

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

Q4 - 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

- Dubai SME Composite Business Confidence Index stands at 128.5 points in Q4, 2014, which is almost at level on a q-o-q basis (BCI of 129.4 points in Q3, 2014), but weaker than the outlook a year ago (BCI of 134.3 points in Q4, 2013).
- Commensurate with the BCI, the outlook for sales revenue for Q1, 2015 is at par with last quarter's forecast but weaker when compared on a y-o-y basis. The net balance for the sales revenues outlook for Q1, 2015 stands at positive 59% compared to 60% for Q4, 2014 and 72% for Q1, 2014
- Once again, large companies have shown a stronger outlook compared to the SME segment. The composite BCI for large firms is 144.6 points versus 128.5 points for SMEs
- Expectations with respect to the business environment are stable with 60% participants forecasting an improvement in business conditions during Q1, 2015 versus 59% for the last quarter
- Competition and rental costs are the foremost concerns for Dubai's SMEs.
- Large businesses are more inclined towards technology upgrades as well as about capacity expansion in comparison to SMEs.

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 a quarterly business survey, to gauge the level of current economic activity and the outlook of businesses for the next quarter.

This document presents a summary of the survey conducted in the 4th quarter of 2014 and highlights the future expectations of SME businesses in Dubai. The survey was administered to 450 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 Q4, 2014¹ was conducted with a total sample of 501 companies across the Emirate of Dubai. The sample included a mix of small, medium and large enterprises and ensured and had adequate representation from the manufacturing, trading and services sectors, in proportion to their respective contributions to Dubai GDP.

The figure below indicates the distribution of SME participants across industry groups and size of the business.

Distribution of survey respondents across industry groups						
	Trading (162)		Manufacturing (70)		Services (219)	
	Employees	Turnover	Employees	Turnover	Employees	Turnover
Micro	< = 9	& < = AED 9 mn	< = 20	& < = AED 10 mn	< = 20	& < = AED 3 mn
	44		8		44	
Small	< = 35	& < = AED 50 mn	< = 100	& < = AED 100 mn	< = 100	& < = AED 25 mn
	62		31		113	
Medium	< = 75	& < = AED 250 mn	< = 250	& < = AED 250 mn	< = 250	& < = AED 150 mn
	56		31		61	

In order to gauge 'business outlook' or expectations, the quarterly survey focuses on key indicators, such as sales revenue, selling prices, volumes sold, profits and number of

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.



employees. Respondents are asked to indicate if they expected an ‘increase’, ‘decrease’ or ‘no change’ in these parameters.

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:

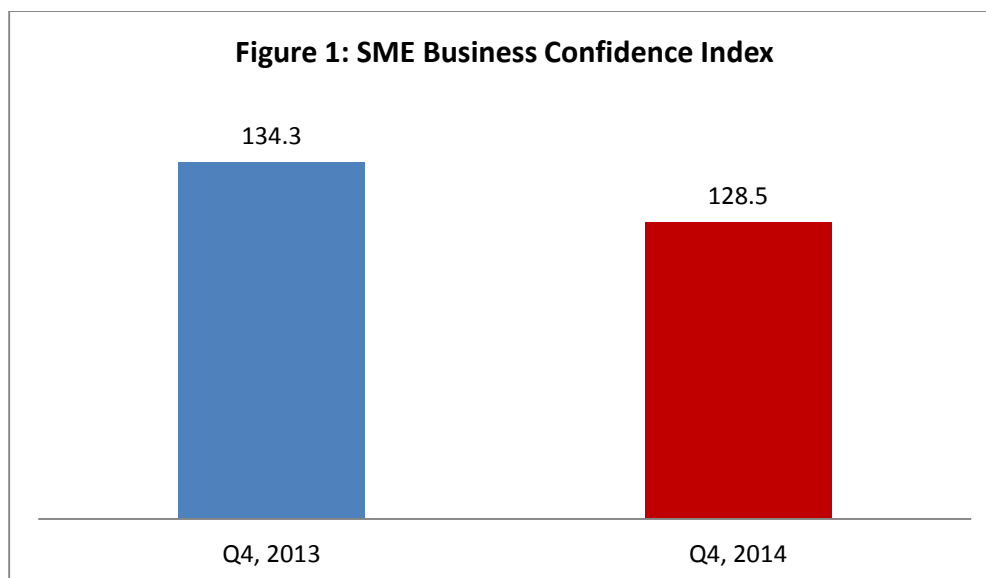
- *BCI < 100, business expectations are negative*
- *BCI = 100, business expectations are stable*
- *BCI > 100, business expectations are positive*

