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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

Q1, 2015

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The Introduction

AT A GLANCE

- The Composite Business Confidence Index (BCI) for Dubai's SMEs for Q1, 2015 stands at 122.7 points, highlighting an overall weakening in the outlook when compared to the same period a year earlier (126.4 points) as well as with the last quarter's reading of 128.5 points
- In line with the trend observed for the composite BCI, the survey reflects that the outlook for sales revenue has moderated in relation to the last quarter and when compared on an annual basis; 52% SMEs expect an increase in sales revenue during Q2, 2015, compared to 64% and 62% in Q1, 2015 and Q2, 2014 respectively
- Large firms are more confident than SMEs on all the parameters in the survey. The composite BCI of large firms is at 135.0 points, compared to 122.7 points for SMEs
- Participants have indicated a weakening of the overall business environment with 50% expecting an improvement compared to 60% in the previous quarter
- Dubai's SMEs continue to highlight competition and rising costs of rentals as key hindrances to business operations
- Capacity expansion and technology upgrade plans have strengthened on a quarterly basis

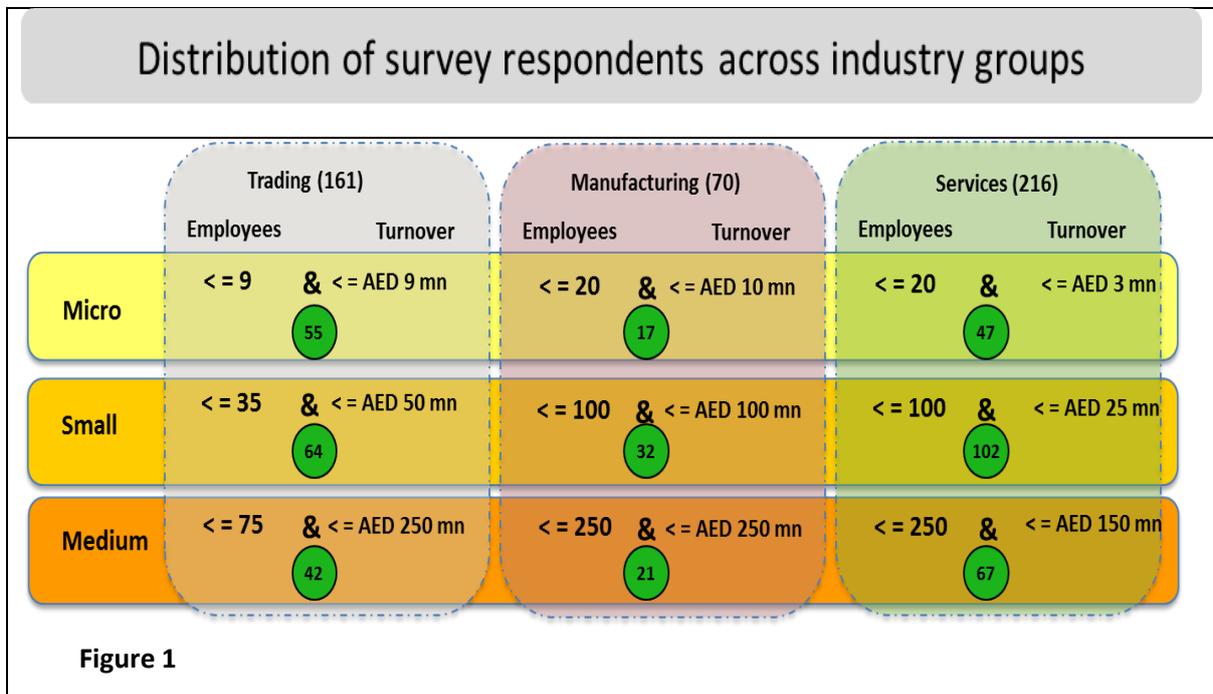
The Department of Economic Development (DED) is a Dubai Government Department that has the mandate to help achieve the key strategic objectives of fostering 'Sustainable Economic Development' and strengthening the 'Competitiveness of Dubai'.

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 2015 and highlights the future expectations of SME businesses in Dubai. The survey was administered to 447 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, 2015¹ was conducted for a total of 500 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’s 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*. Respondents were asked to indicate if they expect an ‘increase’, ‘decrease’ or ‘no change’ in these indicators.

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.

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:

(% of positive responses - % 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, 2015

The International Monetary Fund (IMF) has trimmed UAE’s 2015 growth forecast to 3.5%, due to the instability of global oil prices. However, despite the decline of oil prices, the economy is expected to continue to grow as the subdued oil sector growth will be offset by high non-oil sector growth, due to the Emirates’ strategic plan to diversify its economy. Meanwhile, Dubai’s economy is projected to grow by 4.5% this year. The D&B survey reveals that the SME Composite Business Confidence Index in Q1, 2015 stands at 122.7 points (A score of 100 indicates stable/neutral sentiments).

