

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

Q1 - 2014

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be violation of applicable law. Dubai SME encourages the dissemination of its work and will grant permission to reproduce portions of the work promptly. All queries should be addressed to Dubai SME at essam.disi@sme.ae (P.O. Box 66166, [Tel:+971 4361 3000](tel:+97143613000), www.sme.ae)



AT A GLANCE

- The composite Business Confidence Index for the SME sector for Q1, 2014 stands at 126.4 points, signifying that the overall business outlook is higher when compared with the same period last year (119.5); although it is lower in comparison with the last quarter i.e. Q4 2013 (134.3).
- The survey reflects that although the sales revenue outlook has moderated in relation to the last quarter; the outlook is more optimistic as compared to the same period last year (62% of the respondents expect an increase in sales revenues during Q2, 2014 compared to 73% and 57% predicting an increase in Q1, 2014 and Q2, 2013, respectively).
- The number of survey participants expecting 'no obstacles' to their operations, registered a drop from 64% in Q4, 2013 to 59% in Q1, 2014. The rising cost of rental/leasing followed by competition are the leading challenges facing the remaining firms.
- SMEs hold a lower optimism compared to large businesses on all parameters in the survey.
- SMEs remain less optimistic with respect to investment in technology upgrades compared to large companies but have a similar outlook for capacity expansion.

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'.

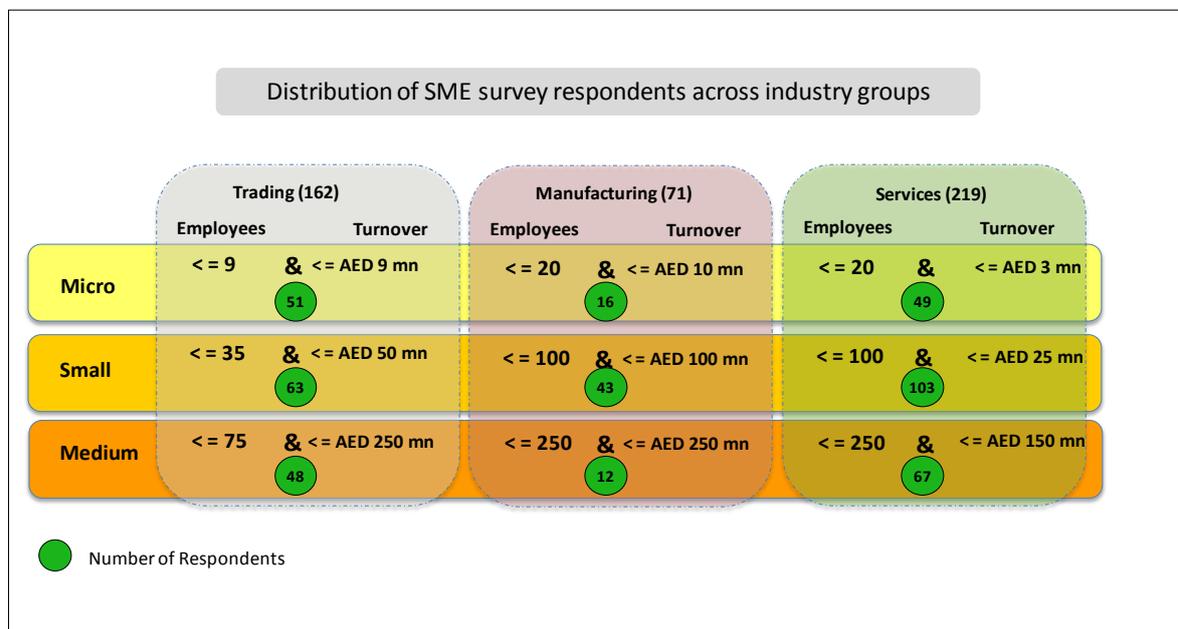
In order to gauge the perceptions of the business community, DED conducts the Dubai's Quarterly Business Survey, which provides a snapshot of Dubai's current economic activity and the outlook for the quarter ahead.



This document presents a summary of the survey conducted in the 1st Quarter of 2014 and highlights the future expectations of SME businesses in Dubai. The survey was administered to 452 SME businesses in Dubai. In addition, the survey addresses challenges that may impact business growth and development and assesses the investment outlook for the coming twelve months.

METHODOLOGY

The quarterly business survey for Q1, 2014¹ was conducted for a total of 502 companies 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 GDP.