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

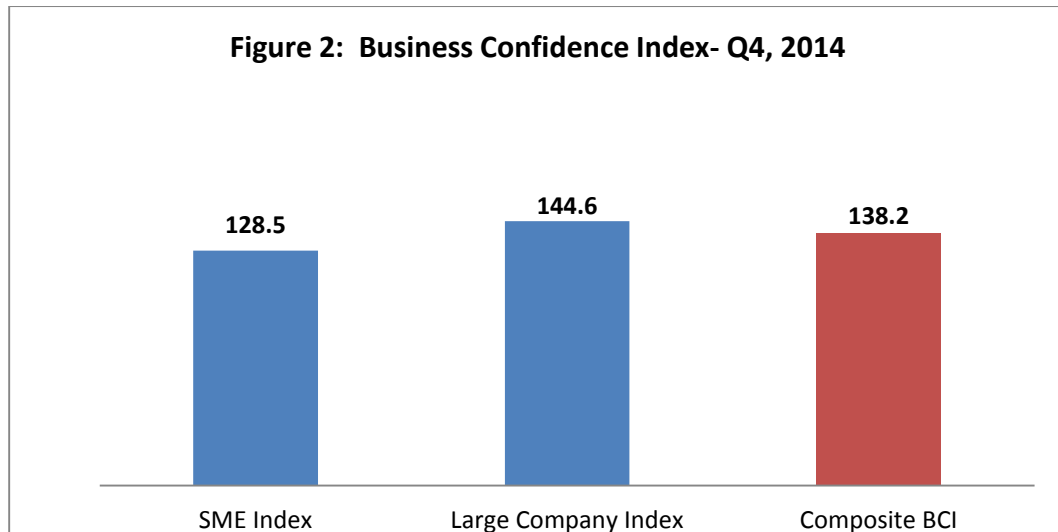
- *BCI(t) < BCI(t-1): business expectations are declining*
- *BCI(t) = BCI(t-1): business expectations are stable*
- *BCI(t) > BCI(t-1): business expectations are rising*

SME BUSINESS CONFIDENCE INDEX – Q4, 2014

Robust economic fundamentals driven by the manufacturing, services and real estate sectors will continue to drive strong growth in Dubai despite weakening global conditions. Dubai has been ranked number five in performance amongst 300 global cities in the annual 2014 economic rankings of cities worldwide, released by the Brookings Institution, according to which, the Emirate benefited from growing trade and tourism. The current survey reflects this optimistic outlook. The overall Composite Business Confidence Index for SMEs in Q4, 2014 stands at 128.5 points, indicating a growing economy (A score of 100 indicates stable/neutral sentiments); although it is lower on a y-o-y basis (134.3 points in Q4, 2013).



