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المشاريع الصغيرة والمتوسطة
DUBAI SME



إحدى مؤسسات دائرة التنمية الاقتصادية - حكومة دبي
An Agency of the Department of Economic Development - Government of Dubai

SMEs Business Optimism Survey

Q4, 2015

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Introduction

AT A GLANCE

- Weaker demand conditions have led Dubai's SMEs to lower their forecast for Q1, 2016 in comparison to the last quarter and last year. The composite BCI in Q4, 2015 stands at 111.3 points versus 128.5 points in Q4, 2014 and 118.3 points in Q3, 2015.
- Large companies remain more optimistic than SMEs, as shown by their respective Composite BCI scores of 119.3 and 111.3 points.
- Survey participants expect the business situation to worsen in Q1, 2016 in relation to the previous quarter. 45% of the firms expect an improvement, while 14% foresee deterioration during Q1, 2016 compared to 50% and 9% respectively for Q4, 2015.
- Competition is the most important challenge for Dubai's SMEs as indicated by 10% of such businesses.
- SMEs are modestly more inclined towards investment in business expansion and technology upgrades in Q4, 2015 than they were in Q3, 2015. 67% expect to invest in business expansion in Q4, 2015 while 64% hope to upgrade their technologies in Q4, 2015.

The Department of Economic Development (DED) is a Dubai government Department 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, DED has been conducting Dubai's Quarterly Business Surveys which provides a snapshot of Dubai's current economic activity and the outlook for the quarter ahead.

This document presents a summary of the survey conducted in the 4th Quarter of 2015. The survey was administered to 443 SMEs in Dubai.

In addition to the current situation and future expectations, the survey addresses key challenges impacting business growth and development and assesses the investment outlook for the coming twelve months.

METHODOLOGY

The quarterly business survey for Q4, 2015 was conducted for 500 businesses in Dubai. The sample included a mix of small, medium and large enterprises and ensured an adequate representation from the manufacturing, trading and services sectors, in the same proportions as their respective contributions to Dubai's GDP.

A detailed break up of respondents by sector is as follows:

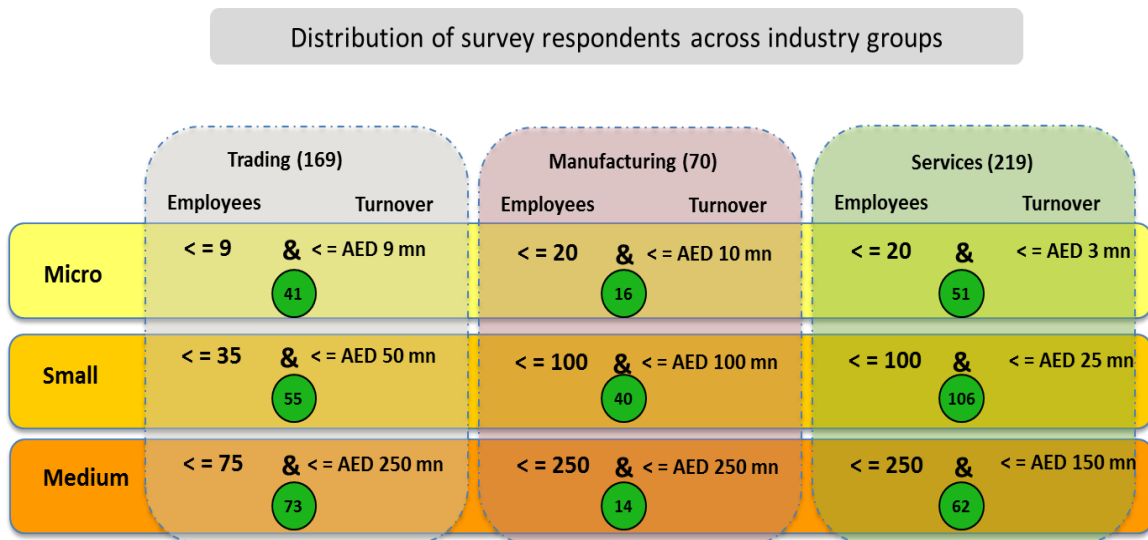



Figure: 1

 Number of Respondents

In order to tap 'business outlook' or expectations, the survey focused on key indicators, *such as sales, selling prices, volumes sold, profits and number of employees*. Respondents were asked to indicate if they expect an 'increase', 'decrease' or 'no change' in these indicators.