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.*

¹ 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 of each year.



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***

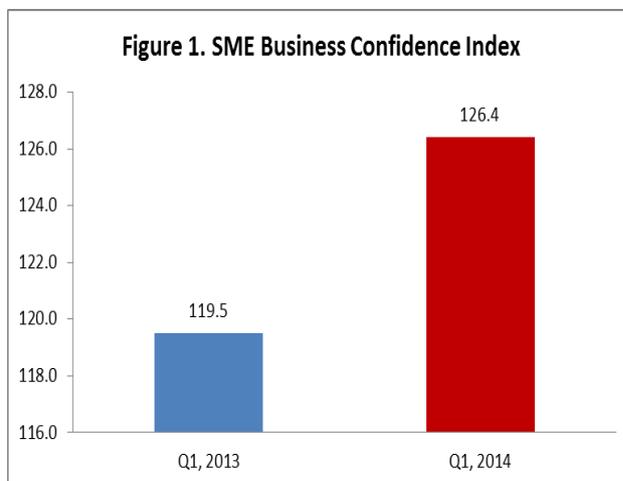
When expressed with reference to the base quarter Q2-2011, the following interpretations hold (t and t-1 referring to two consecutive quarters):

- ***BCI(t) < BCI(t-1): business expectations are declining***
- ***BCI(t) = BCI(t-1): business expectations are stable***
- ***BCI(t) > BCI(t-1): business expectations are rising***

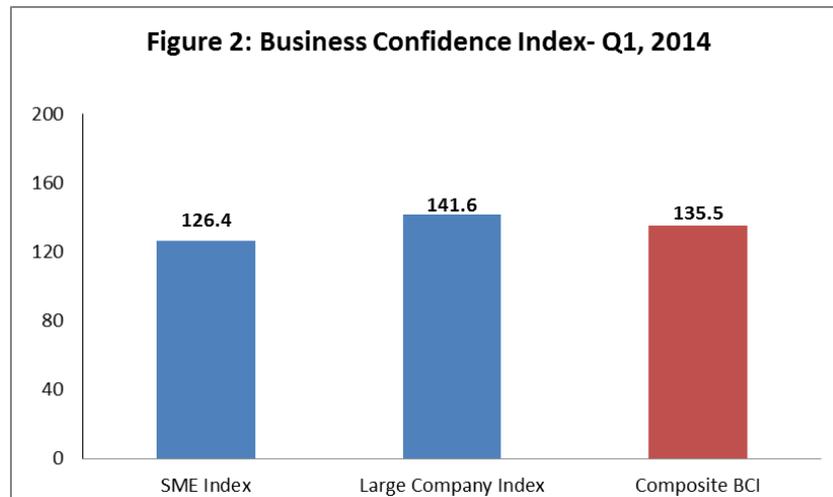


SME BUSINESS CONFIDENCE INDEX – Q1, 2014

The International Monetary Fund (IMF) has revised the UAE’s 2014 GDP forecast to 4.5% on the back of rising real estate prices and the Expo 2020 win. Growth in the non-oil economy is being led by the tourism and commerce sectors. According to the Department of Economic Development, Dubai’s economy is forecasted to grow by an inflation-adjusted rate of 4.7% this year, accelerating to over 5% in 2015. The D&B survey re-enforces the buoyant growth in Dubai’s SMEs; with the composite business confidence index in the first quarter of 2014 at 126.4 (A score of 100 indicates stable/neutral sentiments).



On a year-on-year basis, the composite BCI has increased by 6.9 points from 119.5 in Q1, 2013 to 126.4 in Q1, 2014, on account of bullish expectations for new projects / contracts and an overall rise in economic activity. However, the composite BCI for the SME sector has moderated from the previous quarter’s score of 134.3, mainly due to the cyclical downturn generally observed as a trend in the summer season. The number of tourists visiting Dubai typically declines in the second quarter, which adversely impacts demand for a number of other sectors. The outlook for Q2 2014 shows that there is a rise in optimism levels for all parameters compared to the levels observed in the same period a year ago.

