



## SMEs Business Optimism Survey

Q1, 2017

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## The Introduction

### AT A GLANCE

- The Composite BCI has increased by 7.5 points on a y-o-y basis, from 109.6 points in Q1, 2016 to 117.1 points in Q1, 2017, supported by expectations of stronger demand, profits and hiring. On a quarterly basis, the Composite BCI has edged lower by 1.9 points, decreasing from 119.0 points in Q4, 2016 to 117.1 points in Q1, 2017 due to moderation in the demand and profitability forecast.
- SMEs hold stronger business projections for Q2, 2017 compared to the large companies, with Composite BCIs at 117.1 and 107.2 points, respectively. SMEs are more optimistic than large companies regarding all the parameters comprising the composite index: selling prices, volumes, net profits and number of employees.
- SMEs expect the business situation in Q2, 2017 to be similar to the environment in Q1, 2017. The proportion of firms that have forecast an improvement for Q2, 2017 stands at 44%, which is marginally less than the proportion (46%) in the previous quarter.
- 78% of the respondents have indicated that their business operations were not impacted by any hurdles.
- Respondents are more bullish about their technology upgrade plans in Q1, 2017 vis-à-vis Q4, 2016 and Q1, 2016. 65% of the firms intend to invest in upgrading technology in Q1, 2017 versus 62% in Q4, 2016 and 57% in Q1, 2016. Plans to invest in capacity expansion have firmed up on a q-o-q basis (61% in Q1, 2017 versus 57% in Q4, 2016), but are at par with projections a year ago (60% hoped to invest in expansion in Q1, 2016).

The Dubai Economy (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 1st Quarter of 2017. The survey was administered to 475 (Small & Medium Enterprises) 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 Q1, 2017 was conducted for 505 businesses in Dubai, including a total of 475 SMEs across the Emirate of 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:

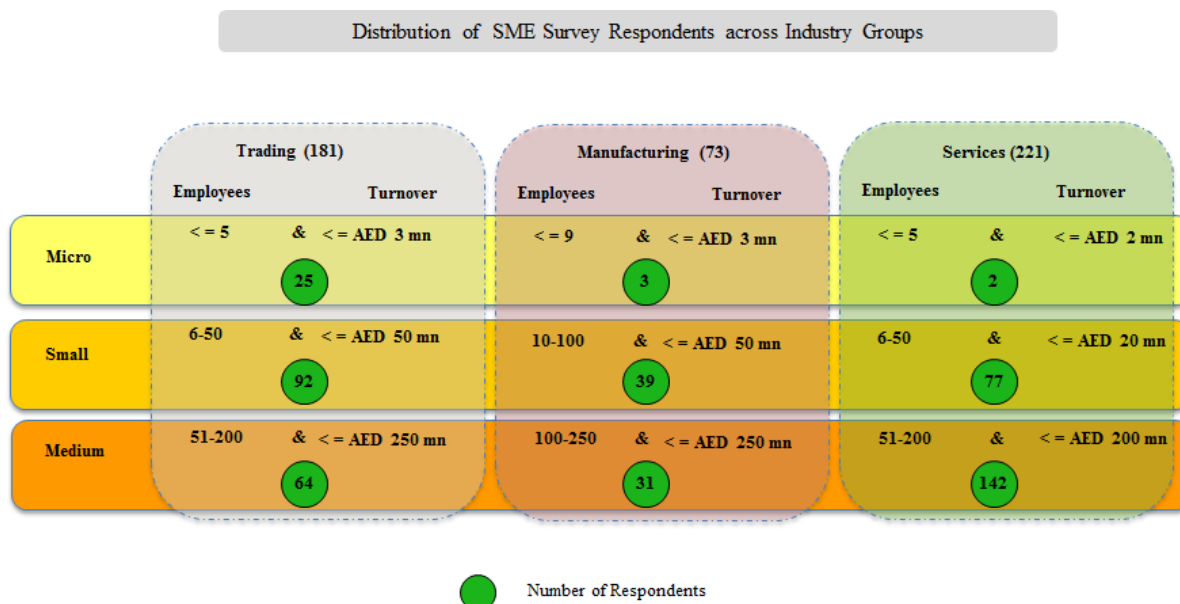


Figure: 01

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:

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

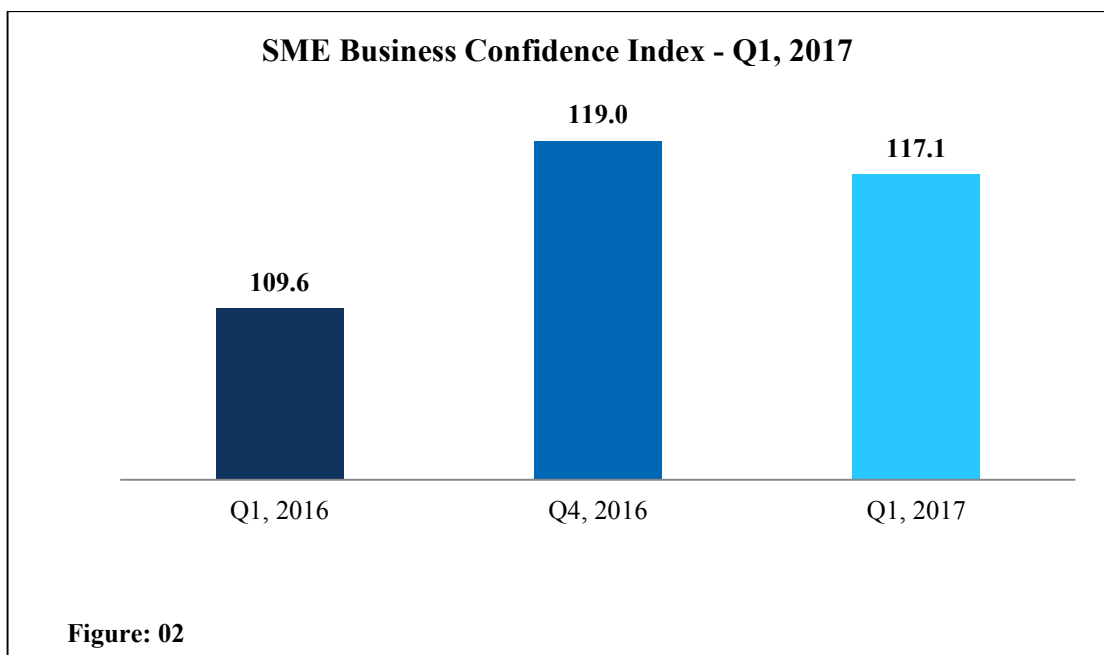
For calculating the SME Composite Business Confidence Index for Dubai, the resultant scores are multiplied with their corresponding parameter weights to arrive at a weighted average Index score. The SME composite index score is finally rebased so that Q2, 2011 = 100.