SME Business Confidence Index Calculations

The SME Business Confidence Index (BCI) is calculated as 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:

$(\% \text{ of positive responses} - \% \text{ of negative responses}) + 100$

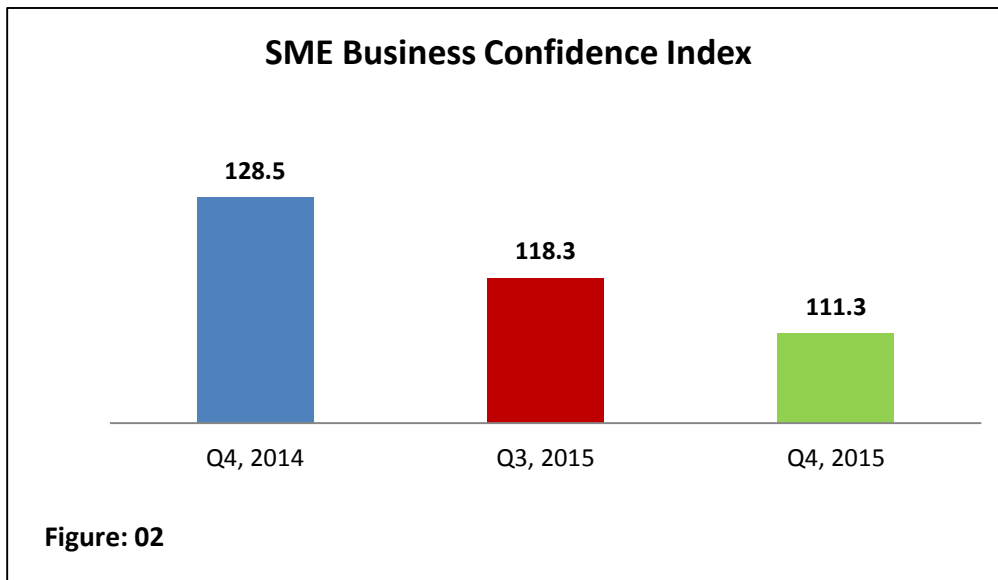
For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their corresponding parameter weights to arrive at a weighted average Index score. The SME composite index score is finally rebased so that Q2, 2011 = 100.

BCI scores are classified in the following three groups:

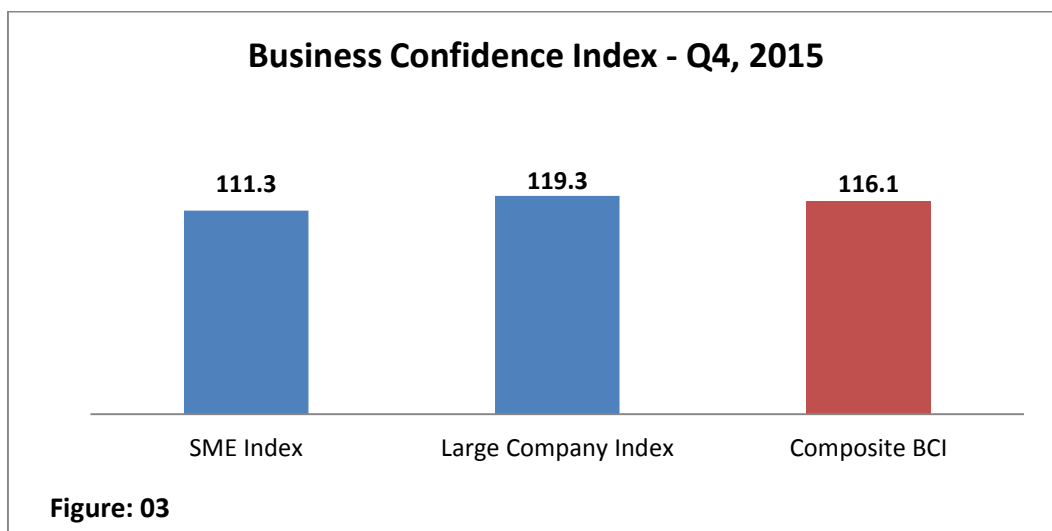
- ***BCI < 100, business expectations are negative***
- ***BCI = 100, business expectations are stable***
- ***BCI > 100, business expectations are positive***

SME BUSINESS CONFIDENCE INDEX – Q4, 2015

Dubai's GDP is expected to grow at 4% in 2015, bolstered by strength in the finance, real estate, trade and tourism sectors. The Emirate's economy is much more diversified than the other countries in the region since oil and gas output accounts for an almost a negligible fraction of Dubai's GDP. The survey for Q4, 2015 shows positive but weaker sentiments vis-à-vis Q3, 2015 and Q4, 2014, with a decline in the overall Composite Business Confidence Index to 111.3 points (A score of 100 indicates stable/neutral sentiments).



A y-o-y comparison shows a 17.2 point decline in the SME Composite BCI from 128.5 points in Q4, 2014, owing to poor market conditions, lower demand in the domestic and export markets, competition and payment related issues. The Composite BCI has declined by 7.0 points on a quarterly basis, since SMEs have displayed weaker confidence levels owing to poor demand prospects.