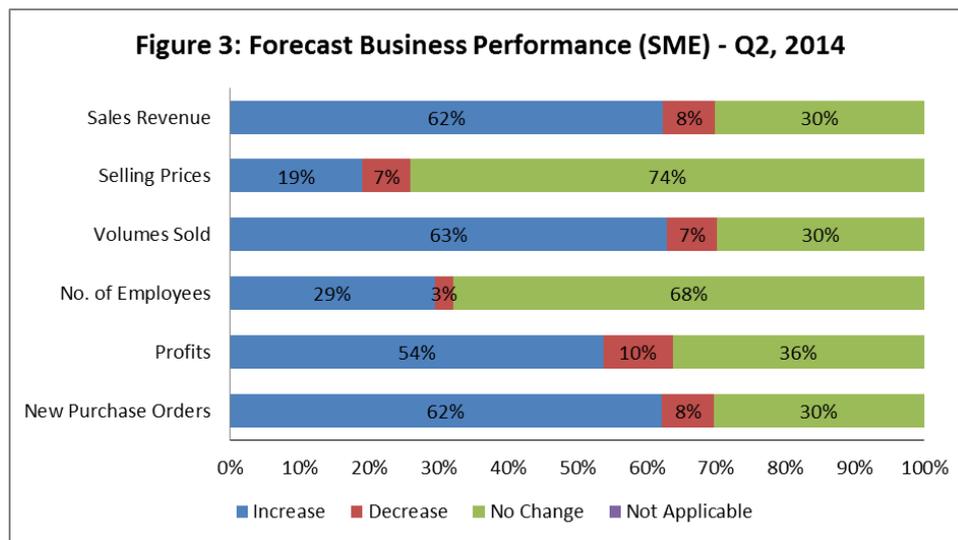


As seen in the last quarter, the current survey shows that large companies continue to have a stronger outlook compared to the small and medium firms, as indicated by their corresponding index scores of 141.6 and 126.4, respectively. Large companies are more optimistic than SMEs on all the parameters recorded in the survey.



SME BUSINESS OUTLOOK – Q2, 2014

SMEs account for a dominant share in Dubai’s total business composition (95% of the total number of firms), 452 of the 502 firms that were interviewed as part of the survey were SMEs. These included micro, small, and medium enterprises as per Dubai’s SME definition.



The survey shows a buoyant outlook for Dubai’s SMEs for Q2, 2014; however they are less confident than the large companies on all parameters.

SMEs are more confident about Q2, 2014 than they were a year ago, with 62% of them forecasting an increase in sales revenue during the next quarter compared to 57% that were expecting a rise on this parameter in Q2, 2013. However, the optimism is lower than that for Q1, 2014, when 73% of the SMEs expected higher sales revenues. The net balance for sales revenue expectations (54% for Q2, 2014) is lower by 16% points compared to 70% for Q1, 2014; however it is higher by 11% points than the corresponding net balance of 43% for Q2, 2013.



Since prices are largely expected to remain stable, the increase in revenues will predominantly be driven by an increase in volumes.

Expectations for volumes reflect a significant gain on a y-o-y basis, with a net balance of 56% for Q2, 2014 vis-à-vis corresponding net balance of 42% for Q2, 2013. However, the expectations for volumes are less optimistic as compared to the last quarter (corresponding net balance of 62% for Q1 2014).

The outlook for sales volumes amongst SMEs is weaker than that for large companies, with net balances of 56% and 66%, respectively.

A sector-wise comparison reflects that the manufacturing sector retains its lead with respect to expectations in terms of volumes sold, with 69%, 64% and 59% of businesses in the manufacturing, services and trading sectors, respectively, expecting an increase in sales volumes in the next quarter. In addition, the optimism with respect to selling prices and new purchase orders is also highest within the manufacturing sector, while optimism on hiring plans and net profits is the highest amongst the service firms.

Sector-wise Sales Volumes Trends

Manufacturing Sector:

The current survey shows that the outlook for manufacturing firms has improved significantly when compared with the same period a year ago, with the net balance for sales volume increasing from positive 48% for Q2, 2013 to 65%, for Q2, 2014. A higher optimism for sales volumes is based on anticipation for new projects/orders from old as well as new customers, increase in demand arising from the construction sector and advancement in economic activity due to the Expo 2020. A q-o-q comparison indicates that manufacturing companies have maintained steady expectations for sales volumes as



indicated by positive net balances of 65% and 67% for Q2, 2014 and Q1, 2014, respectively.

Within the manufacturing sector, all sub-sectors have displayed buoyant expectations since only a marginal 4% of the participants anticipate a decrease in volumes during Q2, 2014. One of the most optimistic sub-sectors is cement & concrete, with all the firms in this segment expecting higher volumes during Q2, 2014 backed by expectations of getting new contracts/projects due to increasing demand from the construction sector.