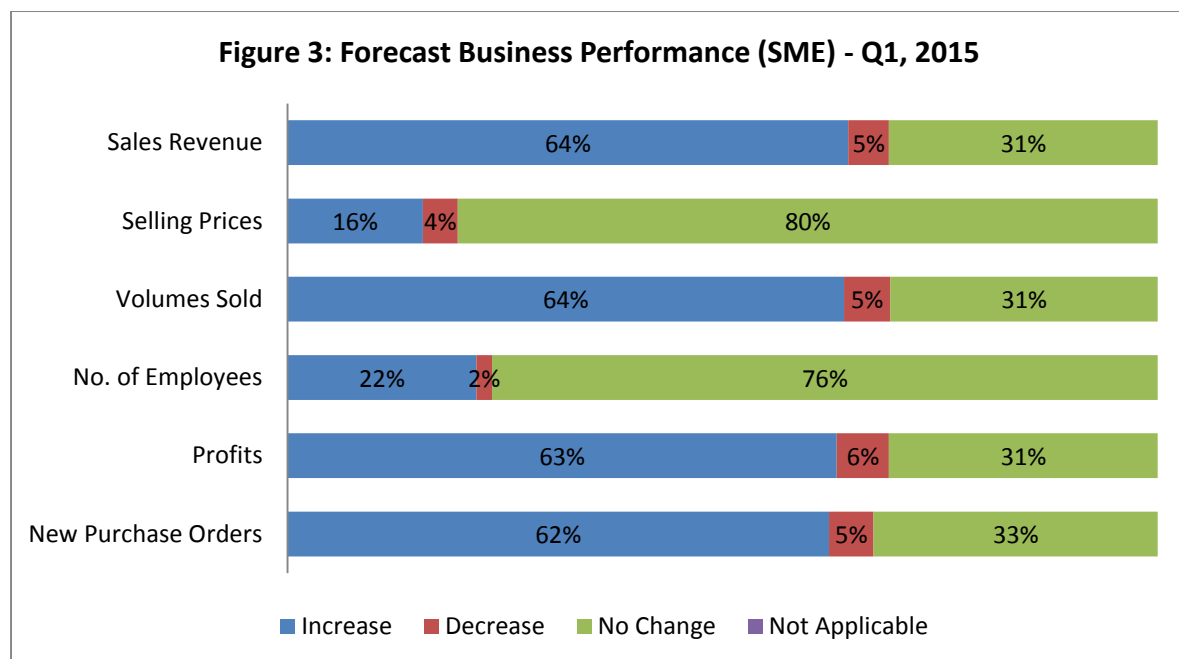
The current survey also shows that SMEs' outlook is almost at level with last quarter's expectations. The composite index in Q4, 2014 is a marginal 0.9 points lower than the index value in Q3, 2014. The strong outlook is supported by a huge number of new projects in the pipeline across all sectors. Respondents expect good business conditions over the near term, supported by the uptick in sales activity and client footfalls during the winter season.



Once again, large companies have shown a stronger outlook compared to the SME segment. The composite BCI for large companies is 144.6 points versus 128.5 points for SMEs. Large firms are more confident than SMEs in relation to all the parameters constituting the index i.e. sales volumes, selling prices, number of employees and net profits.

SME BUSINESS OUTLOOK – Q1, 2015

SMEs account for a dominant share in Dubai's total business composition (95% of the total number of firms). 450 of the 501 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 shows that the forecast of SMEs is almost at par on a q-o-q basis, but slightly weaker when compared on a y-o-y basis. The composite BCI for SMEs stands at 128.5 points in Q4, 2014 versus 129.4 points in Q3, 2014 and 134.3 points in Q4, 2013. Additionally, SMEs are less optimistic than large companies as in the previous quarter.



Expectations related to sales volumes have remained steady, both on a y-o-y and q-o-q basis. 64% participants foresee a rise in their sales volumes during Q1, 2015, similar to the outlook for Q4, 2014 and Q1, 2014 (65% respondents). The net balance for the sales volume for Q1, 2015 stands at 59% vis-à-vis 62% for Q1, 2014 and 58% for Q4, 2014. Rising demand resulting from a strong economy coupled with buoyancy in tourist activity, have bolstered the overall outlook. Large companies continue to display a stronger outlook



when compared to SMEs with respect to sales volumes, with net balances of 65% and 59%, respectively.

Firms in the manufacturing sector are the most upbeat in relation to sales volumes, an indicator of real economic activity, for Q1, 2015, with 73% of them expecting an increase compared to 64% in the services sector and 62% in the trading segment. The survey also shows that the services sector has the strongest outlook in terms of selling prices, boosted by seasonal demand. Further, the manufacturing and services sectors are more optimistic than trading, with respect to hiring and profitability.

Manufacturing Sector:

Within the manufacturing sector, 73% firms expect to sell higher volumes during Q1, 2015 (net balance of positive 67%) compared to a corresponding 64% during Q4, 2014 (net balance of 61%) and 71% during Q1, 2014 (net balance of 67%). Sentiments in the manufacturing sector remain strong on the back of new projects and a growing clientele base in the context of a booming domestic economy.

Manufacturing of building materials such as cement, chemicals, glass and metals, emerge as the most optimistic segments. A meager 6% companies foresee a decline in sales volume, as they do not have any new projects in the pipeline.

Services Sector:

The outlook of the composite services sector is just a shade weaker than the forecast for last quarter and last year. The net balance for the sales volume outlook is 61% for Q1, 2015 compared with a corresponding 62% for Q4, 2014 and 63% for Q1, 2014. Within the services sector, hotels & restaurants remain most optimistic, with 87% industry respondents expecting higher volumes and none expecting a decline. Other tourism sub-segments such as car



rentals and travel firms have also reported robust optimism with 44% of them expecting an increase and the remaining 56% foreseeing no change.