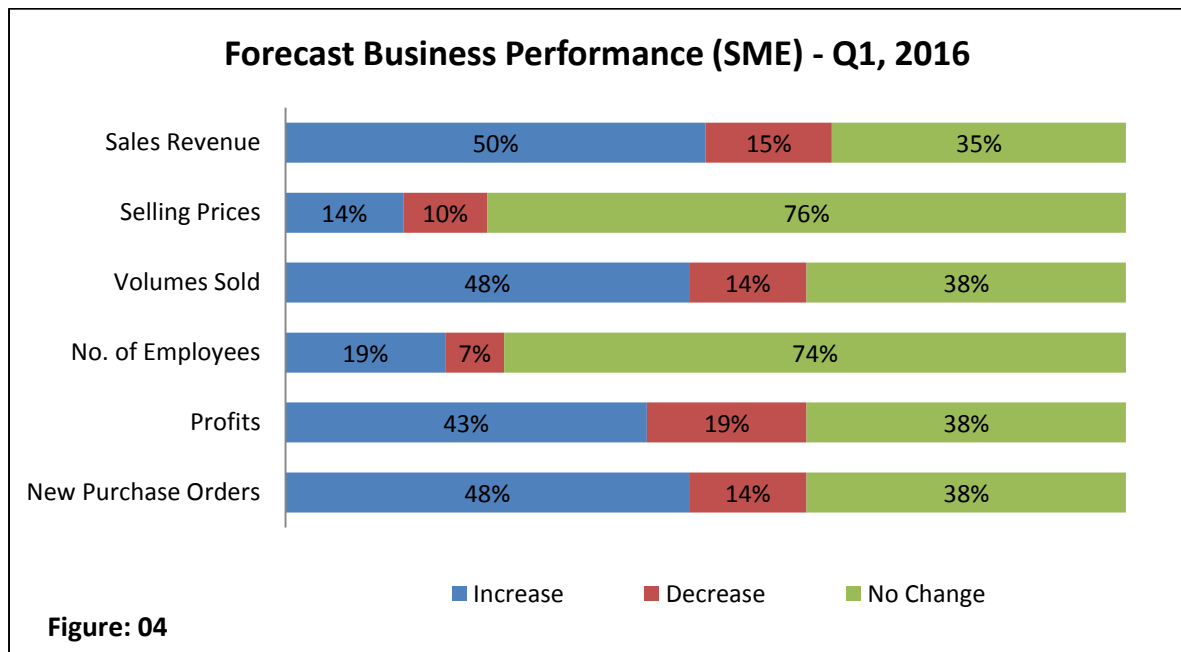
Following last quarter's trend, large companies remain more optimistic than SMEs, as shown by their respective composite BCI scores of 119.3 and 111.3 points. Large companies have shown stronger optimism for their sales revenues, volumes, number of employees and new purchase orders. Both groups have similar confidence levels with respect to selling prices and net profits.

SME BUSINESS OUTLOOK – Q1, 2016

SMEs account for a dominant share in Dubai’s total business composition (95% of the total number of firms), 443 of the 500 firms that were interviewed as part of the survey were SMEs. These included micro, small, and medium enterprises as per Dubai’s SME definition.

Parameter	Q1, 2015				Q4, 2015				Q1, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	64%	5%	31%	59%	58%	11%	31%	47%	50%	15%	35%	35%
Selling Prices	16%	4%	80%	12%	12%	7%	81%	5%	14%	10%	76%	4%
Volumes Sold	64%	5%	31%	59%	56%	9%	35%	47%	48%	14%	38%	34%
No. of Employees	22%	2%	76%	20%	20%	4%	76%	16%	19%	7%	74%	12%
Profits	63%	6%	31%	57%	50%	14%	36%	36%	43%	19%	38%	24%
New Purchase Orders	62%	5%	33%	57%	54%	9%	37%	45%	48%	14%	38%	34%