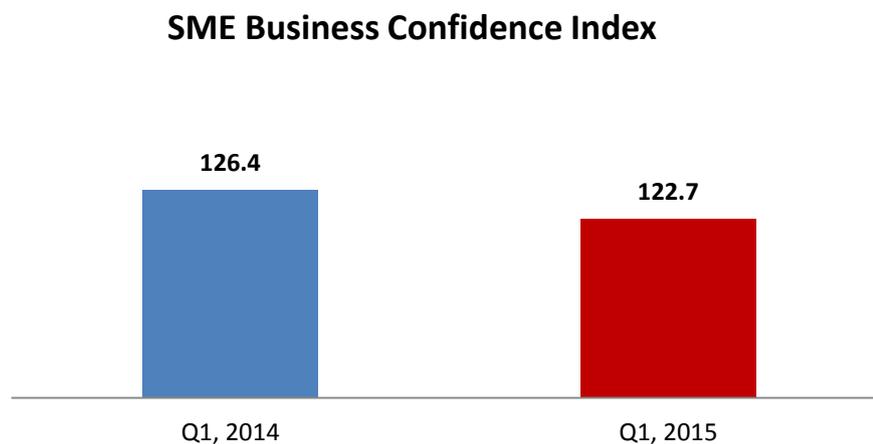


Figure 2

The current survey highlights that SMEs are less optimistic compared to the previous quarter and the comparable quarter a year ago. The Composite BCI is 3.7 points lower on a yearly basis from 126.4 points in Q1, 2014. In comparison to the previous quarter, the Composite BCI has moderated 5.8 points from the last quarter’s score of 128.5 points, owing to increasing competition, slowdown in business activity, and no new projects.

Continuing last quarter’s trend, large firms have a stronger outlook compared to small and medium firms, as highlighted by their corresponding index scores of 135.0 points and 122.7 points respectively. Large companies are more optimistic than SMEs on all the parameters recorded in the survey.

Business Confidence Index- Q1, 2015

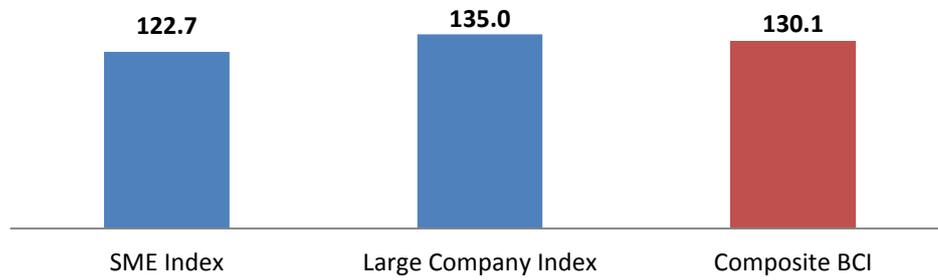


Figure 3

SME BUSINESS OUTLOOK – Q2, 2015

SMEs account for a dominant share in Dubai’s total business composition (95% of the total number of firms). 447 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. The current survey highlights that SMEs are less optimistic compared to the previous quarter and the comparable quarter a year ago. The composite BCI for SMEs stands at 122.7 points in Q1, 2015 compared to 128.5 points in Q4, 2014 and 126.4 points in Q1, 2014. Additionally, SMEs are less optimistic than large companies as in the previous quarter.