BCI scores are classified in the following three groups:

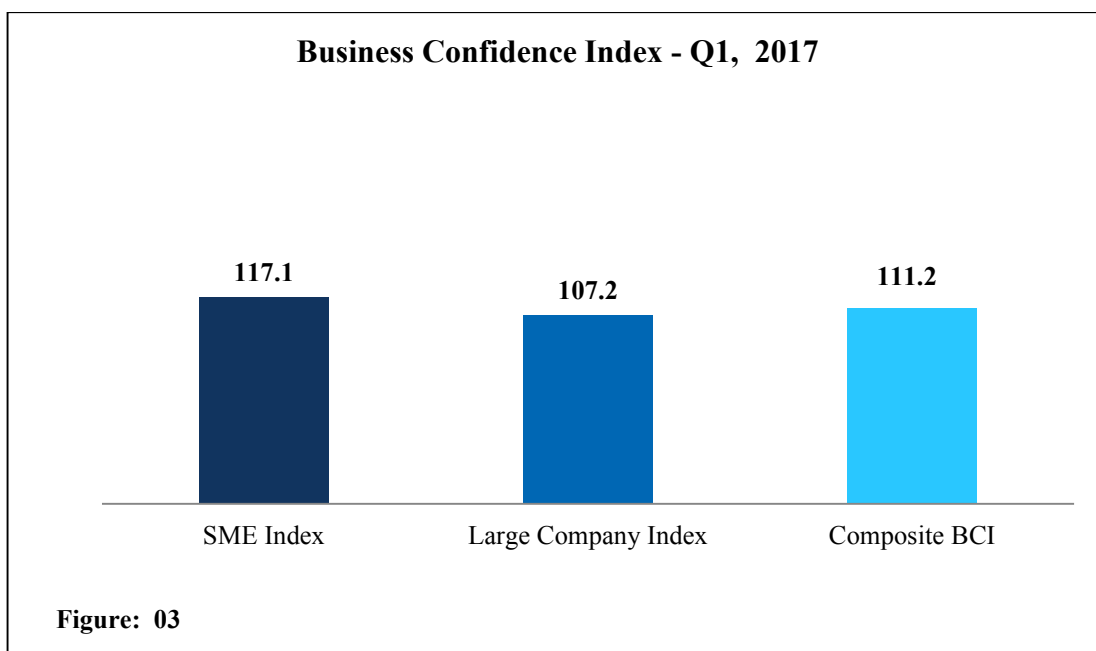
- ***BCI < 100, business expectations are negative***
- ***BCI = 100, business expectations are stable***
- ***BCI > 100, business expectations are positive***

## **SME BUSINESS CONFIDENCE INDEX – Q1, 2017**

Dubai's economy grew 2.7% in real terms in 2016 despite declining oil prices, sluggish global trade and the knock-on effects of a difficult external climate. Dubai's Economic Development Committee has projected that the Emirate's economy will grow at 3.1% in 2017, with continued infrastructure spending in the lead-up to Expo 2020 and expansion in non-oil sectors such as retail and tourism. The Emirate's growth in 2017 will also be supported by its construction sector aided by the pipeline of private and government backed projects. The business projections for Dubai's SMEs for Q2, 2017 are positive with the Composite Business Confidence Index (BCI) at 117.1 points in Q1, 2017 (A score of 100 indicates stable/neutral sentiments).



The Composite BCI has increased by 7.5 points on a y-o-y basis, from 109.6 points in Q1, 2016 to 117.1 points in Q1, 2017, supported by expectations of stronger demand, profits and hiring. On a quarterly basis, the Composite BCI has edged lower by 1.9 points, decreasing from 119.0 points in Q4, 2016 to 117.1 points in Q1, 2017 due to moderation in the demand and profitability forecast.



The survey also shows that SMEs hold stronger business projections for Q2, 2017 compared to the large companies, with Composite BCIs at 117.1 and 107.2 points, respectively. SMEs are more confident than large companies about all the parameters comprising the composite index: selling prices, volumes, net profits and number of employees.

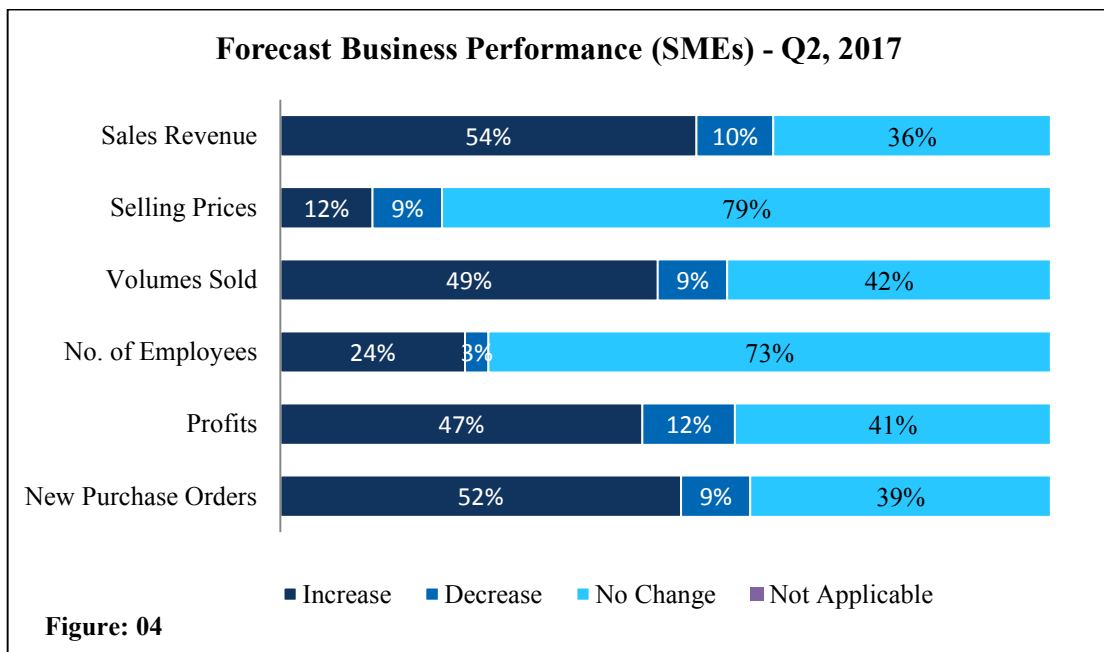
## SME BUSINESS OUTLOOK – Q2, 2017

SMEs account for a dominant share in Dubai’s total business composition (95% of the total number of firms), 475 of the 505 firms that were interviewed as part of the survey were SMEs. These included micro, small, and medium enterprises as per Dubai’s SME definition.