Table: 01

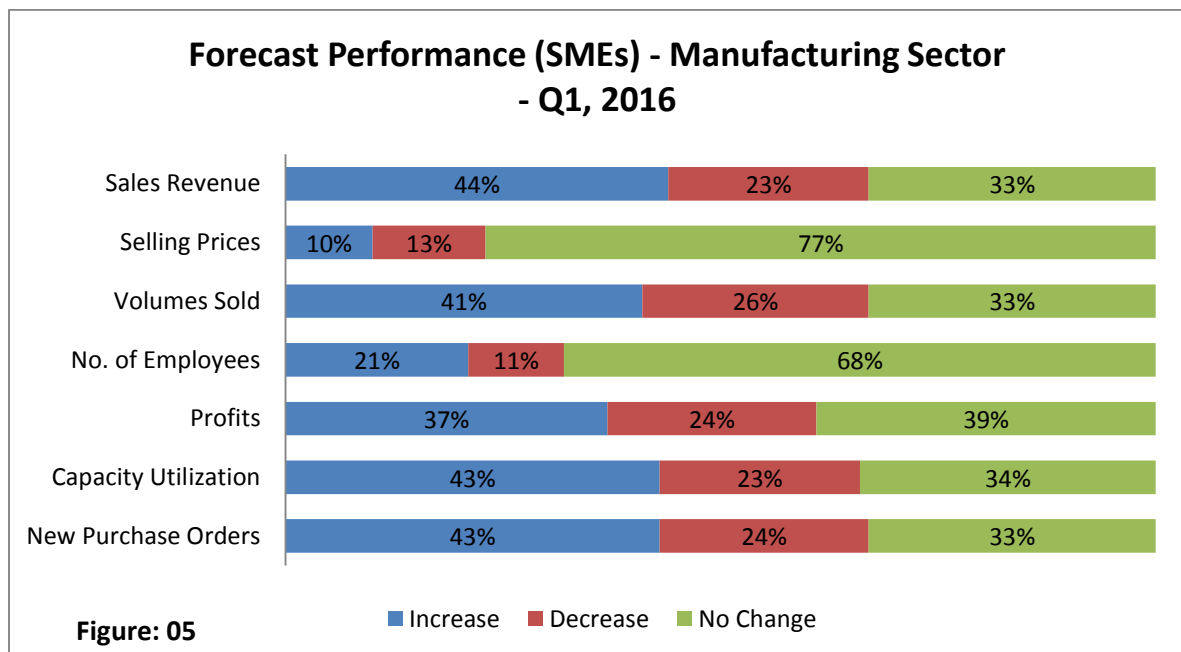


- The outlook for all parameters has weakened both on a quarterly as well as annual basis.
- Large companies are more optimistic about sales revenues with a net balance of 43% versus 35% for SMEs.
- The weaker forecast for volumes is due to weaker demand expectations stemming from fewer customers & projects in the domestic market, wars and currency related issues in the export markets. The sharpest decline in forecast is for the manufacturing sector. For the overall survey, 48% of the respondents expect an increase in volumes, compared to 14% that anticipate a decrease. Large companies are more confident than SMEs with respect to their volume of sales, as indicated by a net balance of 40% for the former compared to 34% for the latter.
- Selling prices expectations are tilted towards stability, with 76% of the respondents anticipating no change in the parameter. 14% of the businesses foresee an increase in their selling prices, supported by higher demand, an increase in the price of raw materials and new projects. However, 10% of the firms expect lower selling prices due to lower demand, fewer customers and rising competition.
- In line with the weaker expectations for volumes and revenues, the hiring outlook has also softened.
- 43% of firms (in both the manufacturing and services sectors) hope to increase their capacity utilization rates during Q1, 2016
- The outlook for new purchase orders and profits mirrors that for volumes.
- Respondents expect the business situation to worsen in Q1, 2016 in relation to the previous quarter. 45% of the firms expect an improvement, while 14% foresee deterioration during Q1, 2016 compared to 50% and 9% respectively for Q4, 2015 and 60% and 7% for Q1, 2015.

Manufacturing SMEs

Parameter	Q1, 2015				Q4, 2015				Q1, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	67%	4%	29%	63%	54%	14%	32%	40%	44%	23%	33%	21%
Selling Prices	14%	1%	85%	13%	13%	7%	80%	6%	10%	13%	77%	-3%
Volumes Sold	73%	6%	21%	67%	54%	14%	32%	40%	41%	26%	33%	15%
No. of Employees	23%	0%	77%	23%	24%	6%	70%	18%	21%	11%	68%	10%
Profits	67%	6%	27%	61%	51%	17%	32%	34%	37%	24%	39%	13%
New Purchase Orders	70%	7%	23%	63%	54%	13%	33%	41%	43%	24%	33%	19%

Table: 02



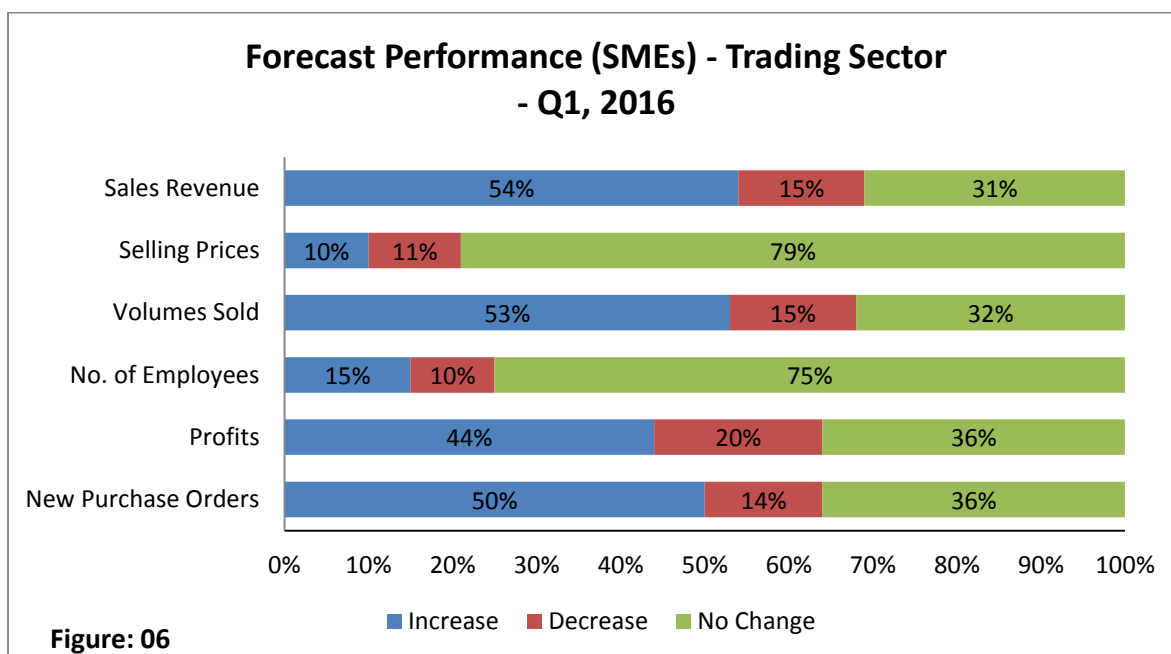
- Once again, manufacturing sector respondents hold the weakest optimism with respect to volume of sales, with a net balance of 15% versus 38% for the trading and 37% for the services sectors. For the first quarter of 2016, 26% of the firms anticipate a decrease in volumes due to the war in the region, declining customer base and payment problems from clients. However, 41% expect an increase backed by higher demand in the winter months and anticipation of new orders.