Forecast Business Performance (SME) - Q2, 2015

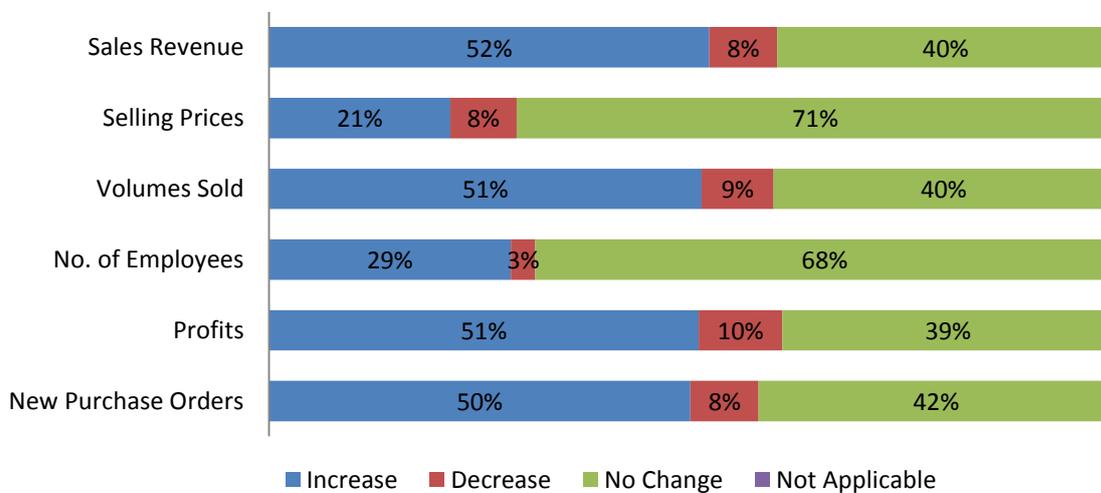


Figure 4

Optimism with respect to volumes sold has weakened significantly both on a q-o-q and y-o-y basis, with 51% of the respondents forecasting an increase during Q2, 2015 vis-à-vis 64% in Q1, 2015 and 63% in the same period last year. Low demand especially during the summer season, competition and lack of new projects were cited as reasons for the overall weakness in this parameter. The net balance for Q2, 2015 stands at positive 42%, versus 59% in the previous quarter and 56% in Q2, 2014. SMEs have a weaker outlook compared to large firms on sales volume, with net balances of 42% and 49%, respectively.

A comparison of the outlook of key economic sectors reveals that the services sector is most optimistic about sales revenue, selling prices, volumes sold, net profits and new purchase orders, while the manufacturing sector holds the strongest outlook with respect to hiring.

Manufacturing Sector:

The present survey shows that the prospects for manufacturing firms has weakened considerably when compared with the previous quarter and the same period a year ago; the net balance for sales volume has declined from positive 67% in Q1, 2015 and 65% in Q2, 2014 to positive 43% in Q2, 2015. A lower optimism for sales volume is due to the seasonal downtrend in business.

Within the manufacturing sector, firms engaged in metal fabrication and furniture are more optimistic than those in the other sub-sectors. 47% firms expect to sell higher volumes during Q2, 2015, compared to a corresponding 73% during Q1, 2015 and 69% during Q2, 2014. A modest 4% expect a decline due to a decrease in demand during the summer season.

Services Sector:

Of the three sectors, the services sector has displayed the strongest sales outlook for Q2, 2015 compared to the manufacturing and trading sectors. However, the net balance for this parameter is weaker when compared to the last quarter and the comparable period last year. The net balance for the sales volume outlook is 46% for Q2, 2015 compared with a corresponding 61% for Q1, 2015 and 56% for Q2, 2014. Within the services sector, 65% companies in the construction, architecture & real estate segment are optimistic with respect to volume of sales in the second quarter, with only a marginal 2% expecting a decline due to lack of demand and increasing market competition.

Car rentals and travel firms, a sub-segment of the tourism sector, have highlighted stronger optimism with 60% expecting an increase in sales volume and the remaining 40%

anticipating no change. On the other hand, hotels & restaurants are not as optimistic with just 10% of them anticipating a rise in volumes and 40% expecting a decline, owing to the lack of demand associated with the onset of the summer season.

Among the transportation firms, 61% anticipate an increase in volumes during Q2, 2015 driven by an increase in the number of customers and new projects, while a marginal 4% expect a decrease due to a slowdown in demand.

Trading Sector:

In line with the sentiments of the overall economy, expectations for sales volume in the trading sector have moderated vis-à-vis the last quarter and the same period a year ago (net balance for sales volume outlook is 38% for Q2, 2015 compared to 53% for Q1, 2015 and 52% for Q2, 2014). The survey shows that 48% of the trading firms anticipate an increase in their volumes, while 10% expect a decline, due to low demand during the summer months and increasing competition.

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

- 60% of the traders in the building & construction sub-sector anticipate an increase in sales volume during Q2, 2015, backed by higher market demand.
- 56% of electronics traders are upbeat about the second quarter of 2015 due to higher demand from new and existing customers and growing business, while none of the firms in this sub-segment expect a decline in volumes.
- 57% of the auto traders are expecting to sell higher volumes in Q2, 2015, due to new projects and acquisition of new customers.
- 62% of food & beverage traders anticipate a rise in volumes during Q2, 2015 driven by an increase in new orders and higher market demand.

Selling prices are largely expected to remain stable, with 71% of the respondents expecting “no change” in this parameter. 8% respondents expect a decline due to stiff market competition and the overall slowdown in business activity. The net balance for selling

prices stands at positive 13% for Q2, 2015, compared to positive 12% for both Q1, 2015 and Q2, 2014. Services SMEs (net balance of positive 19%) are more confident than manufacturing (net balance of 13%) and trading SMEs (net balance of 7%) with respect to their selling prices.

Reflecting the weaker expectations for volumes, optimism for new purchase orders has moderated versus last quarter and on a yearly basis. 50% of SMEs foresee an increase in purchase orders for Q2, 2015 compared to 62% for both Q1, 2015 and Q2, 2014. Service sector companies have the strongest forecast for new purchase orders with a positive net balance of 45% against 43% for manufacturing and 38% for trading SMEs. The outlook for procurement levels remains higher for large companies in comparison to SMEs with net balances of 46% and 42% respectively.