Construction, architecture & real estate firms have also indicated a robust and optimistic outlook with 71% industry respondents forecasting an increase in sales volume activity.

In the transport segment, 51% firms expect higher volumes during Q1, 2015 on the back of new client acquisition, flow of orders and an overall strong economy, while a marginal 5% anticipate a fall.

Trading Sector:

The trading sector has a more optimistic outlook vis-à-vis the last quarter, but a weaker forecast when compared with the same period a year ago (net balance for sales volumes at 53%, 50% and 56% for Q1, 2015, Q4, 2014 and Q1, 2014 respectively). 62% of the trading firms anticipate an increase in their volumes, while 9% expect a decrease, due to low demand for their products, diminishing clientele base.

Key positive sub-sector trends that have emerged as an outcome of the survey include the following:

- 81% of the food & beverages firms expect an increase in volumes during Q1, 2015 mainly due to a rise in tourist footfall in the first quarter of the year, acquisition of new customers in both domestic and export markets and growing demand from existing clients.
- 75% of the computer traders anticipate selling higher volumes during Q1, 2015 driven by expansion of their business operations, acquisition of new customers in domestic and international markets and the upcoming Dubai Shopping Festival (DSF) event.
- 56% of electronics traders expect to sell higher volumes during the first quarter compared to the previous quarter supported by acquisition of new customers in

domestic as well as in international markets. The outlook is expected to further strengthen due to the upcoming DSF event in the month of January.

With respect to selling prices, 80% of the surveyed firms have indicated that they do not anticipate any change. 16% foresee an increase stemming from a rise in the cost of inputs and general inflation in the economy, while 4% anticipate a drop mainly due to competition or low demand for their products. The net balance of selling prices for the first quarter of 2015 stands at positive 12%, which is lower than the level recorded for Q4, 2014 (20%) as well as for Q1, 2014 (20%). Services SMEs (net balance of positive 18%) remain more confident than manufacturing (net balance of 13%) and trading SMEs (net balance of 2%) with respect to their selling prices.

62% of SMEs expect an increase in purchase orders for Q1, 2015 compared to 64% for Q1, 2014 and 61% for Q4, 2014. Manufacturing companies have the strongest forecast for new purchase orders with a positive net balance of 63% against 60% for services and 50% for trading SMEs. The outlook for procurement levels is higher for large companies compared to SMEs with net balances of 65% and 57% respectively.

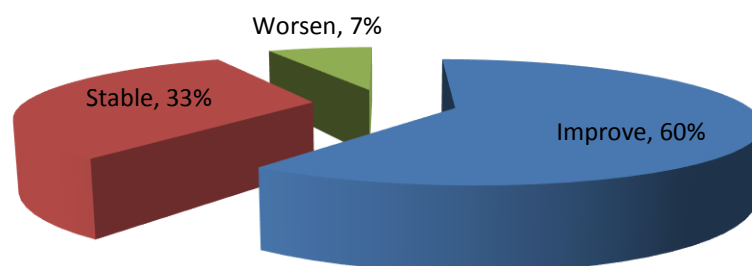
The employment outlook has moderated both on a q-o-q and y-o-y basis. 22% of the survey participants expect to increase staff headcount during Q1, 2015 compared to a corresponding 26% during Q4, 2014 and 37% during Q1, 2014. A marginal 2% of the firms anticipate a reduction in their employee count, while the remaining 76% expect to keep their head count unchanged. Services sector firms remain most optimistic about increasing their headcount. Large companies are more confident than SMEs on hiring, with positive net balances of 29% and 20% respectively.

71% of manufacturing firms and 60% of services sector participants anticipate an increase in their capacity utilization rates during Q1, 2015.

Mirroring the pattern observed for sales volumes, the outlook towards net profits for Q1, 2015 is also in sync both on a q-o-q and y-o-y basis, driven by stronger sales volumes, seasonal activity, acquisition of new customers and contracts as well as an overall robust business environment. 63% firms anticipate higher net profits during Q1, 2015 versus a corresponding 62% for Q4, 2014 and 61% for Q1, 2014. Large companies continue to maintain a stronger outlook than SMEs for net profits, with a net balance of 65% versus a corresponding 57% for SMEs.