- Manufacturers in the fields of paper & printing, metals and food & beverages are more optimistic compared to the other sub-segments.

Trading SMEs

Parameter	Q1, 2015				Q4, 2015				Q1, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	64%	7%	29%	57%	55%	13%	32%	42%	54%	15%	31%	39%
Selling Prices	9%	7%	84%	2%	7%	9%	84%	-2%	10%	11%	79%	-1%
Volumes Sold	62%	9%	29%	53%	56%	11%	33%	45%	53%	15%	32%	38%
No. of Employees	14%	2%	84%	12%	14%	4%	82%	10%	15%	10%	75%	5%
Profits	60%	8%	32%	52%	46%	15%	39%	31%	44%	20%	36%	24%
New Purchase Orders	59%	9%	32%	50%	54%	10%	36%	44%	50%	14%	36%	36%

Table: 03



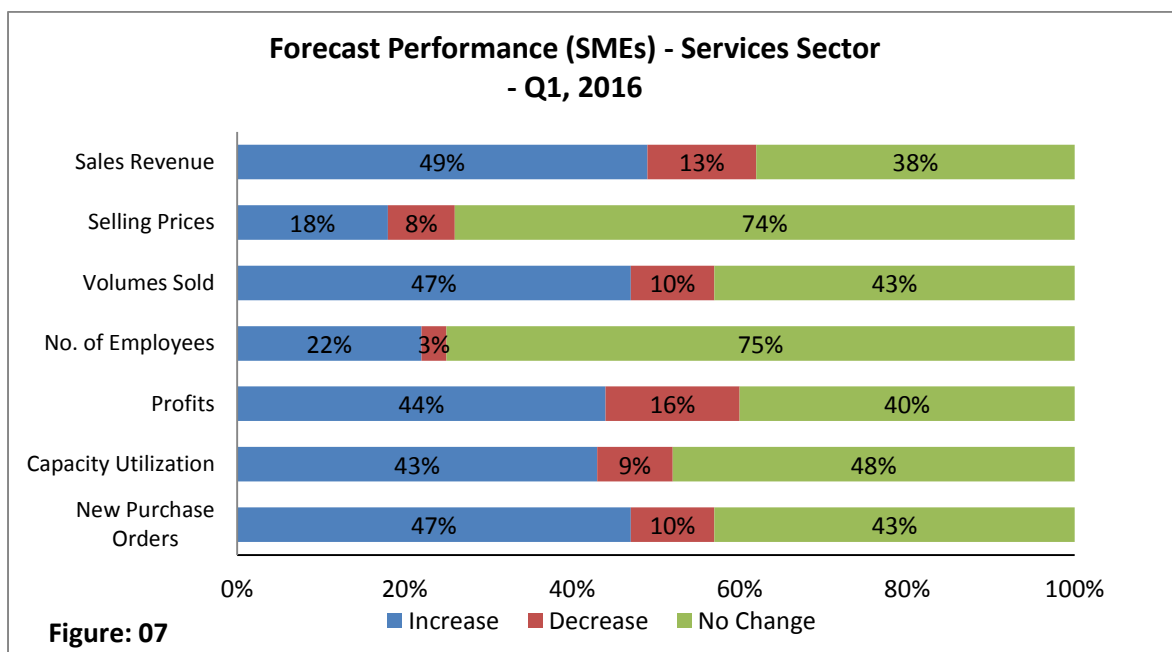
- In line with the overall trend, the trading sector has also shown a weaker outlook for Q1, 2016 both on a q-o-q and y-o-y basis. Competition and dullness in demand conditions both in the home and export markets have been cited as the key reasons for the softer sentiments.

- Key sectors optimistic of higher demand over the next quarter include computer traders (stronger demand both in the domestic and exports markets), electronics traders and food & beverage traders (expectations of higher demand and new orders).