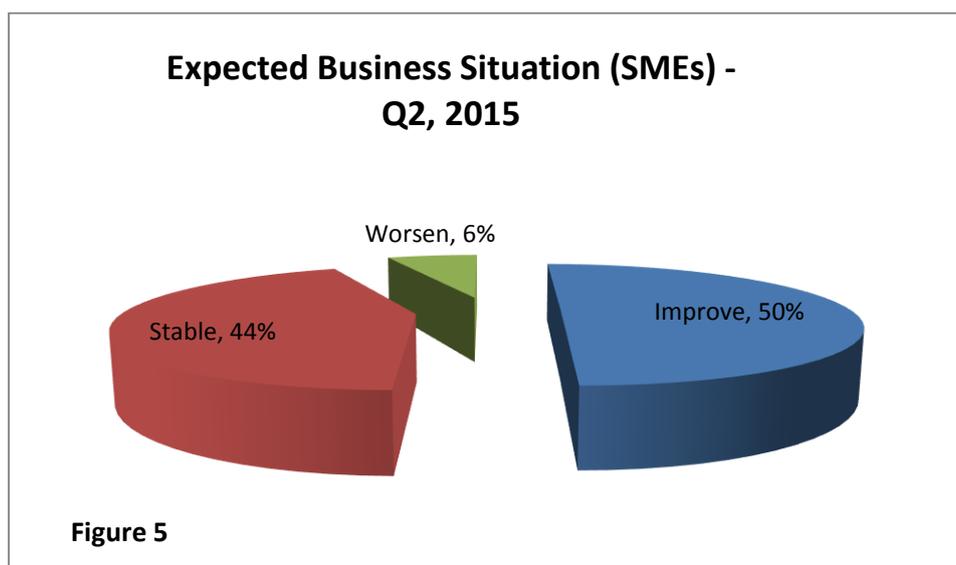
The employment outlook has improved on a q-o-q basis but is at par on a y-o-y basis. 29% of the survey participants expect to increase staff headcount during Q2, 2015 to cater to new projects and business expansion plans, compared to a corresponding 22% in Q1, 2015 and 29% in Q2, 2014. 68% businesses expect stability in their employee numbers, while the remaining 3% anticipate a reduction in headcount numbers. Firms in the manufacturing sector are more confident about hiring during the second quarter. Large companies are more optimistic than SMEs with respect to employment, with positive net balances of 30% and 26% respectively.

46% of manufacturing and 55% of services sector participants anticipate an increase in their capacity utilization rates during Q2, 2015. This is compared to 32% of large firms expecting an increase in capacity utilization levels in this quarter.

In line with the trend observed for sales volume, expectations with respect to net profits for Q2, 2015 have moderated both on a q-o-q and y-o-y basis; 51% of SMEs are anticipating an increase in profits during Q2, 2015 mainly on the back of higher sales from local and foreign markets, new clients and projects. The corresponding proportions for Q1, 2015 and Q2, 2014 stand at 63% and 54%, respectively. A comparison between sectors shows that

the services sector is the most upbeat as 54% foresee an increase in profits compared to 46% and 48% of manufacturing and trading firms respectively. Large companies are more optimistic than SMEs about net profits, with a net balance of 49% versus 41% for SMEs.

The survey reflects moderation in the overall business outlook for the second quarter, with 50% of the firms expecting an improvement in business conditions compared to 60% in the previous quarter.



A higher percentage of large companies (60%) expect the business situation to improve during the second quarter of 2015 versus 50% for SMEs.

IN FOCUS: SELF-INSPECTOR

What is the definition/concept?

The “Self-Inspector” concept is based on an initiative by DED that aims to enable employees of the Retail Sector in Dubai to build solid background knowledge of all the regulatory procedures and violations in relation to commercial licenses and permits. This will serve as a safeguard against any potential violations (and penalties) by the companies and will induce trust in the business sector. This will reflect an honorable image of the Retail Sector in the Emirate of Dubai.

Benefits & Powers:

- Free membership
- To limit fines
- No expiry date
- Official certification for the entity and the inspector
- Entity will be listed in an official list
- Inspectors will have access to high-quality training courses
- Enhance consumer’s trust
- Members can use the campaign logo
- Savings to businesses by avoiding fines

Responsibilities of Participating Businesses:

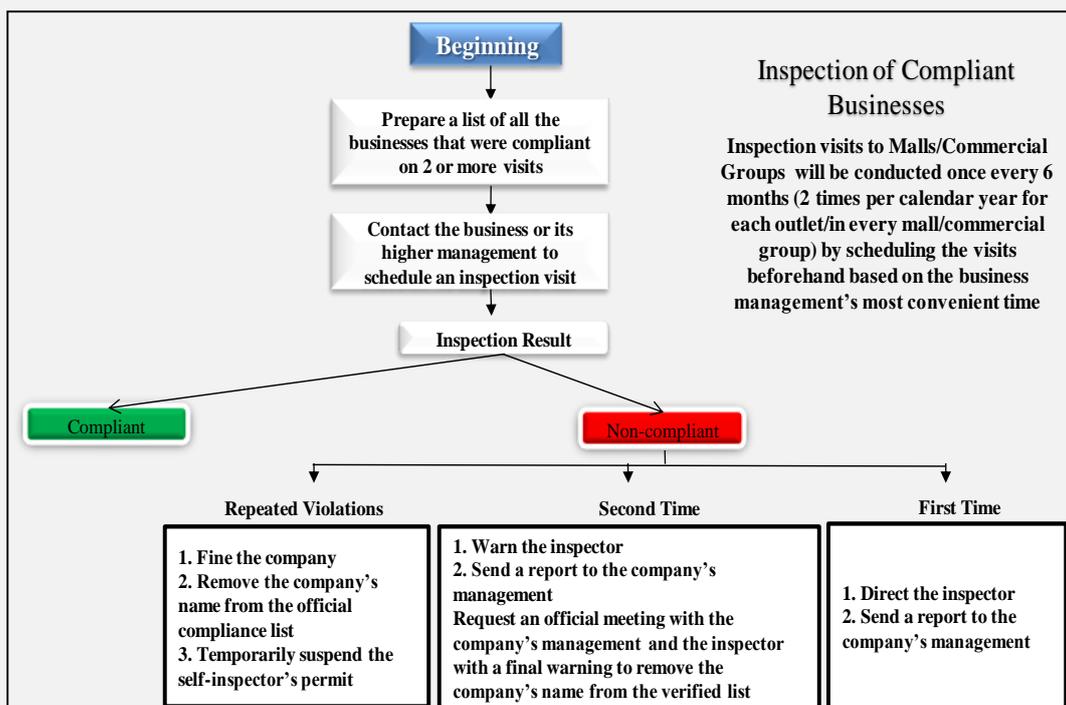
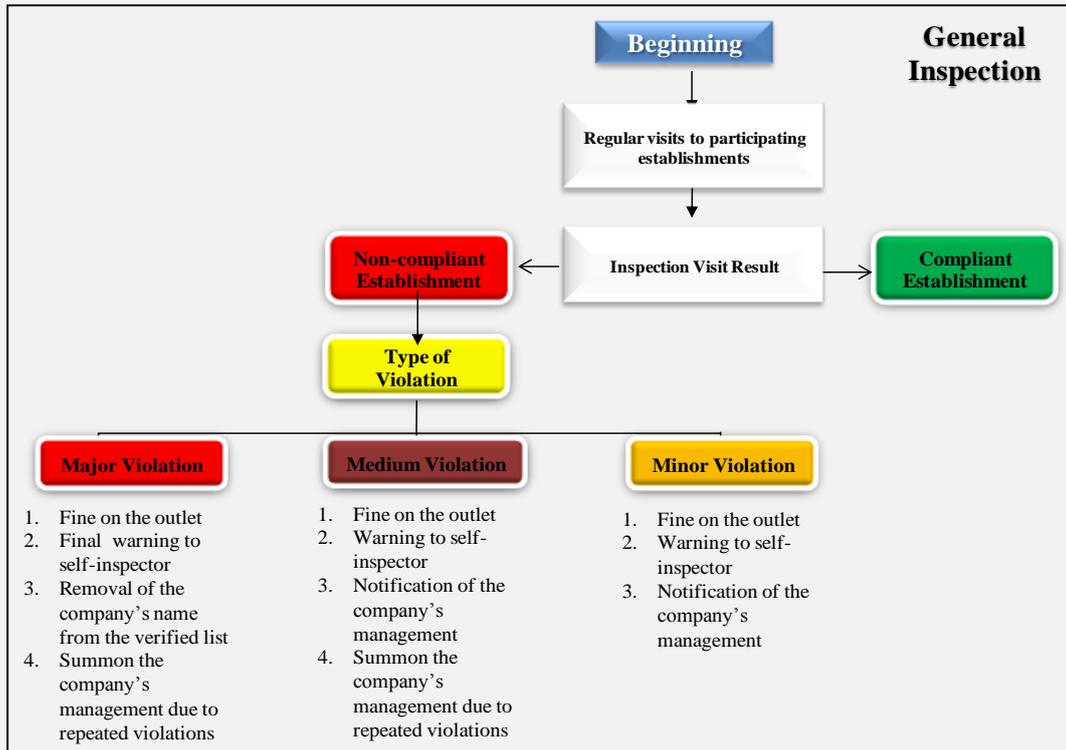
- Assign a high level contact person and communication channels in case of any violation of regulatory laws
- Commitment to display the inspection leaflets in all outlets belonging to their business
- Notify the Commercial Compliance and Consumer Protection Department when the existing self-inspector leaves and trains an alternate inspector

Responsibilities of the Self-Inspector:

- Ensure that businesses are abiding by all the regulatory laws related to the Commercial Compliance and Consumer Protection Department
- To contact the Commercial Compliance and Consumer Protection Department for any enquiries about the laws
- Ensure that the business group always has a valid business license in terms of business activities, permits, expiry, location



- Ensure that the Self-Inspector Identification Card is always worn



SME PERFORMANCE – Q1, 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 of SMEs from one quarter to another, as reported qualitatively by responding firms.