**Table: 01**

### Forecast Business Performance (SMEs) – Q2, 2017

| Parameter           | Q2, 2016 |          |           |             | Q1, 2017 |          |           |             | Q2, 2017 |          |           |             |
|---------------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|
|                     | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance |
| Sales Revenue       | 47%      | 14%      | 39%       | 33%         | 54%      | 8%       | 38%       | 46%         | 54%      | 10%      | 36%       | 44%         |
| Selling Prices      | 11%      | 11%      | 78%       | 0%          | 12%      | 9%       | 79%       | 3%          | 12%      | 9%       | 79%       | 3%          |
| Volumes Sold        | 44%      | 14%      | 42%       | 30%         | 53%      | 8%       | 39%       | 45%         | 49%      | 9%       | 42%       | 40%         |
| No. of Employees    | 18%      | 6%       | 76%       | 12%         | 22%      | 4%       | 74%       | 18%         | 24%      | 3%       | 73%       | 21%         |
| Profits             | 41%      | 16%      | 43%       | 25%         | 51%      | 10%      | 39%       | 41%         | 47%      | 12%      | 41%       | 35%         |
| New Purchase Orders | 37%      | 11%      | 52%       | 26%         | 52%      | 8%       | 40%       | 44%         | 52%      | 9%       | 39%       | 43%         |



- SMEs have improved their outlook for all the parameters when compared on a y-o-y basis. A quarterly comparison shows moderation in the outlook for revenues, volumes and net profits, but a modest firming up in the hiring forecast.

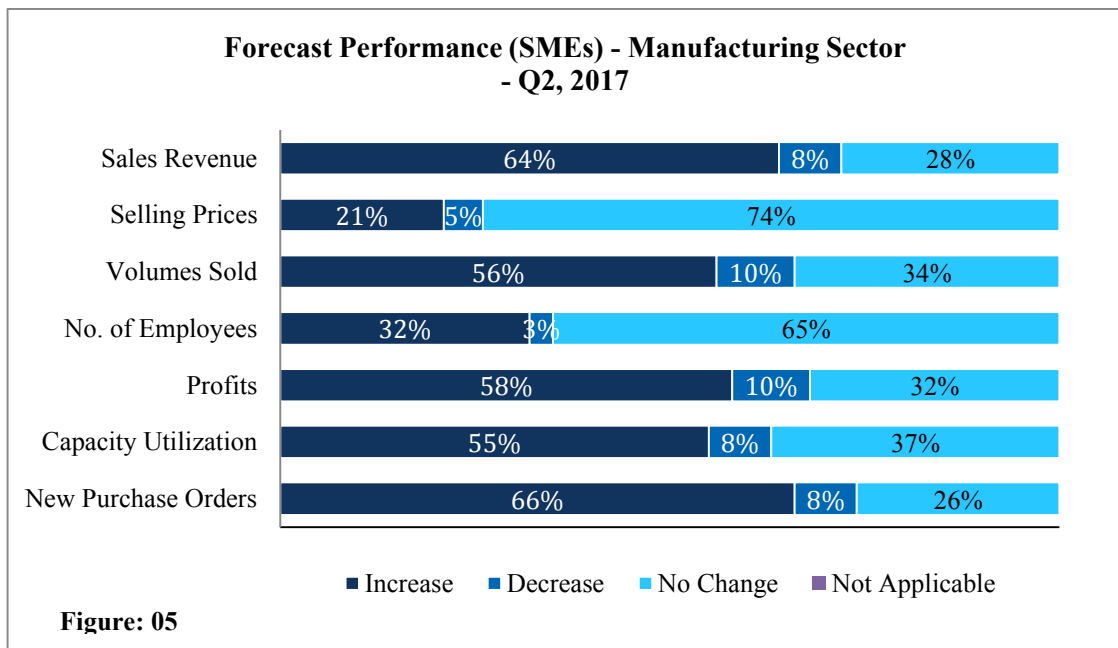


- SMEs are more optimistic than large companies regarding all the parameters comprising the composite index: selling prices, volumes, net profits and number of employees.
- SMEs have displayed a much stronger forecast for volumes than large firms with net balances of 40% and 23%, respectively.
- Manufacturing SMEs are most bullish for all the parameters in the survey. The trading segment on the other hand holds the weakest outlook for revenues, volumes, hiring, net profits and purchase orders. For selling prices, the services sector has registered the least optimistic outlook.
- Predictions for selling prices remain stable with a net balance of 3% for both Q1, 2017 and Q2, 2017. 79% of SMEs project that their selling prices will remain unchanged due to competition, pre-determined contracts or because prices are determined by the market.
- The outlook for net profits has moderated q-o-q in line with the weakening sentiments with respect to volumes.
- The forecast for number of employees has firmed up marginally, both on a quarterly and annual basis.
- 55% of manufacturing SMEs and 48% of services firms forecast an increase in their capacity utilization rates during Q2, 2017.
- SMEs expect the business situation in Q2, 2017 to be similar to the environment in Q1, 2017. The proportion of firms that have forecast an improvement for Q2, 2017 stands at 44%, which is marginally less than the proportion (46%) in the previous quarter. Similarly, the proportion of firms anticipating deterioration is steady on a q-o-q basis, at 8%, while the number of businesses anticipating stability has tracked sideways from 46% to 48%.

## Manufacturing SMEs

**Table: 02**  
**Forecast Business Performance (Manufacturing SMEs) – Q2, 2017**

| Parameter           | Q2, 2016 |          |           |             | Q1, 2017 |          |           |             | Q2, 2017 |          |           |             |
|---------------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|
|                     | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance |
| Sales Revenue       | 46%      | 18%      | 36%       | 28%         | 68%      | 4%       | 28%       | 64%         | 64%      | 8%       | 28%       | 56%         |
| Selling Prices      | 7%       | 19%      | 74%       | -12%        | 10%      | 6%       | 84%       | 4%          | 21%      | 5%       | 74%       | 16%         |
| Volumes Sold        | 46%      | 18%      | 36%       | 28%         | 67%      | 4%       | 29%       | 63%         | 56%      | 10%      | 34%       | 46%         |
| No. of Employees    | 19%      | 10%      | 71%       | 9%          | 33%      | 3%       | 64%       | 30%         | 32%      | 3%       | 65%       | 29%         |
| Profits             | 44%      | 18%      | 38%       | 26%         | 64%      | 6%       | 30%       | 58%         | 58%      | 10%      | 32%       | 48%         |
| New Purchase Orders | 44%      | 17%      | 39%       | 27%         | 65%      | 6%       | 29%       | 59%         | 66%      | 8%       | 26%       | 58%         |



- The manufacturing sector's forecast for volumes for Q2, 2017 has shown strong improvement compared to the predictions for Q2, 2016, but the outlook has moderated from the previous quarter due to the seasonal decline in demand or the completion of projects. For Q2, 2017, 56% of the manufacturing firms hope to sell higher volumes (versus 67% in the previous quarter) in anticipation of new projects/orders/customers.