Services Sector:

Following the economy wide trend, the services sector has displayed a stronger outlook for Q2, 2014 compared to the same quarter a year ago (positive net balance of 56% for Q2, 2014 versus 43% for Q2, 2013). Within the services sector, companies in the construction, architecture and real estate sub-segment are extremely confident with respect to volumes of sales in the second quarter, with none of these firms expecting a decline in volumes. 73% of these firms foresee an increase on account of new projects and a rising expatriate population.

On the other hand, hotels & restaurants are not as confident as the other sectors, which can be attributed to the cyclical downturn in the summer season when the tourist inflow typically reduces coupled with a slowdown in events, exhibitions and conferences. 43% of businesses in this sector expect an increase in volumes, while 21% are anticipating a decline during the second quarter. This is in sharp contrast to the last quarter when around 85% of the respondents in this sector were expecting an increase in sales volumes while none of the firms were expecting a decline in volumes.

Transportation firms maintain a strong outlook, with 64% of the respondents anticipating an increase in volumes and only a marginal 4% expecting a decline. The optimism in the



Transportation sector is accentuated by a growing population, rising construction activity, increasing trade (exports and imports) and a booming economy.

Trading Sector:

The current survey shows that although the Trading sector's expectations for sales volumes are slightly lower as compared to the last quarter, traders are more optimistic as compared to the same quarter last year (net balance for sales volumes at 52%, 56% and 39% for Q2, 2014, Q1, 2014 and Q2, 2013, respectively). 59% of the trading firms are predicting a rise in their volumes, while 7% foresee a decline, citing reduced activity during the summer months.

Key sub-sectors hopeful of an increase in demand over the next quarter include:

- 76% of electronics traders are upbeat about the second quarter due to an improving market, while none of the firms in this sub-segment expect a decline in volumes.
- 60% of the traders in the food & beverages sub-sector anticipate a rise in volumes during Q2, 2014 due to the summer season, enhanced promotional strategies and diversification into new range of goods.
- 61% of the auto traders are expecting to sell higher volumes during the second quarter of 2014 due to a rise in demand from both domestic and export markets.
- 50% of the traders in the building & construction sub-sector anticipate an increase in sales volumes during Q2, 2014

Selling prices are largely expected to be stable, with 74% of the respondents expecting 'no change' on the parameter. Another 7% of the respondents expect a decline in selling prices due to stiff competition in the market as well as the effect of seasonal downturn associated with the second quarter. The current survey shows that the selling price outlook for Q2, 2014 is modestly stronger than that for the same quarter a year ago (positive net balance of



12% this year versus 8% last year). Manufacturing SMEs (net balance of positive 19%) are more optimistic than the services and trading SMEs (net balance of positive 11% and 10%, respectively) with respect to the selling prices.

The forecast for new purchase orders is consistent with expectations for sales volumes, wherein the optimism is stronger on a y-o-y basis; however it has moderated compared to the previous quarter (net balance of 54% for Q2, 2014 versus 38% for Q2, 2013 and 61% for Q1, 2014).

- 62% of the respondents forecast an increase in new purchase orders during Q2, 2014, while 30% of the respondents have indicated that their current holdings of stocks are sufficient.
- Manufacturing firms have a stronger outlook compared to the services and trading SMEs on new purchase orders with positive net balances of 65%, 56% and 47% respectively.
- Large companies hold a stronger outlook as compared to SMEs for new purchase orders for Q2 2014, with positive net balances of 62% and 54%, respectively.

The surveyed businesses are also less confident on the employment front compared to the previous quarter; however they are more confident in relation to the same period last year.

- 29% of the respondents intend to increase their staff count during Q2, 2014 compared to 37% that expected to hire more employees during Q1, 2014 and 23% in Q2, 2013.
- As observed in the previous quarter results, service and manufacturing firms are more optimistic with respect to hiring compared to trading companies..
- Large companies maintain their higher optimism level compared to SMEs on hiring, with positive net balances of 36% and 26%, respectively.