SMEs' expectations with respect to the business environment are stable, with 60% participants forecasting an improvement in business conditions during Q1, 2015 versus a comparable 59% for the last quarter. Only 7% of the SMEs predict some deterioration in the overall business environment.

Figure 4: Expected Business Situation (SMEs) - Q1, 2015



At 73%, a slightly higher proportion of large companies expect the business situation to improve during the first quarter of 2015 against 60% for SMEs. Additionally, none of the large companies expect deterioration compared to 7% of SMEs that foresee a decline in the business situation.



IN FOCUS:

Commercial Control and Consumer Protection Sector
Department of Business Protection

The Commercial Control and Consumer Protection (CC&CP) Sector at the Dubai Economic Development Department (DED) consist of five main departments, namely:

- 1- Department of Business Protection;
- 2- Department of Consumer Protection;
- 3- Department of Commercial Compliance;
- 4- Department of Intellectual Property Protection;
- 5- Department of Development and Follow-ups.

The aspects related to the Department of Business Protection, along with its roles, duties, and services, will be highlighted as they are directly related to the Business Sector in the Emirate of Dubai.

Roles of Department of Business Protection:

- Organize dealings among commercial companies and settle their disputes.
- Keep the traders informed of the applicable laws and procedures.
- Prepare awareness workshops for traders.
- Develop economic studies related to the Emirate's Business Sector.

I. Commercial Lawsuits' Section:

Main Roles

- Organize dealings among commercial companies and settle their disputes.
- Receive complaints related to the commercial disputes among traders and conduct the amicable settlements.

Other Roles:

- Mitigate disagreements among traders.
- Communicate the viewpoint and proposals of each party to the other to reach the negotiation phase.
- Reduce the disagreement aspects and highlight the settlement aspects.
- Propose solutions.
- Create a comprehensive settlement draft and identify the future requirements for cooperation after settling the dispute among parties.



Services:

- Services are free of charge.
- Confidence in the Department's business activities and a positive reputation within the Private Sector concerning the accelerated handling of consumers complaints.
- Effective communication plan among economic sectors.
- Easy procedures concerning the registration of complaints (only through phone calls).
- Accelerated handling of complaints (no later than 10 days).

Requirements for Accepting a Complaint:

- The dispute shall be a commercial one.
- The Respondent shall be a commercial entity in the Emirate of Dubai.
- The hearing of the dispute shall not be subject to the jurisdiction of any other authority.
- The complaint shall be filed against a corporation or company.
- The dispute shall not be adjudicated or under adjudication by any other judicial, legal, or administrative authority.

Requirements for Filing a Complaint:

- 1- An official letter filed by the Claimant Company.
- 2- The application form designated to complaints shall be filled.
- 3- A copy of the following shall be provided:
 - Contract – invoices – initial invoices – delivery deed – purchase orders.
 - Bill of lading – account statement – letter of credit – correspondence.

II. Business Awareness Section:

Roles:

- Make traders aware of the laws regulating the commercial market.
- Propose the policies regulating the Business Sector.
- Develop the economic studies related to the commercial market conditions within the Emirate.



SME PERFORMANCE – Q4, 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.

The current survey indicates a weaker economic performance in Q4, 2014 as compared to the same period last year; 33% of the companies registered an increase in sales volumes during Q4, 2014, while 28% reported a decline (net balance of 5%), compared to 38% of respondents that indicated an increase and 13% a fall during Q4, 2013 (net balance of 25%). Improvement in economic activity was the highest for the services and manufacturing firms with a net balance of 13% for each sector, against negative 10% for traders.

Once again, large companies performed better than the SMEs with respect to sales volumes. 49% of the large companies reported an increase in volumes compared to 33% of SMEs.

- In the manufacturing sector, the sub-sectors that showed positive activity were metals, food & beverage and plastics.
- The weak performance of the trading sector in the last quarter of 2014 was due to low demand, seasonal downturn intrinsic to the fourth quarter, fewer projects/orders on hand and slowdown in international markets.
- Within the services sector, the rise in economic activity during Q4, 2014 was driven by real estate, construction and travel & hospitality.

With regard to the selling prices parameter, 17% of the respondents registered a decline during Q4, 2014 owing to competition, lower sales, slow business environment and an overall weak global economy. In comparison, 12% of the companies reported an increase due to rising cost of raw materials and overall inflation in the economy. However, a majority (71%) of the respondents indicated stability in their selling prices during Q4, 2014.