Services SMEs

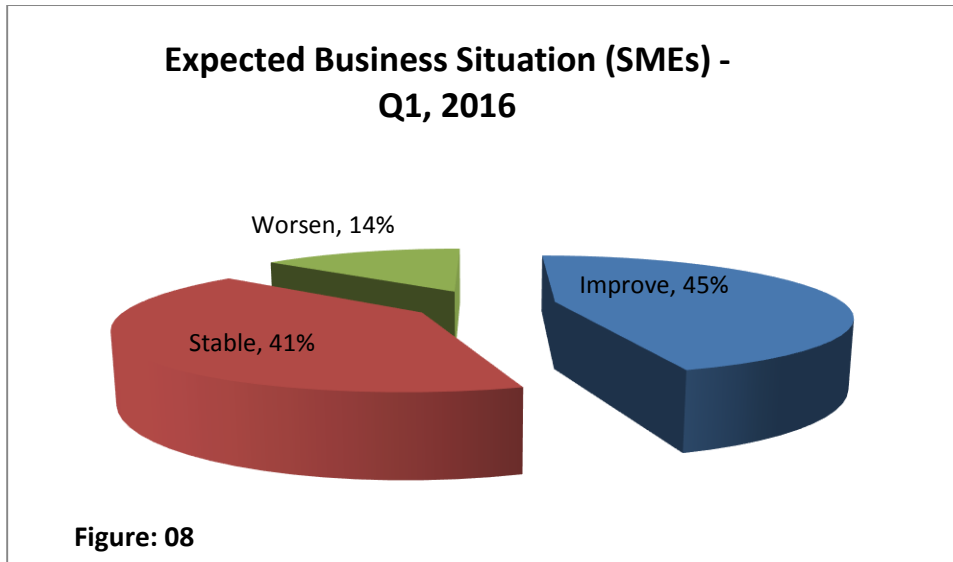
Parameter	Q1, 2015				Q4, 2015				Q1, 2016			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	64%	3%	33%	61%	61%	8%	31%	53%	49%	13%	38%	36%
Selling Prices	21%	3%	76%	18%	16%	6%	78%	10%	18%	8%	74%	10%
Volumes Sold	64%	3%	33%	61%	57%	6%	37%	51%	47%	10%	43%	37%
No. of Employees	27%	2%	71%	25%	24%	4%	72%	20%	22%	3%	75%	19%
Profits	64%	5%	31%	59%	53%	13%	34%	40%	44%	16%	40%	28%
New Purchase Orders	62%	2%	36%	60%	54%	6%	40%	48%	47%	10%	43%	37%

Table: 04



- The services sector has also shown lower optimism levels in comparison with the last quarter and last year. The services sector, along with the trading sector is more confident than the manufacturing segment.

- Within the services sector, hotels & restaurants are not as optimistic as they were in the last quarter as 42% of the respondents expect an increase, but 37% anticipate a decrease in volumes. Car rentals & travel companies however are more optimistic with a net balance of 29%. For the combined travel & hospitality segment, the net balance stands at 11%.



45% of SMEs and 46% of large companies expect the business situation to improve in Q1, 2016.

DUBAI SME OUTPUT – Q4, 2015

Although the main purpose of the survey is to gauge business expectations for future activity, it also tries to capture the actual changes in business performance from one quarter to another.

Parameter	Q4, 2014				Q3, 2015				Q4, 2015			
	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance	Increase	Decrease	No Change	Net Balance
Sales Revenue	34%	26%	40%	8%	21%	37%	42%	-16%	17%	40%	43%	-23%
Selling Prices	12%	17%	71%	-5%	11%	21%	68%	-10%	8%	27%	65%	-19%
Volumes Sold	33%	28%	39%	5%	22%	35%	43%	-13%	16%	40%	44%	-24%
No. of Employees	14%	8%	78%	6%	18%	11%	71%	7%	12%	14%	74%	-2%
Profits	33%	31%	36%	2%	16%	41%	43%	-25%	13%	49%	38%	-36%
New Purchase Orders	31%	27%	42%	4%	23%	34%	43%	-11%	17%	36%	47%	-19%

Table: 05

- According to the survey, 40% of the firms experienced a decline in volumes in Q4, 2015 mainly due to fewer customers, lower demand in both domestic and foreign markets, higher cost of raw materials, fewer tourists, payment delays and competition. In comparison, 16% of the respondents sold higher volumes, resulting in a net balance of negative 24%.
- The performance of SMEs was weaker than that of large companies, with respect to revenues, selling prices, volume of sales, hiring and net profits.
- Selling prices decreased for 27% of the firms owing to competition and lackluster demand. 65% of the firms kept their selling prices unchanged.
- 74% of the survey participants maintained their employee strength in Q4, 2015, indicating stability in employment levels. Hiring was similar across the three key sectors.
- Procurement levels were in line with the lower economic activity, recording a decline with respect to both Q3, 2015 and Q4, 2014.

- Both, manufacturing and services firms experienced a decline in their capacity utilization rates when compared to Q3, 2015 and Q4, 2014.
- The unit cost of labor increased for 37% of the SMEs due to higher living expenses, higher wages for overtime work, increments, higher visa costs and new employees being hired at higher salaries. Increases in labor costs impacted manufacturing firms the most.
- 13% of the firms indicated a rise in the cost of raw materials in Q4, 2015 against 16% in Q3, 2015. Manufacturing SMEs were most impacted by the rising cost of raw materials as cited by 26% of them, compared to 10% for both traders and services. 18% of large companies reported a rise in the cost of raw materials.
- Rental costs increased for 54% of the respondents during Q4, 2015, similar to the 56% in Q3, 2015. Trading SMEs were most impacted by rising rentals. Among large companies, 44% of the respondents reported an appreciation in such costs.
- SMEs' performance with respect to net profits declined in comparison to the previous quarter and last year. Large companies fared better with respect to profits, with a net balance of negative 11% compared to negative 36% for SMEs.

KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q4, 2015 that may impact near term business growth and development. 55% of firms said that they did not face any obstacles to their business operations in Q4, 2015 compared to a corresponding 48% in Q3, 2015.

Key SME Business Challenges - Q3, 2015

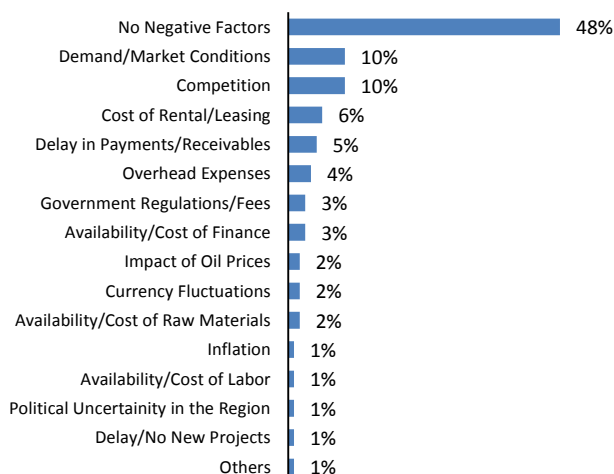


Figure: 09

Key SME Business Challenges - Q4, 2015

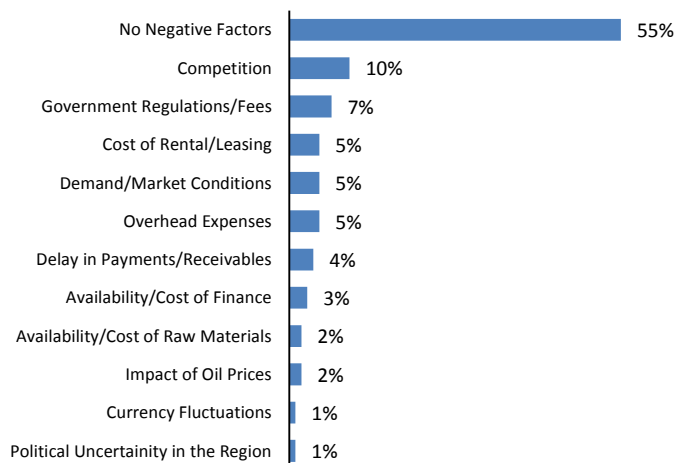


Figure: 10

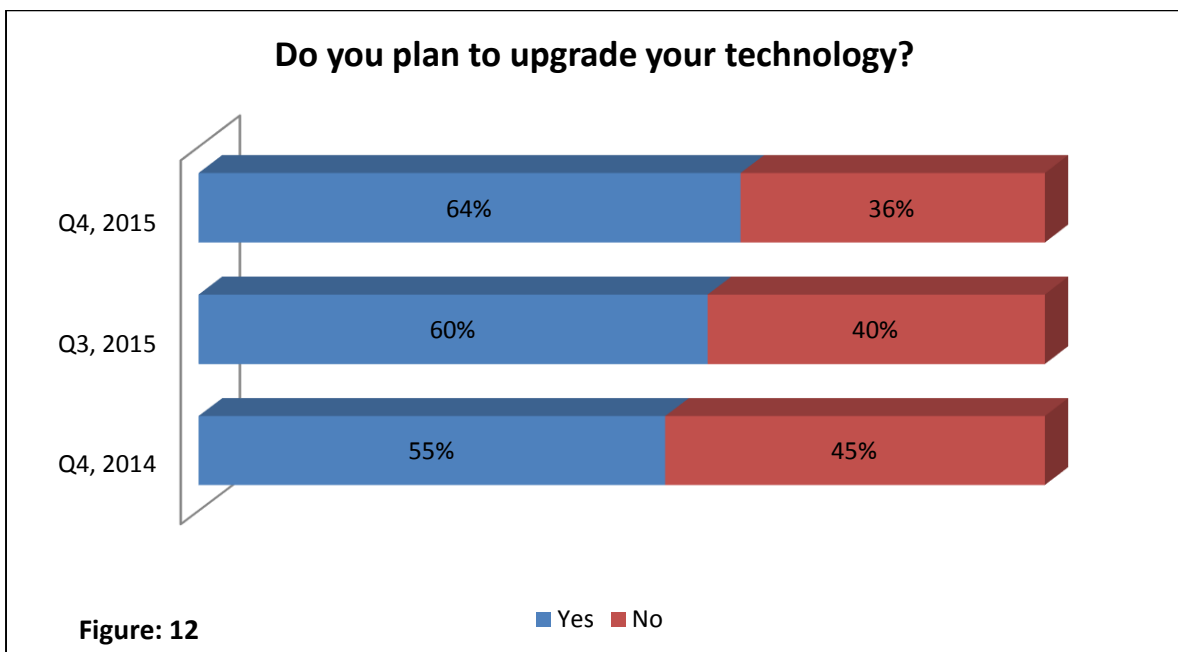
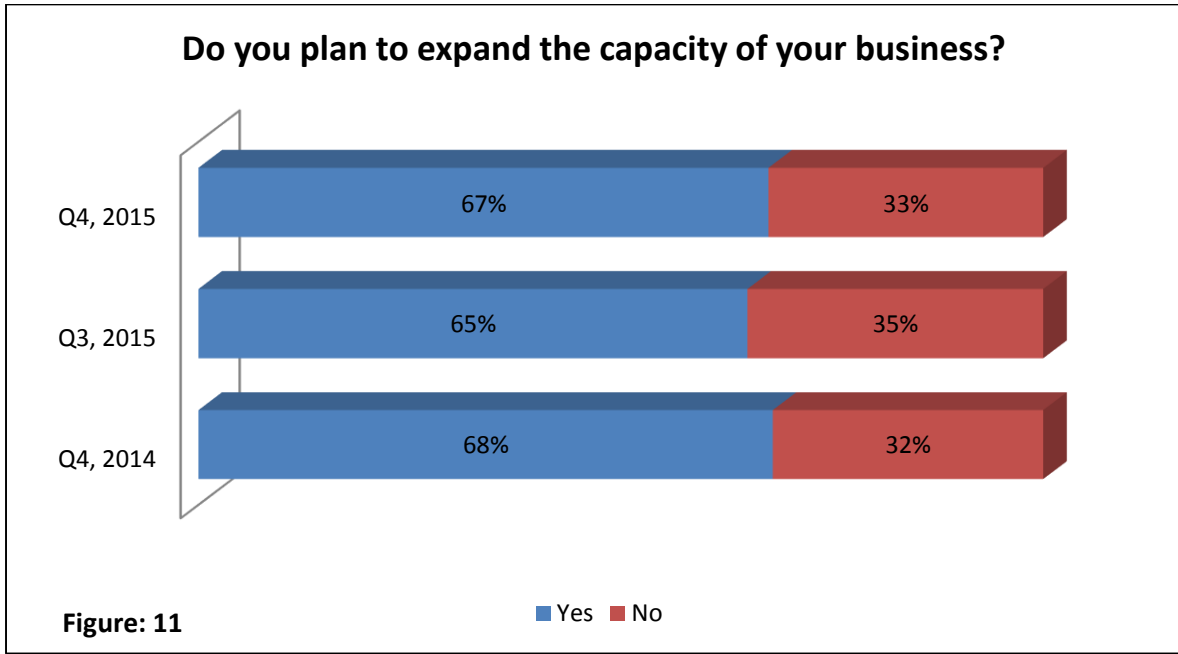
A summary of the major challenges facing Dubai's SME community are as follows:

1. **Competition:** 10% of the respondents anticipate competition as a hindrance, which is similar to the proportion in the last quarter. Also, 56% expect that competition will intensify.
2. **Government regulations/fees:** 7% of the firms have indicated this to be a major hurdle, and 55% of them anticipate that the impact of such issues will worsen.
3. **High cost of rental/leasing:** This factor has been cited as an impediment by 5% of the firms.
4. **Demand/market conditions:** Sluggish demand is an important business challenge for Dubai's SMEs as indicated by 5% of the respondents.
5. **Overhead Expenses:** Another 5% of SMEs have cited rising overhead expenses as an obstacle.

Large companies have indicated their top three concerns as competition, impact of oil prices and demand/market conditions. For SMEs, the leading obstacles are competition, government regulations/fees and rising cost of rental/leasing.

INVESTMENT OUTLOOK

The survey also gauges the business community's investment outlook with respect to capacity expansion and technology upgrade plans over the coming twelve-month horizon.



- The survey shows that SMEs are modestly more optimistic in Q4, 2015 about investing in business expansion and technology upgrades than they were in Q3,

2015. 67% expect to invest in business expansion in Q4, 2015 versus 65% in Q3, 2015; while 64% hope to upgrade their technologies in Q4, 2015 against 60% in the previous quarter and 55% last year.

- Companies planning capacity expansion are willing to undertake capital investment for expansion of their current office premises and acquisition of fixed assets (such as, factories, warehouses, machinery, and vehicles). Key reasons cited by respondents for not considering expanding business capacity include satisfaction amongst applicable respondents related to size and scale of their current operations and/or prioritization towards achieving stability and profitability, over and above market expansion.
- Among the key sectors, services is more optimistic towards capacity expansion (72% in services versus 61% in manufacturing and 64% in trading intend to invest in expansion) as well as technology upgrades (69% in services against 66% in manufacturing and 56% in trading plan to invest in upgrading technology).
- SMEs hold a stronger outlook than large firms with respect to investment in capacity expansion and technology upgrades.