34% of the respondents expect stability in their volumes, while the remaining anticipate a decline.

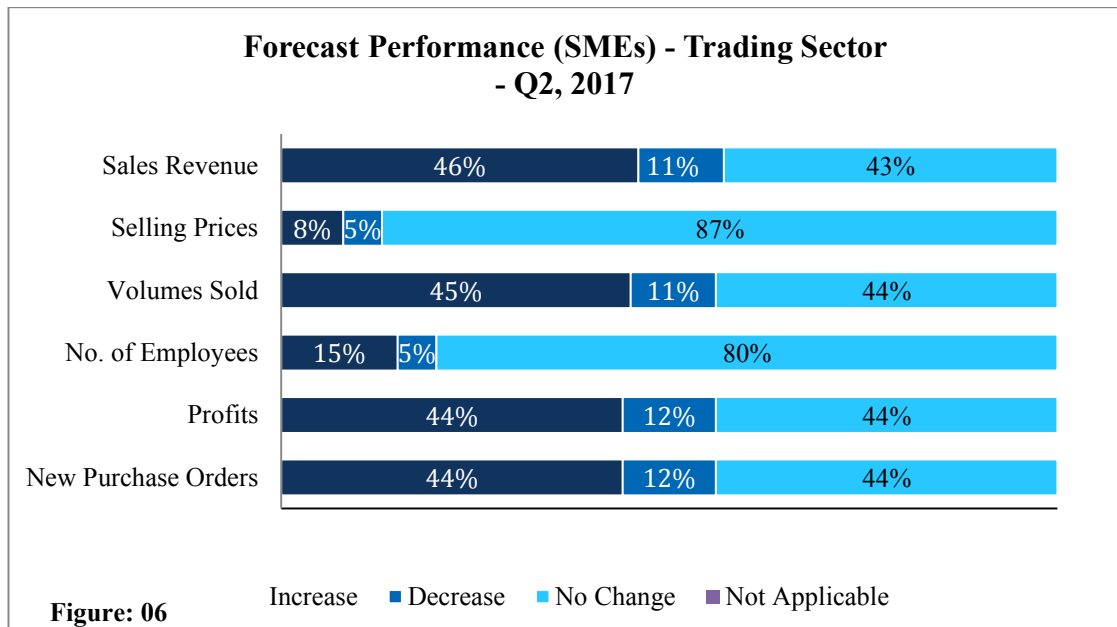
- Furniture, metals, plastics and glass manufacturers are most optimistic about their volumes during Q2, 2017, while aluminium manufacturing firms are least confident.

## Trading SMEs

Table: 03

### Forecast Business Performance (Trading SMEs) – Q2, 2017

| Parameter           | Q2, 2016 |          |           |             | Q1, 2017 |          |           |             | Q2, 2017 |          |           |             |
|---------------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|
|                     | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance |
| Sales Revenue       | 52%      | 8%       | 40%       | 44%         | 47%      | 9%       | 44%       | 38%         | 46%      | 11%      | 43%       | 35%         |
| Selling Prices      | 8%       | 8%       | 84%       | 0%          | 4%       | 10%      | 86%       | -6%         | 8%       | 5%       | 87%       | 3%          |
| Volumes Sold        | 43%      | 8%       | 49%       | 35%         | 45%      | 9%       | 46%       | 36%         | 45%      | 11%      | 44%       | 34%         |
| No. of Employees    | 13%      | 4%       | 83%       | 9%          | 10%      | 6%       | 84%       | 4%          | 15%      | 5%       | 80%       | 10%         |
| Profits             | 39%      | 11%      | 50%       | 28%         | 43%      | 10%      | 47%       | 33%         | 44%      | 12%      | 44%       | 32%         |
| New Purchase Orders | 43%      | 8%       | 49%       | 35%         | 45%      | 9%       | 46%       | 36%         | 44%      | 12%      | 44%       | 32%         |



- The trading sector's sentiments with respect to volumes are stable both on a y-o-y and q-o-q basis. 45% of the traders anticipate a rise in volumes during Q2, 2017, the same

proportion as in the previous quarter and similar to the 43% for Q2, 2016. Among the three main sectors, trading holds the weakest outlook for revenues, volumes, hiring and purchase orders.

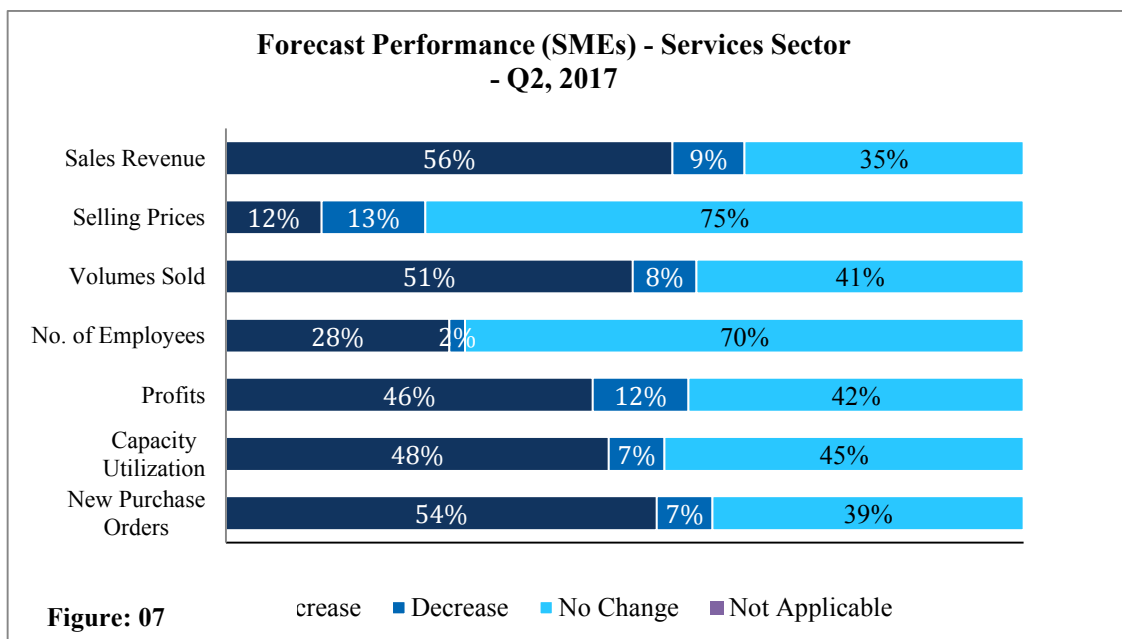
- Key sectors optimistic of higher demand over the next quarter include the following: electronics and computer traders are most optimistic about their volumes during Q1, 2017.

