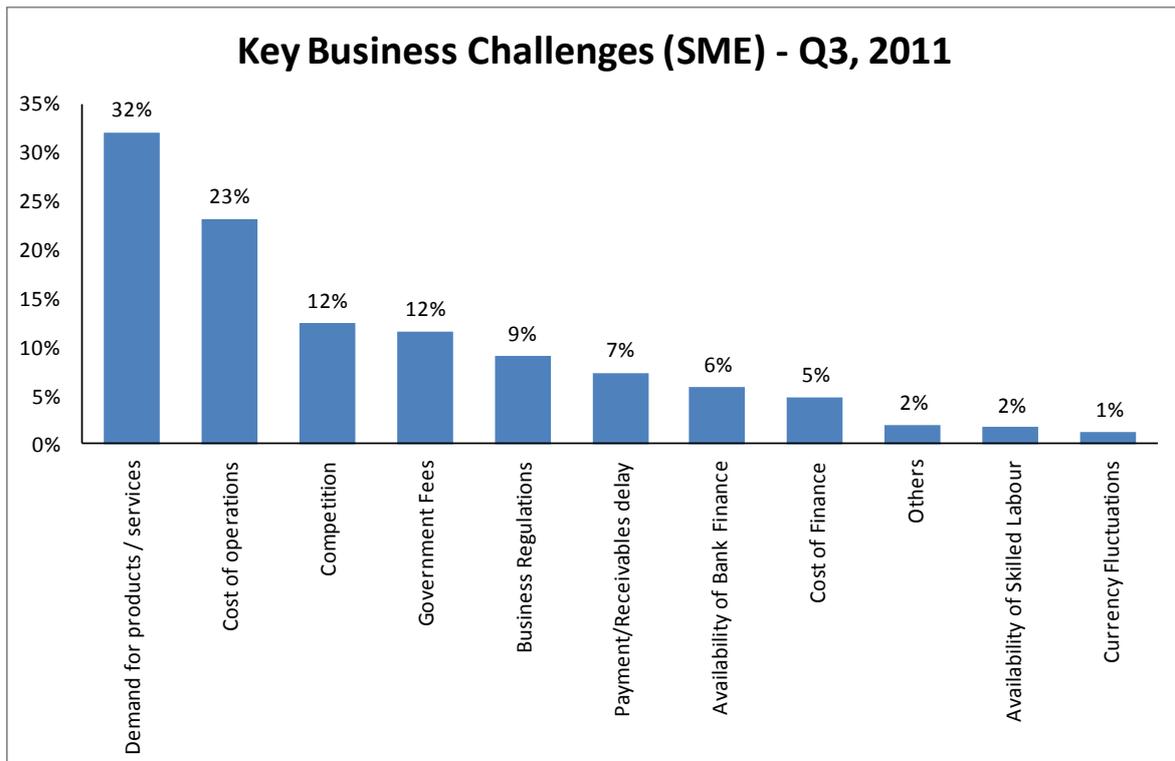


In summary, expectations on key business performance indicators look promising and reflect a high level of optimism amongst the SME community in Dubai. This is further reiterated by the fact that 54% of business respondents expect an improvement in the overall business scenario, while 37% expect the business situation to remain stable.



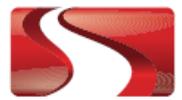
## KEY BUSINESS CHALLENGES IN DUBAI

The survey has also addressed the key challenges faced by SMEs, as captured at the end of Q3.



The following are the major challenges impacting the general business environment in Dubai:

1. Increased competition from local and international players (*cited by 12% of respondents*) and reduced demand in the last quarter (*cited by 32% of respondents*). Responses reveal that demand has decreased for a number of reasons including lack of government spending on projects coupled with the prevalent global economic climate. A few respondents have also indicated that the recent political and economic uncertainty in the Middle East and Arab world has resulted in a loss of investor confidence leading to market slowdown and decrease in demand for products and services.



2. High cost of operations (*cited by 23% of respondents*) - The survey reveals that high cost of operations is another key challenge impacting Dubai SMEs (cited by 23% of the respondents). For the purpose of the survey, this cost includes direct items (raw materials, labor) as well as indirect costs (rentals, leasing and utilities). The prevalence of high costs in the current scenario, particularly direct costs (7% of respondents cited cost of raw materials as challenge) have had an adverse impact on net profits across the SME community in Dubai.
3. Government fees and lack of clarity & transparency of business regulations were the next two greatest challenges cited by 12% and 9% respondents, respectively. SMEs expressed challenges with increases in Government fees such as visa fees and registration/licensing fees, port charges and custom fees. The lack of clarity on business licensing and registration procedures as well as inadequate transparency on the process to enforce commercial contracts, are considered the most adverse challenges faced by SMEs in this regard. The time taken for certain procedures such as property transfers, license renewals and issuing employee visas were also expressed as key challenges impacting business operations. In addition, changes in the visa renewal period from three to two years, and the resultant increase in paperwork were also causes of concern among businesses.
4. Delays in payment of receivables was the next important challenge faced by 7% of SMEs, whereby SMEs were finding it difficult to collect payments on time from their customers and as a repercussion were unable to make payments to their suppliers. This is viewed as a domino effect of the prevalent economic climate.

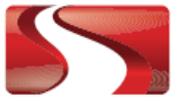
It is important to note that around 21% of the respondents reported that they did not face any hindrances while doing business in Dubai. (*Note: These responses are exclusive of the respondents who either did not attempt this question on the survey and / or marked it 'Not Applicable'*)



## INVESTMENT OUTLOOK

Over a twelve-month time frame, SMEs are moderately less optimistic about their capital investment outlook. Around 41% (vs. 55% in Q2) plan to upgrade technology in the next 12 months and 49% (vs. 61% in Q2) plan to expand capacity.

- From a sectoral perspective, Trading SMEs are the most optimistic about investing in capacity expansion, while Manufacturing SMEs have a more favorable outlook on investments in technology. In contrast, Service-oriented firms are observed to be cautious on both technology and capacity expansions plans.
- From a business size perspective, certain key differences in the outlook of Large versus Small companies can be clearly observed. Large companies are seen to be more optimistic on capacity and technology expansion plans. On the other hand, SMEs have downgraded their capital expenditure plans & technology upgradation plans. SMEs are also seen to be prioritizing capacity expansion over technology upgrades in their medium terms investment outlook, indicating caution given the squeeze on profits observed in the current quarter.
- Generally, both exporting and non-exporting SMEs are less inclined on augmenting capacity than on capital expenditure on upgrading technology, over the next 12-month time frame.



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