With respect to capacity utilization, 56% of manufacturing SMEs and 58% of services SMEs expect an increase in utilization rates during the second quarter of 2014. In

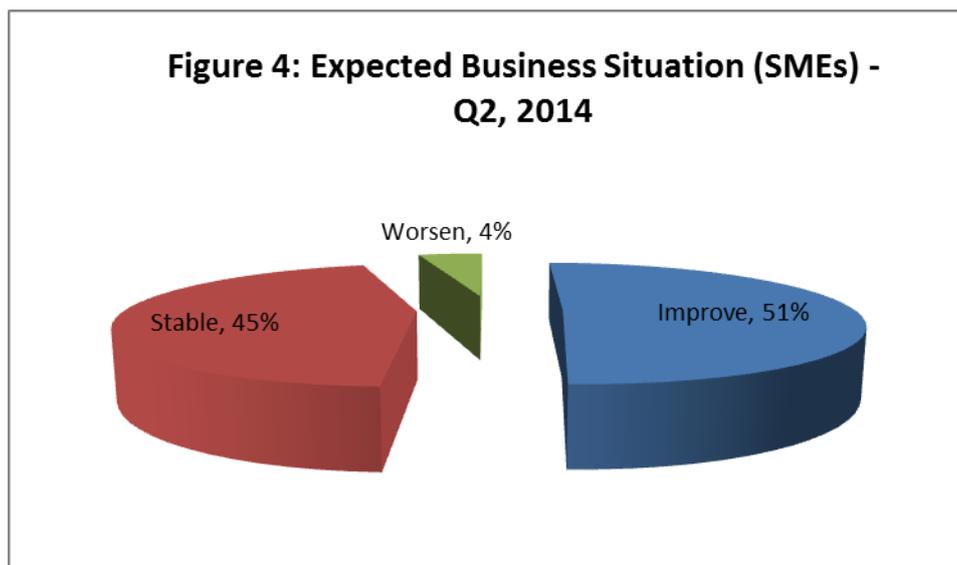


Comparison, 70% of large companies expect an increase in capacity utilization rates during Q2, 2014.

With respect to net profits, 54% of the survey participants are expecting an increase on the back of improvement in demand for their products, whereas 10% anticipate a decline citing slowdown in business conditions and a decline in demand as the key underlying causes. Profitability expectations for Q2, 2014 have moderated on a q-o-q basis, but are higher when compared y-o-y; net balance of 44% for Q2, 2014 versus 39% and 55% for Q2, 2013 and Q1, 2014, respectively. A comparison across sectors shows that SMEs in the services sector are the most optimistic about profits, with 60% of them forecasting an increase in the parameter compared to 56% and 44% firms in the manufacturing and trading sectors, respectively. Additionally, large companies have a modestly higher outlook for profits as compared to SMEs, with positive net balance of 48% and 44%, respectively.



The survey reflects moderation in the overall business outlook for the second quarter, with 51% of the firms expecting an improvement in business conditions versus 62% in the previous quarter. A marginal 4% of the SMEs anticipate worsening of the business situation in Dubai in Q2 2014.



Additionally, large companies are slightly more optimistic than SMEs, with 60% of the former hopeful of an improvement in Q2, 2014, versus 51% of the SMEs. While 4% of SMEs expect deterioration in the business situation, none of the large companies anticipate deterioration.

In Focus:



Export Resource Centre (ERC)

Introduction:

Since its establishment in 2006, the Exports Development Corporation (EDC), which has joined the Department of Economic Development in 2009, strives to ensure the success of Dubai and the United Arab Emirates exporters, providing constant guidance, advice and practical support to both international buyers and local suppliers. EDC develop long-term growth strategies to expand businesses and maximize the opportunities naturally facilitated by Dubai's geographic position as a trade gateway between East and west.

As part of EDC's vision to support and promote world class exporters in Dubai, the Export Resource Centre (ERC) provides practical help to businesses either looking to start up or expand their export operations.

ERC Objectives and Goals

➤ Objectives:

- The ERC provides a business environment that not only showcases Dubai's business and export capabilities to the world, but also develops and promotes exporters through value added services.

➤ Goals:

- Provide an opportunity for exporters to showcase their capabilities through a permanent world-class mini Exhibition Area.
- Establish and operate an international library/resource Centre that provides Dubai's businesses with market intelligence and global trade information.
- Provide specific services to EDC members and buyers, tailored to meet the needs of both the exporter and the international buyer.
- Maximize the EDC partners' benefits in a way to develop business and attract new clients.
- Facilitate business matchmaking.
- Provide incubation centers for investors with export-oriented business models.