## Services SMEs

Table: 04

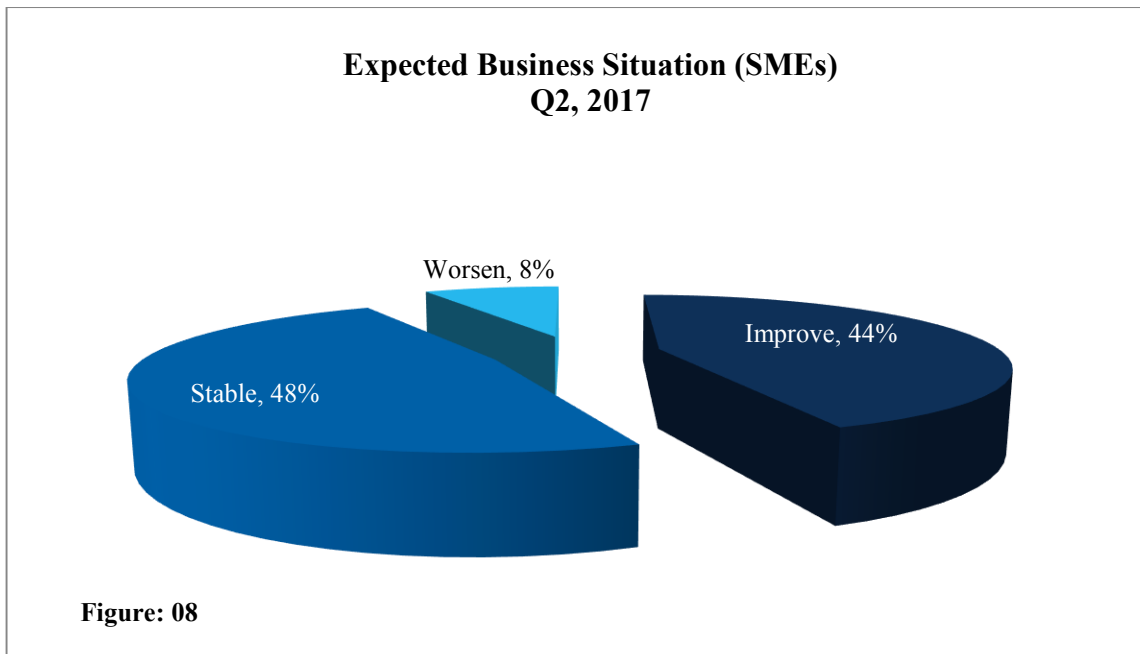
### Forecast Business Performance (Services SMEs) – Q2, 2017

| Parameter           | Q2, 2016 |          |           |             | Q1, 2017 |          |           |             | Q2, 2017 |          |           |             |
|---------------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|
|                     | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance |
| Sales Revenue       | 44%      | 17%      | 39%       | 27%         | 54%      | 8%       | 38%       | 46%         | 56%      | 9%       | 35%       | 47%         |
| Selling Prices      | 16%      | 10%      | 74%       | 6%          | 18%      | 9%       | 73%       | 9%          | 12%      | 13%      | 75%       | -1%         |
| Volumes Sold        | 43%      | 17%      | 40%       | 26%         | 54%      | 8%       | 38%       | 46%         | 51%      | 8%       | 41%       | 43%         |
| No. of Employees    | 22%      | 7%       | 71%       | 15%         | 28%      | 4%       | 68%       | 24%         | 28%      | 2%       | 70%       | 26%         |
| Profits             | 40%      | 18%      | 42%       | 22%         | 52%      | 11%      | 37%       | 41%         | 46%      | 12%      | 42%       | 34%         |
| New Purchase Orders | 29%      | 13%      | 58%       | 16%         | 52%      | 8%       | 40%       | 44%         | 54%      | 7%       | 39%       | 47%         |



- The survey shows an annual improvement in the forecast for volumes, while on a quarterly basis, the forecast has moderated. The q-o-q weakening in volume projections is due to slower demand during the summer months, rising competition and lack of new projects.
- Within the services sector, the hospitality segment (travel & car rental firms) is most optimistic about its volumes during Q2, 2017 with a net balance of 89%. On the other hand, hotels & restaurants are least optimistic with a net balance of negative 23%, mainly due to reduced demand in the summer months. Among construction, architecture & real estate firms, 51% of them expect an increase in volumes during Q2, 2017 with expectations of getting new projects/orders, while 6% anticipate a decline, resulting in a net balance of 45%. In the transportation segment, 61% of the firms hope to see higher volumes during Q2, 2017, while a modest 4% anticipates decrease. The remaining predict stability.

**Expected Business Situation**



44% of SMEs expect an improvement in the business situation in Q2, 2017, the corresponding proportion is higher for large companies at 50%.

## DUBAI SME OUTPUT – Q1, 2017

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.

**Table: 05**

### Overall Business Performance (SMEs) – Q1, 2017

| Parameter           | Q1, 2016 |          |           |             | Q4, 2016 |          |           |             | Q1, 2017 |          |           |             |
|---------------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|----------|----------|-----------|-------------|
|                     | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance | Increase | Decrease | No Change | Net Balance |
| Sales Revenue       | 16%      | 35%      | 49%       | -19%        | 25%      | 29%      | 46%       | -4%         | 19%      | 30%      | 51%       | -11%        |
| Selling Prices      | 9%       | 24%      | 67%       | -15%        | 8%       | 17%      | 75%       | -9%         | 10%      | 20%      | 70%       | -10%        |
| Volumes Sold        | 16%      | 36%      | 48%       | -20%        | 24%      | 29%      | 47%       | -5%         | 20%      | 29%      | 51%       | -9%         |
| No. of Employees    | 10%      | 14%      | 76%       | -4%         | 12%      | 13%      | 75%       | -1%         | 11%      | 13%      | 76%       | -2%         |
| Profits             | 14%      | 38%      | 48%       | -24%        | 23%      | 30%      | 47%       | -7%         | 17%      | 36%      | 47%       | -19%        |
| New Purchase Orders | 15%      | 27%      | 58%       | -12%        | 25%      | 29%      | 46%       | -4%         | 21%      | 27%      | 52%       | -6%         |