The current survey shows a decline in the proportion of respondents citing an increase in sales volume in Q1, 2015 both on a quarterly and annual basis; 26% reported an increase, while 30% indicated a decrease (net balance of negative 4%) due to stiff competition, no new projects and a decline in market demand. This is a decline versus 33% and 28% reporting an increase and decrease respectively in Q4, 2014 (net balance of 5%). The performance was also weaker when compared to the same quarter a year ago (net balance of 18%). Business performance was much stronger in the manufacturing sector with a net balance of positive 14%, compared to negative 7% for services firms and negative 8% for traders. Within the services sector, the net balances for sales volume are: 11% for construction, architecture & real estate, negative 10% for hotels & restaurants, and negative 11% for transportation.

Once again, large companies performed better than the SMEs with respect to sales volume. 57% of the large companies reported an increase in volumes compared to 26% of SMEs.

- In the manufacturing segment, sub-sectors that showed positive activity were food & beverage, metals and plastic manufacturing.
- Economic activity in the trading sector for Q1, 2015 was weak due to lack of customers, low market demand, stiff competition and an overall slowdown in international markets.
- Within the services sector, positivity was seen in the construction, transport and hotels & restaurant sub-segments in Q1, 2015.

With reference to selling prices, 13% of SMEs cited an increase in selling prices in Q1, 2015 owing to rising rents, increase in the cost of raw materials, improvement in demand

and exchange rate fluctuations, while 21% reported a decline citing slow market conditions, rising competition, slowdown in exports markets such as Russia and lack of projects. However, a majority 66% cited stability in this parameter.

When compared to the previous quarter, hiring trends of SMEs improved during Q1, 2015 (net balance of 9% in Q1, 2015 compared to 6% in Q4, 2014). However, on a yearly basis, the net balance for Q1, 2015 is lower compared to 20% during Q1, 2014. Hiring was stronger among manufacturing companies (net balance of 14%), followed by the trading segment (10%) and services sector (7%). A comparison between large companies and SMEs shows that the former experienced a much stronger quarter (Q1, 2015) with respect to adding staff. The net balance for large companies and SMEs was 34% and 9% respectively.

Mirroring the decline in sales volume, procurement levels for Q1, 2015 also weakened. The net balance for the parameter stood at negative 2% in Q1, 2015, lower than the 4% in the previous quarter and 23% in Q1, 2014. 33% manufacturing and 28% trading firms reported an increase in new purchase orders, compared to 25% of services firms. Large companies showed a much stronger performance on new purchase orders as reflected by a positive net balance of 49% in Q1, 2015.

The survey shows that capacity utilization rates for the services sector moderated as 25% cited an increase in Q1, 2015 compared to 32% in the previous quarter and 35% in Q1, 2014. There was a decline in capacity utilization in the manufacturing sector as well; 27% reported an increase during Q1, 2015 compared to 36% in Q4, 2014 and 30% in Q1, 2014.

The unit cost of labor increased for 54% of the survey participants, due to higher rents and salaries. However, 45% respondents indicated stability in labor costs. A comparison across the key sectors reveals that a much higher percentage of manufacturing firms cited an increase in such costs (63%) compared to trading (48%) and services firms (56%). Over half (55%) of the large firms experienced an increase in labor costs during Q1, 2015.

A majority (74%) of the survey respondents indicated stability in the cost of raw materials during Q1, 2015; this proportion stood at almost the same level as last quarter (73%) and 76% in Q1, 2014. 22% of the firms however reported a rise in the parameter, with the manufacturing sector being most impacted by such costs (37% cited a rise versus 19% in trading and 20% in services). Among large companies, 23% of them registered a rise in the cost of raw materials, while 66% reported stability.

Rental costs increased for 63% of the SMEs in Q1, 2015, while none of the respondents cited a decline. 47% SMEs reported an increase in rentals during Q4, 2014, while the proportion stood at 74% in Q1, 2014. The impact of rental costs was quite similar across the three main sectors: 60% of the firms in manufacturing, 65% in trading and 62% in services reported an increase in rentals during the first quarter of 2015. Among large companies, 53% of the respondents reported an appreciation in such costs.

With respect to the cost of finance, 32% of the SMEs made use of bank finance out of which 21% faced an increase in these costs while 69% reported 'no change'. 55% of large companies availed of bank finance, of which 83% reported no change in costs, while 10% reported an increase.

There was a moderation in profitability for SMEs during Q1, 2015 when compared with the previous quarter, but a similar performance in comparison the first quarter of 2014. 24% of SMEs have reported an increase in their net profits during Q1, 2015 compared to 33% that cited an increase during Q4, 2014 and 26% in Q1, 2014. The manufacturing sector displayed the strongest performance with respect to profitability, with a net balance of positive 7%, compared to negative 11% for trading firms and negative 17% for services. Among the large companies, 51% reported an increase in profits, while 15% reported a decline, resulting in a net balance of positive 34% (negative 11% for SMEs).