The Export Resource Center composed of two main facilities:

Permanent Exhibition (350 sq. m):

- Physical display of EDC member products, brochures and catalogues.
- Display EDC member products electronically.



- Wi-Fi accessibility in the Entire ERC area.

Information Center (150 sq. m):

The Information Center includes many facilities such as:

- Physical library arranged by geographic area, markets and country wise.
- Virtual trade information library (kiosks/ computers) with access to Local and international trade databases, publications as well as information on EDC services.
- Quiet office/meeting rooms to facilitate buyer – supplier matchmaking discussions.

Other Benefits:

ERC offers all necessary exhibiting services to Exporters and Traders such as:

- Qualified staff dedicated to support ERC visitors and exhibitors.
- Effective marketing tool and brand awareness.
- Elite business center with a various range of communication such as telephone, fax and internet facility.



SME PERFORMANCE – Q1, 2014

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 of SMEs from one quarter to another, as reported qualitatively by responding firms.

35% of all respondents reported an increase in sales volumes during Q1, 2014, while 17% have cited a decrease, reflecting a net balance of 18%. This indicates a significant improvement in business activity as compared to the same quarter last year when the net balance on sales volumes stood at 6%. However, the performance was weaker as compared to Q4, 2013 (net balance of 25%). Manufacturing and services firms have reported a better performance during Q1, 2014 with net balances of 24% and 22%, respectively as compared to trading firms (net balance of 10%). In comparison the business performance in Q1, 2013 was weaker, wherein the services sector reported the strongest performance with a net balance of positive 18%, compared to net balances of negative 3% and negative 5% for manufacturing and trading sectors, respectively. Within the services sector, the net balances for sales volumes for Q1, 2014 are: 30% for tourism & hospitality, 26% for construction and 12% for transportation.

Furthermore, large companies reported a much better business performance for sales volumes in Q1, 2014 with a positive net balance of 34% compared to 18% for SMEs.

- In the manufacturing sector, the sub-sectors that showed positive performance were cement, furniture, metals and paper. Firms that reported a decline cited the following key reasons: increase in raw materials price, decline in orders from export markets and increasing competition.
- The positive performance of the trading sector in Q1, 2014 was due to an increase in activity in the following sub-sectors: chemicals (demand from both domestic and export markets), computers (improving market conditions), electronics (rising demand), food & beverage (rising population), furniture, jewelry and pharmacies.



- Within the services sector, the improvement in business performance during Q1, 2014 was led by the following sub-sectors: construction (booming market, new orders from both domestic and foreign markets), tourism & hospitality (rise in tourist inflow during the first quarter), real estate & business services (new projects and growing consumer demand), and transport (increase in trade, rising number of tourists).

With respect to selling prices, 17% of the respondents reported an increase during Q1, 2014, but 15% reported a decline mainly due to rising competition. However, a majority (68%) of the respondents indicated stability on this parameter.

The survey reveals that 26% of the respondents had increased their staff numbers, which is similar to the 25% in Q4, 2013. The employment performance was better compared to a year ago, when 19% reported an increase in hiring. Services firms have reported the strongest rise in employment figures during Q1, 2014; 33% of them raised their head count compared to 28% and 15% in manufacturing and trading, respectively. In addition, a greater percentage of large companies (38%) reported an increase in their employee count as compared to SMEs (26%).

New purchase orders increased in accordance with the improvement in business activity. The net balance for the parameter stood at 23% in Q1, 2014, modestly lower than the 26% in Q4, 2013, but higher than the 5% recorded in Q1, 2013. The rise in new purchase orders was the strongest amongst service sector firms, with 39% of them reporting an increase versus 38% of manufacturing and 35% of trading firms. Large companies demonstrated a much better performance on new purchase orders as reflected by the positive net balance of 46% in Q1, 2014.

Over half of the surveyed firms (51%) stated that the unit cost of labor increased during the first quarter of 2014 due to the rising cost of living (especially rentals), while the remaining 49% have reported steady costs. A higher proportion of manufacturing firms reported an



increase in cost of labor (62%) compared to trading (54%) and services firms (45%). In the case of large firms, 62% reported an increase in labor costs during Q1, 2014.

23% of the respondents reported that the cost of raw materials increased during Q1, 2014, versus 21% in Q4, 2013. This rise mainly impacted manufacturing firms as in the previous two quarters, with 49% indicating an increase in Q1, 2014 against 21% for services and 14% for trading firms. The impact of such costs affected 22% of large companies in Q1, 2014.