- The net balance for volumes sold in Q1, 2017 was negative 9%, resulting from 20% of respondents registering an increase in their volumes and 29% reporting a decrease. Firms that experienced a decline in their volumes were impacted by several factors including competition, slow market conditions, fewer customers, lack of new projects, rise in overhead expenses and political instability in the region.
- Economic performance of SMEs was similar to that of large companies for most parameters. SMEs had a marginally better performance on selling prices, while large companies performed slightly better with respect to profits.
- Most firms (70%) reported that their selling prices were unchanged in Q1, 2017, while 20% had to lower their prices mainly due to competition, poor market conditions and fewer customers.
- 76% of the respondents were able to maintain the size of their labor force, while 11% increased it to meet business requirements, while 13% had to reduce the number of employees.
- Performance with respect to net profits was in line with the trend of demand and prices.
- Manufacturing and services SMEs reported an increase in capacity utilization rates on a y-o-y basis, but a decline on a quarterly basis.

- Labor costs increased for 35% of the firms due to a hike in wages & salaries and rise in the cost of living, especially accommodation, but it remained unchanged for 62% of the firms.
- The rising cost of raw materials impacted 17% of the firms, while 50% reported no change in the parameter. Among large companies, 27% reported an increase in such costs.
- Rental costs increased for 35% of the SMEs and 37% of large companies.

## KEY SME CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q1, 2017 that may impact near term business growth and development. 78% of the respondents did not face any hurdles in their business operations in Q1, 2017 compared to 72% in the previous quarter.

### Key SME Business Challenges - Q4, 2016

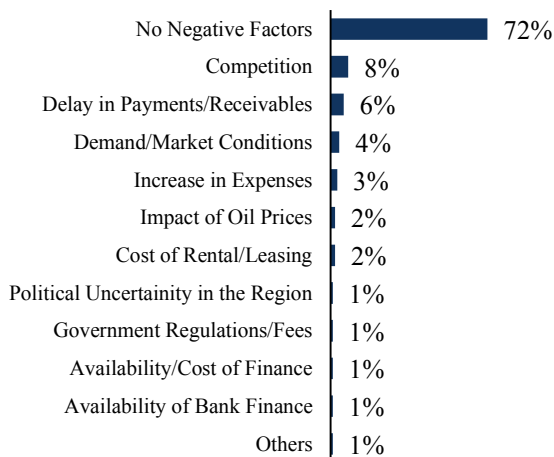


Figure: 09

### Key SME Business Challenges - Q1, 2017

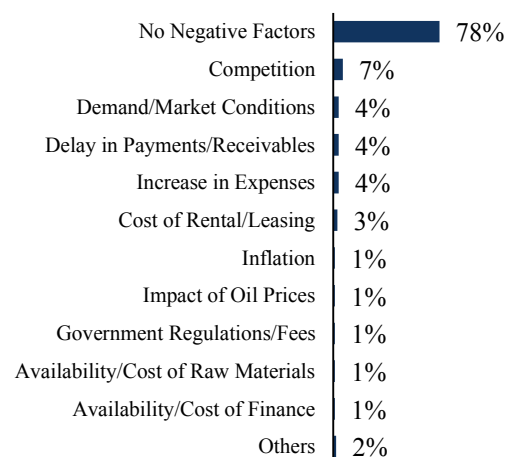


Figure: 10

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

1. Competition: This factor is the foremost impediment to business operations in Dubai. Of all the firms that were impacted by competition, 52% of the firms said that it will intensify.
2. Demand/market conditions: Slow demand and poor market conditions are a hindrance to 4% of the respondents.

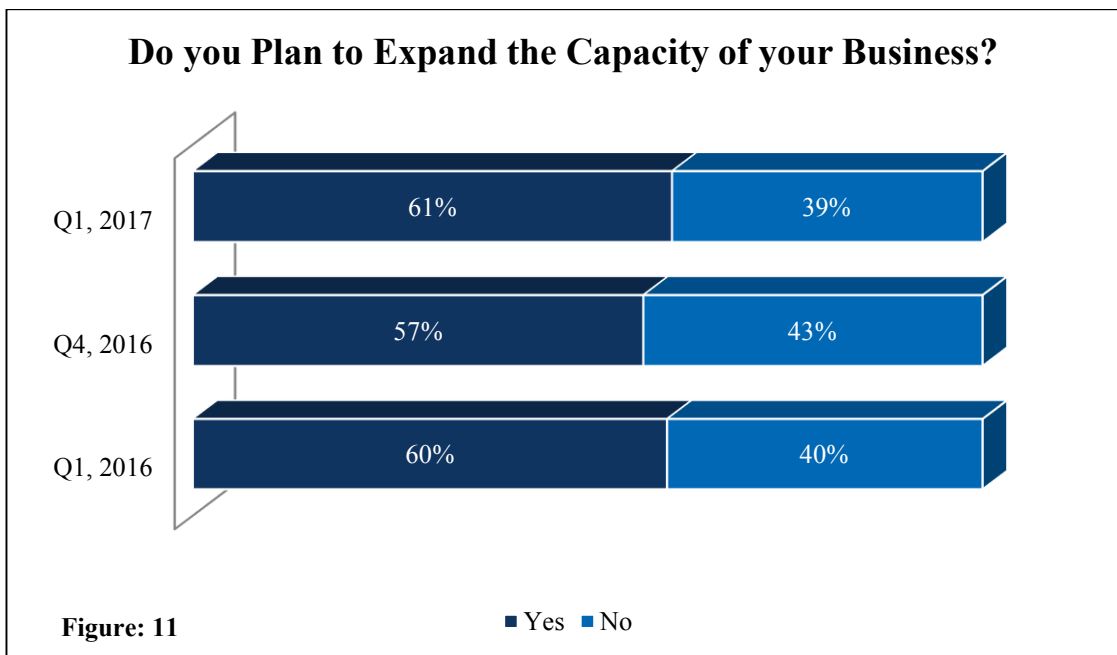
3. Delay in payments/receivables: 4% of the firms have cited this as one of the leading hurdles to their operations.
4. Increase in expenses: 4% of Dubai's businesses faced the obstacle of rising expenses.

The remaining concerns were less important and each impacted 3% or fewer than 3% of the participants.