KEY BUSINESS CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by businesses at the end of Q1, 2015 that may impact business growth and development. As part of the survey, 45% participants indicated that they do not expect any hindrances to their business operations; the proportion stood at 38% in the previous quarter.

Key SME Business Challenges - Q4, 2014

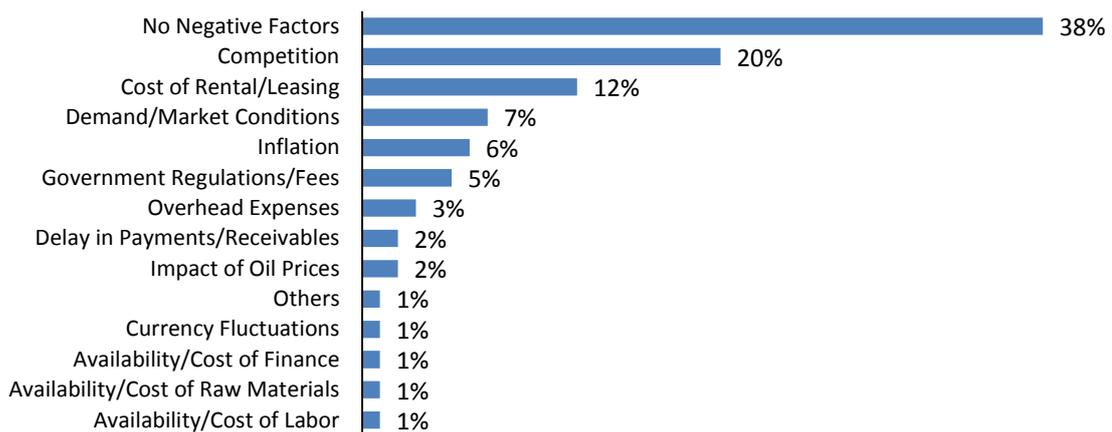


Figure 6

Key SME Business Challenges - Q1, 2015

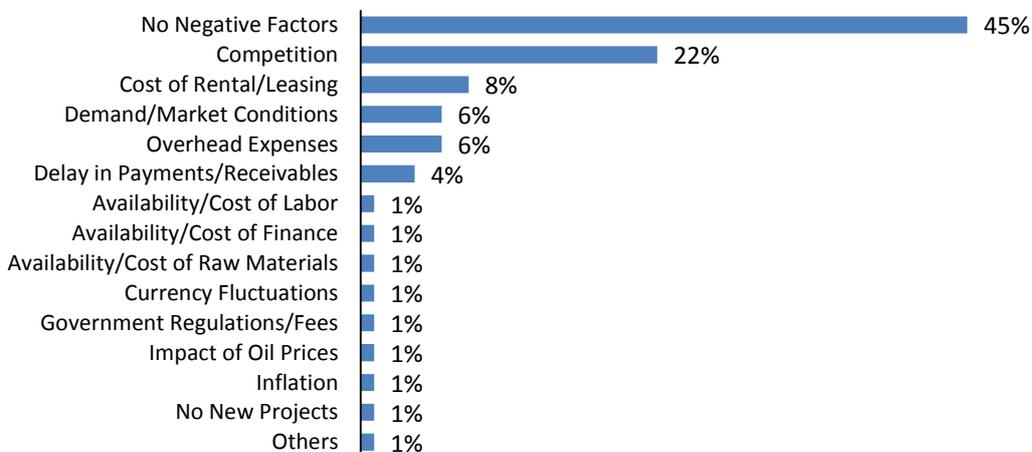


Figure 7

Competition, rising costs of rental/leasing and low demand continue to be the main challenges facing Dubai's SME businesses.

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

1. Competition (*cited by 22% of the respondents*): Businesses in Dubai are impacted by rising competition from regional and international players. This was reported as the key challenge by 22% of the respondents this quarter compared to 20% in the previous quarter. 72% of the respondents indicated that competition as a challenge increased in intensity.
2. High cost of rental/leasing (*cited by 8% of the respondents*): High cost of rental/leasing as an impediment has affected respondents this quarter. 81% stated that this challenge increased in severity this quarter.
3. Demand/market conditions (*cited by 6% of the respondents*): This challenge has been cited by 6% of Dubai's SMEs and 56% have stated that the severity of slow market conditions increased during Q1, 2015.
4. Overhead expenses (*cited by 6% of the respondents*): High overhead expenses have been cited as a challenge by 6% of the survey participants.
5. Delay in Payments/Receivables (*cited by 4% of the respondents*): Issues related to late payments by clients was a concern for 4% of businesses in the current quarter.
6. The remaining concerns are almost equal in severity, as indicated by 1% of respondents in each case.