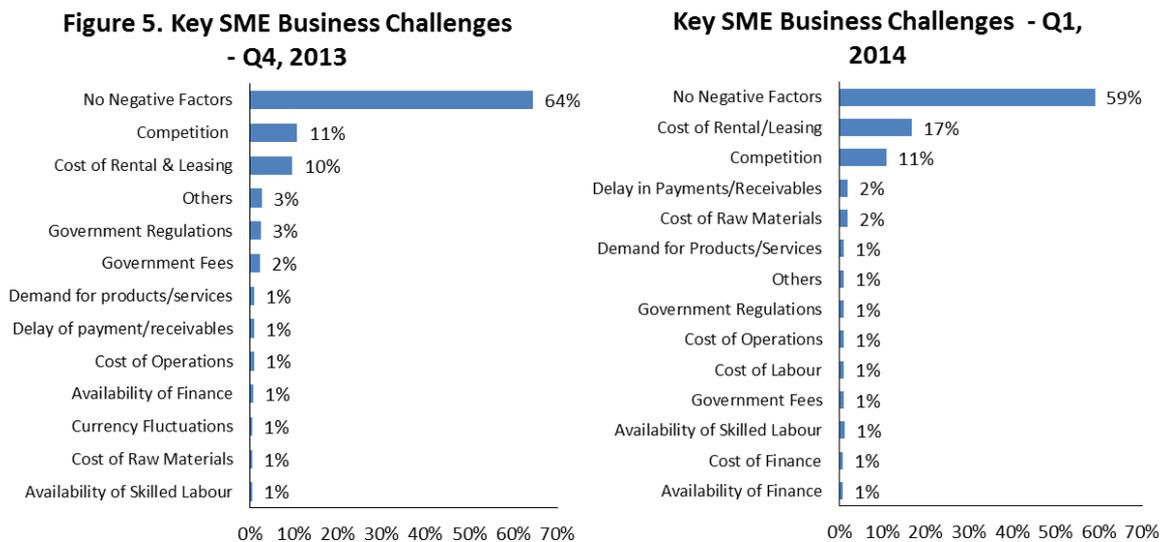
Rental costs posted a sharp increase during Q1, 2014 with 74% of the firms citing an increase compared to 54% during Q4, 2013 and 30% during Q1, 2013. The impact of increase in rental costs was most for traders: 81% of trading SMEs reported an increase in rentals versus 72% of manufacturers and 70% of services firms. Additionally, 68% of the large companies cited an increase in rental costs in Q1, 2014.

With respect to cost of finance, 20% of the SMEs made use of bank finance out of which 26% reported an increase in these costs while 67% reported 'no change'. The key reasons cited for not availing bank finance were the availability of sufficient funds, firms' policy of not taking loans and high interest rates. Among the large companies, 40% availed of bank finance, of which 85% reported no change in costs, while 10% reported an increase.

Finally, 26% of the SMEs have reported an increase in their net profits during Q1, 2014 compared to 36% that reported an increase during Q4, 2013 and 30% in Q1, 2013. Profitability was highest among service sector firms with a net balance of positive 10%, compared to negative 7% for manufacturing firms and negative 5% for traders. Among the large companies, 34% reported an increase in profits, while 24% reported a decline, resulting in a net balance of positive 10% (1% for SMEs).

KEY BUSINESS CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q1, 2014 that may impact business growth and development. The number of survey participants expecting ‘no obstacles’ to their operations registered a drop from 64% in Q4, 2013 to 59% in Q1, 2014.



The survey shows that the rising cost of rental/leasing is the key challenge facing Dubai’s SME businesses (17% of respondents). Competition is the second most important hindrance (11% of respondents), followed by delay in payments/receivables and cost of raw materials (2% each).

The following are found to be the major challenges impacting SMEs in Dubai:

1. High cost of rental/leasing (*cited by 17% of the respondents*): This was reported as a key challenge by businesses that have renewed their lease at higher rentals. Moreover, 30% of the respondents that cited high cost of rental/leasing as a challenge stated that the severity of this challenge has increased in the current quarter.



2. Competition (*cited by 11% of the respondents*): Rising competition from local and international players is the second most important challenge being faced by Dubai-based businesses. In the previous quarter too, 11% of the businesses reported competition as a concern. Moreover, 46% of the respondents that cited competition as a challenge stated that the severity of this challenge has increased in the current quarter.
3. Delay in payments/receivables (*cited by 2% of the respondents*): Dubai's businesses have cited this as the third most important challenge for their business operations.
4. Cost of raw materials (*cited by 2% of the respondents*): Rising cost of raw materials is a concern for some businesses in the first quarter of 2014.