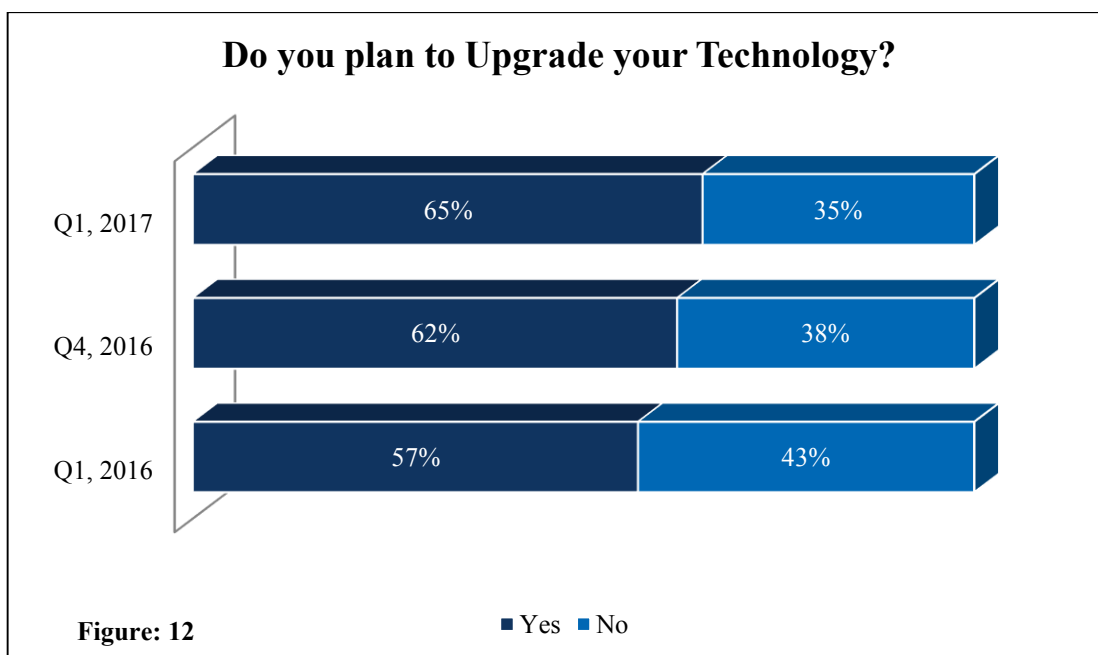
The key hurdles faced by both SMEs and large companies were competition and demand/market conditions.

### 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.



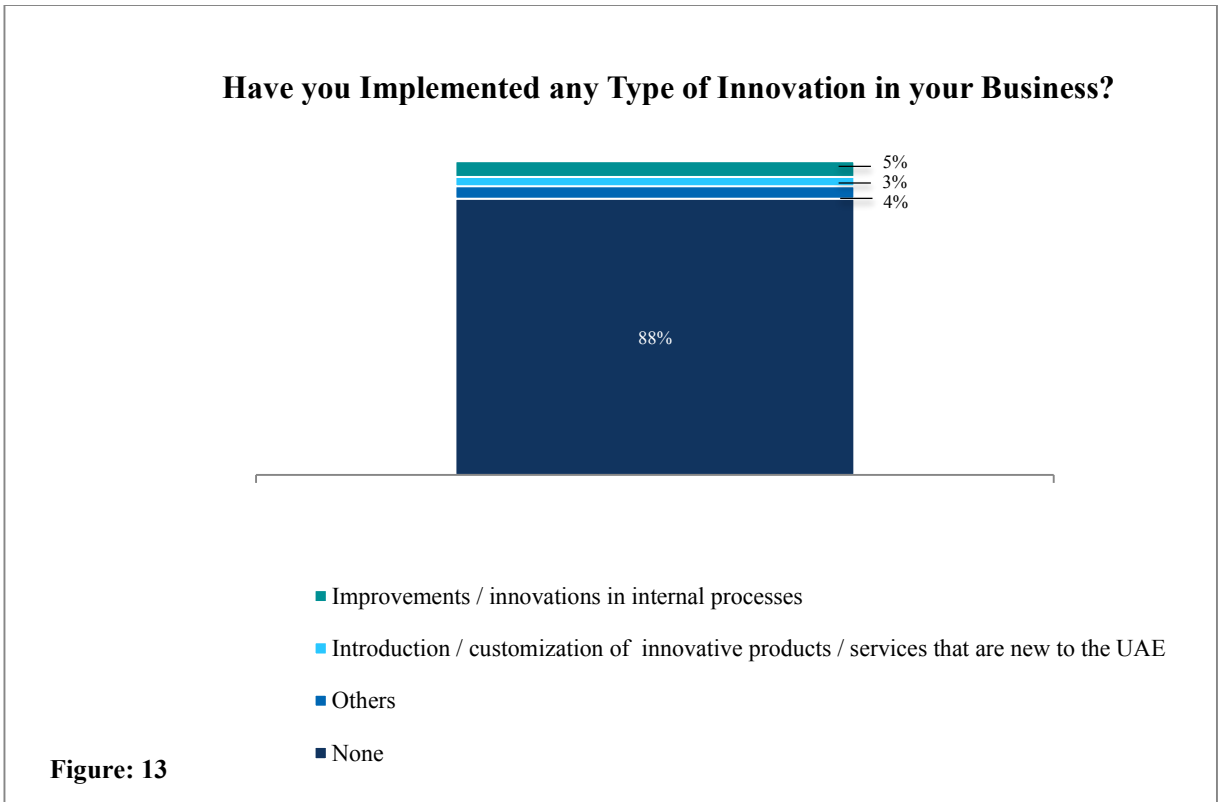




- Respondents are more bullish about their technology upgrades plan in Q1, 2017 vis-à-vis the previous quarter and sentiments a year ago. 65% of the firms intend to invest in upgrading technology in Q1, 2017 versus 62% in Q4, 2016 and 57% in Q1, 2016. Plans to invest in capacity expansion have firmed up on a q-o-q basis (61% in Q1, 2017 versus 57% in Q4, 2016), but are at par with projections a year ago (60% hoped to invest in expansion in Q1, 2016).
- 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. Additionally, some businesses did not want to expand amid poor market conditions or lack of new projects.
- Companies in the services sector are most optimistic about capacity expansion plans and technology upgrades. 70% of services firms versus 60% of manufacturing companies and 50% of traders have capacity expansion plans. 75% of services firms versus 64% of manufacturing companies and 54% of traders expect to implement technology upgrades.
- Large firms are more hopeful than SMEs about investment in business expansion and technology upgrades.