A comparison of challenges faced by firm size shows that competition is the topmost challenge for both SMEs and large companies. Besides competition, the former faces the same challenges as the overall economy i.e, rising costs of rental/leasing and low demand, while for large companies, the other leading concerns include high overhead expenses and low demand.

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.

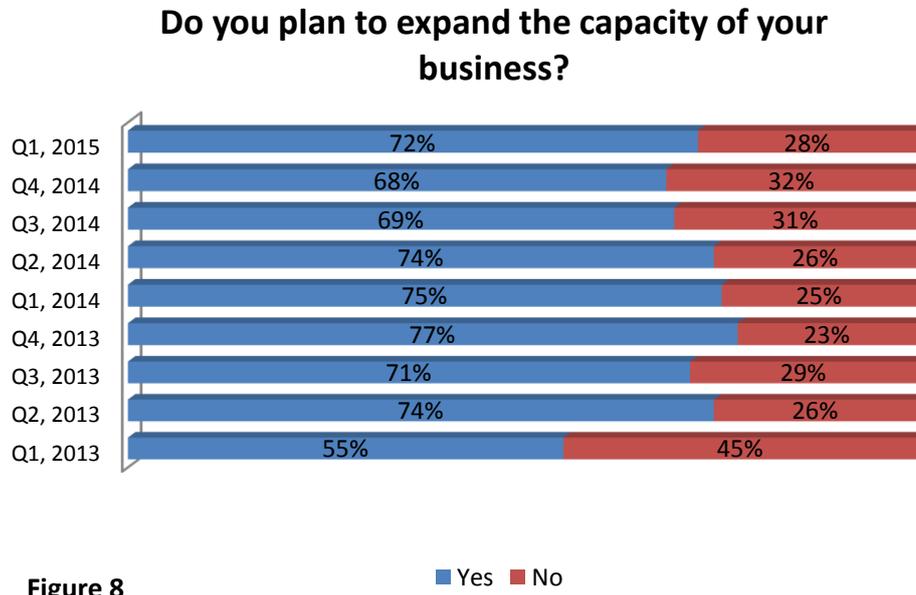


Figure 8

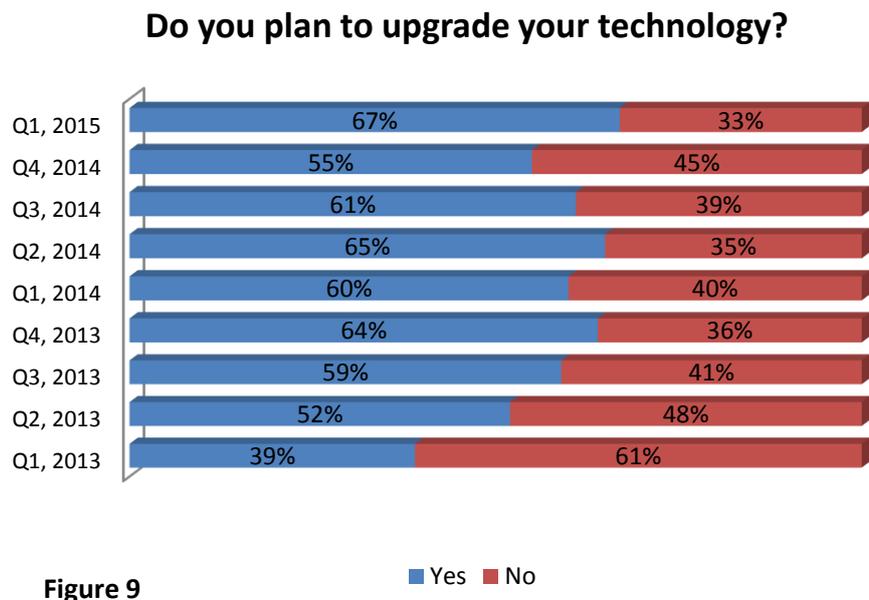


Figure 9

The current survey reveals that plans to invest in capacity expansion are marginally stronger on a q-o-q basis, and slightly weaker when compared to last year. 72% SMEs have

indicated plans to invest in capacity expansion in Q1, 2015 compared to 68% in Q4, 2014 and 75% in Q1, 2014.

Plans to invest in technology upgrades have firmed up both on a q-o-q and y-o-y basis. 67% of the firms (highest in the series) cited such plans against 55% in the previous quarter and 60% in Q1, 2014.

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

Key reasons for not expanding business capacity as cited by respondents include satisfaction with the current scale of their operations and/or to focus on achieving stability and profitability.

A sectoral analysis reveals that the manufacturing sector is the most optimistic with respect to both capacity expansion (81% of manufacturing, 75% of trading and 68% of services firms) and technology upgrades (77% of manufacturing, 59% of trading and 70% of services firms).

Large firms continue to be more inclined towards both expansion plans and technology upgrades, as compared to SMEs. While exporters have indicated optimism for plans on capacity expansion, domestic-market oriented firms are keen on technology upgrades.