The remaining challenges are almost equal in severity, as reported by 1% of respondents in each case.

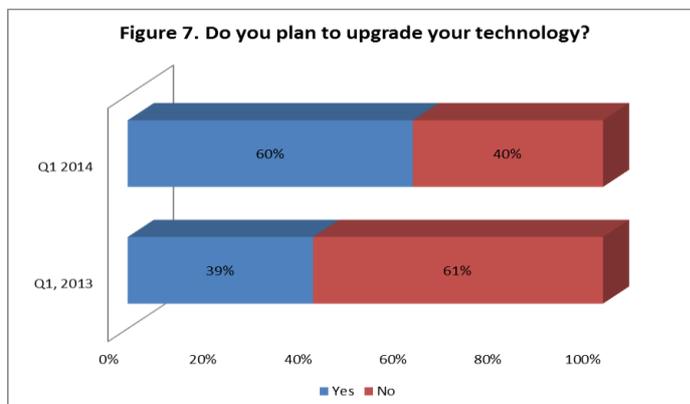
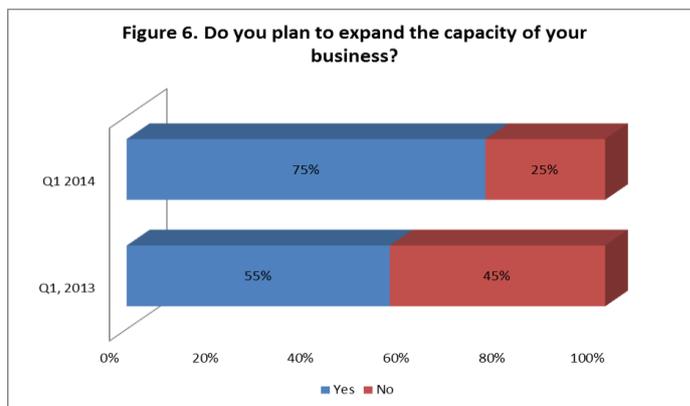
In terms of factors impacting businesses by firm size, the topmost challenges for SMEs are the same as the overall economy, i.e. cost of rental/leasing, competition and delays in payments/receivables, while for large companies the most significant challenge is competition, followed by cost of rental/leasing and delays in payments/receivables.

As for exporters, the top two challenges are the same as the overall economy i.e. high cost of rental / leasing and competition.



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 in Dubai are positive with respect to investment plans. Plans to invest in capacity expansion are almost steady relative to the last quarter, but much stronger than the levels a year ago (75% of the surveyed businesses indicated plans to undertake capacity expansion in Q1, 2014 compared to 77% in Q4, 2013 and 55% in Q1 2013).

However, there is a marginal decline (vis-à-vis the previous quarter) observed in plans to upgrade technology (60% of the respondents intend to undertake such investments in Q1 2014 versus 64% in Q4 2013 and 39% in Q1 2013).

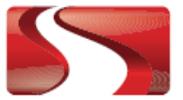


Companies planning capacity expansion have reported new capital investments for expansion of the current office premises and acquisition of new assets, (such as, factories, warehouses, machinery, and vehicles).

Businesses with no expansion plans have cited satisfaction with the current scale of their operations and / or a focus on achieving stability and profitability before adding to their capital expenditures, as the key reasons for no expansion plans on their part.

A comparison across the three key sectors shows that the trading sector is the most optimistic with respect to capacity expansion (78% in trading, 74% in services and 69% in manufacturing are planning for such investments). With respect to technology upgrade, manufacturing firms (72%) are more inclined compared to service firms (60%) and trading companies (54%).

From a business size perspective, large businesses are more inclined towards technology upgrades. With regards to market orientation, export market-oriented businesses have slightly higher plans for capacity expansion as well as technology upgrades than domestic market-oriented firms.



The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be violation of applicable law. Dubai SME encourages the dissemination of its work and will grant permission to reproduce portions of the work promptly. All queries should be addressed to Dubai SME at essam.disi@sme.ae (P.O. Box 66166, [Tel:+971 4361 3000](tel:+97143613000), www.sme.ae)

DUBAI SME © 2011