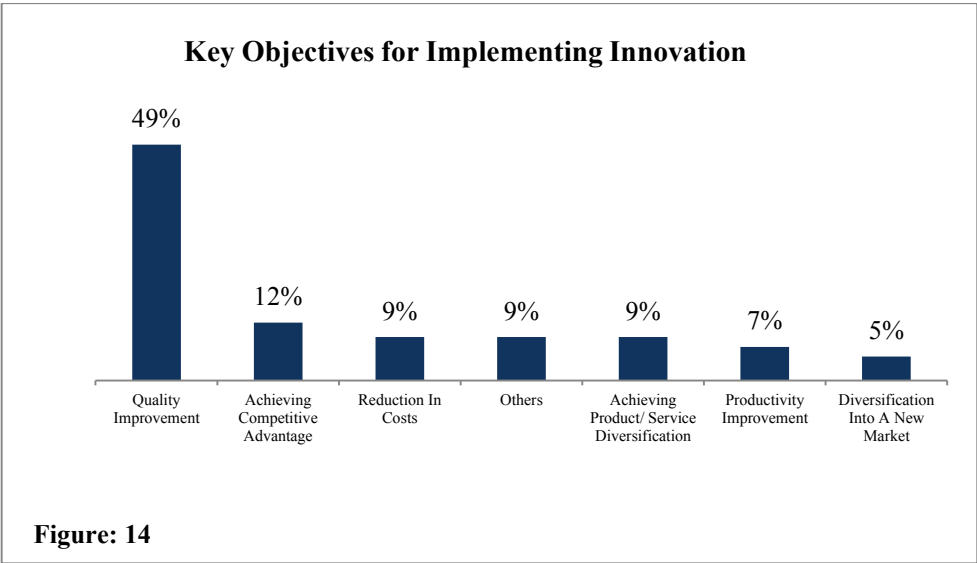
## INNOVATION ORIENTATION

Survey participants were also asked if they were making any innovations in their businesses, the objective for such innovations and also the amount of provisions being made for R&D.



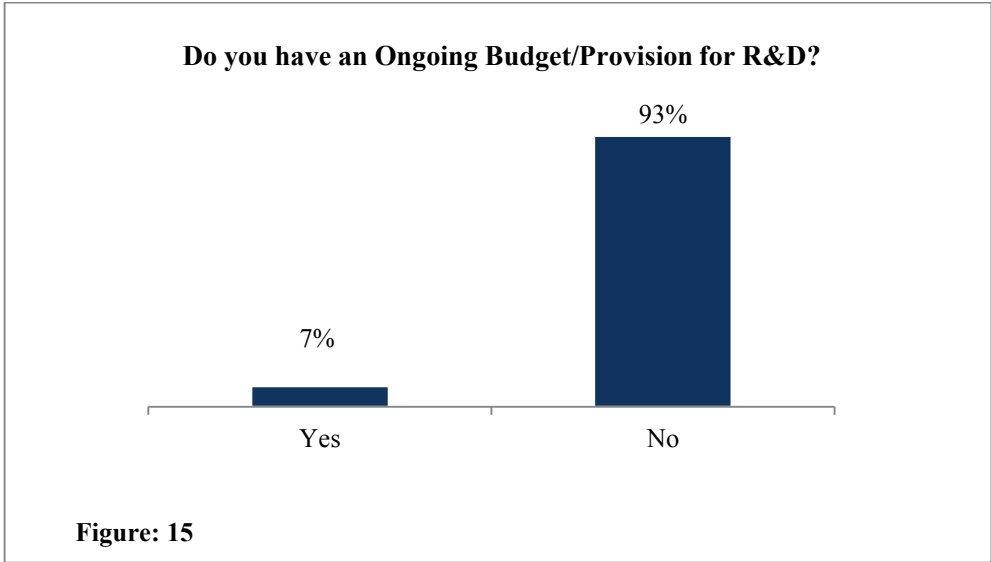
88% of all respondents in the survey indicated that they did not implement any type of innovation in their businesses; the corresponding proportion in Q2, 2016 was 89%. 5% of all respondents applied improvement/innovations in internal processes and 3% introduced products/services that were new to the UAE. These were the two leading categories of innovation in Q2, 2016 as well.

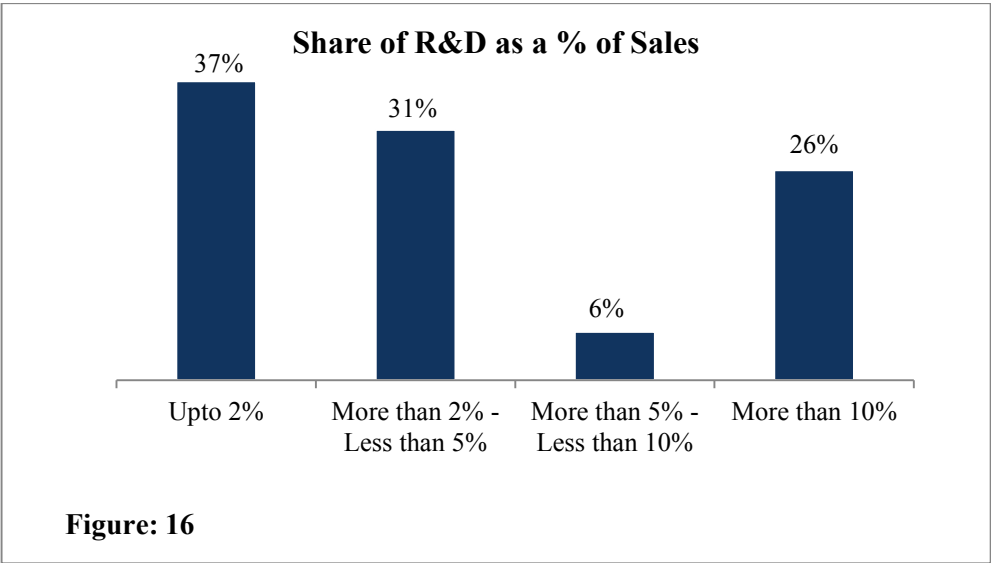
Innovation implementation was higher among large firms compared to SMEs: 34% of large firms implemented innovation compared to 12% of SMEs. Among large firms 17% each applied innovation processes towards introduction/customization of innovative products/services that are new to the UAE and improvements/innovations in internal processes; for SMEs the corresponding proportions were 3% and 5%, respectively.



The key objectives for implementing innovation were quality improvement (49%), achieving competitive advantage (12%), achieving reduction in costs (9%), realizing product/service diversification (9%) and productivity improvement (7%)

For large firms and SMEs, the foremost reason for innovation is quality improvement.





93% of all respondents indicated that they did not have an ongoing budget/provision for R&D in Q1, 2017 compared to 86% in Q2, 2016. Of the 7% that had an ongoing budget or made provisions for R&D, 26% had budgeted more than 10% of their sales for R&D (this proportion was 29% in Q2, 2016). The corresponding proportion was 10% for large firms.