The survey also shows that 14% of the SMEs hired new employees during Q4, 2014 in comparison to 21% during Q3, 2014 and 25% in Q4, 2014. Among the key sectors, the services segment reported the strongest hiring figures, with 18% firms adding to their headcount versus 11% of trading firms and 10% of manufacturing firms. 29% of the large companies increased their headcount during the fourth quarter vis-à-vis 14% of the SMEs.

31% of the respondents indicated an increase in new purchase orders against 27% that reported a decline. The net balance for the parameter stood at 4% in Q4, 2014, much lower than the 26% observed in Q4, 2013 and 22% in Q3, 2014. Services and manufacturing firms reported higher increases in new purchase orders, with 33% and 36% respectively citing a rise compared to 27% of the trading firms. Large companies showed a much better performance on new purchase orders as reflected by the positive net balance of 39% in Q4, 2014.

Capacity utilization rates have remained steady for the services sector, 32% of the firms reported an increase during Q4, 2014 compared to 29% in Q3, 2014 and 33% last year. For the manufacturing sector, capacity utilization rates have moderated slightly. 36% reported an increase in utilization rates in Q4, 2014 compared to 41% in Q3, 2014 and 36% in Q4, 2013.

The unit cost of labor increased for 40% of the survey participants during the fourth quarter of 2014 resulting from higher salaries and increase in living costs. The remaining 59% cited labor costs to be steady. A higher percentage of trading firms faced an increase in the cost of labor (49%) compared to manufacturing (30%) and services firms (37%). Over half (51%) of the large firms experienced an increase in labor costs during the fourth quarter of 2014.

25% of the SMEs reported an increase in the cost of raw materials during Q4, 2014 compared to 28% in Q3, 2014 and 21% in Q4, 2013. This rise impacted manufacturing and trading firms more than the service sector SMEs, with 30% in manufacturing and 29% in trading



indicating an increase in Q4, 2014 against 20% for services. 25% of large companies also registered an increase in the cost of raw materials during Q4 2014.

47% of the SMEs reported an increase in rentals during Q4, 2014. During Q3, 2014, 33% of the SMEs had cited an increase in rental costs, while last year 54% had indicated a rise. Increases in rental costs had the highest impact on trading firms: 67% of trading firms reported an increase in rentals versus 26% of manufacturing and 39% of services firms. Among large companies, 49% of the respondents reported an escalation in such costs.

35% of the SMEs availed bank finance out of which 19% reported an increase in the cost of finance while 75% reported 'no change'. On the other hand, 61% of large companies availed bank finance, of which 19% reported an increase in the cost while 71% reported 'no change'.

33% of the SME respondents have indicated an increase in their net profits during Q4, 2014 compared to 38% during Q3, 2014 and 36% in Q4, 2013. Manufacturing firms were the most profitable during the fourth quarter of 2014, with a net balance of positive 13%, compared to positive 8% for services and negative 10% for trading firms. Among the large companies, 49% reported an increase in profits, while 16% reported a decline, resulting in a net balance of positive 33% (versus 2% for SMEs).

KEY BUSINESS CHALLENGES IN DUBAI

The survey also addressed key challenges perceived by SMEs at the end of Q4, 2014 that may impact business growth and development. Around 38% SMEs have as part of the current survey, expressed that they do not expect any hindrances to their business operations as compared to a corresponding 44% last quarter.

Figure 5: Key SME Business Challenges - Q3, 2014

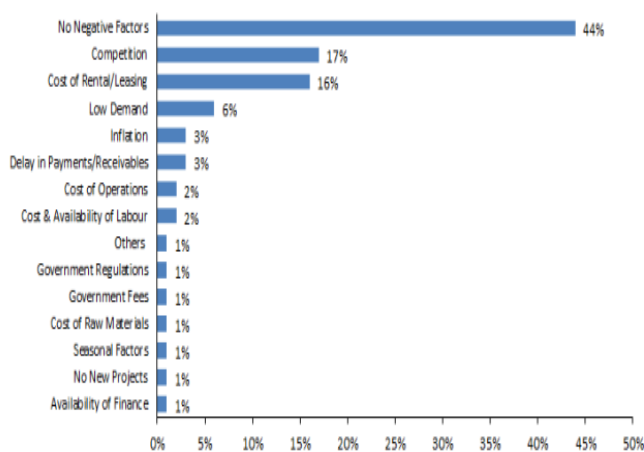
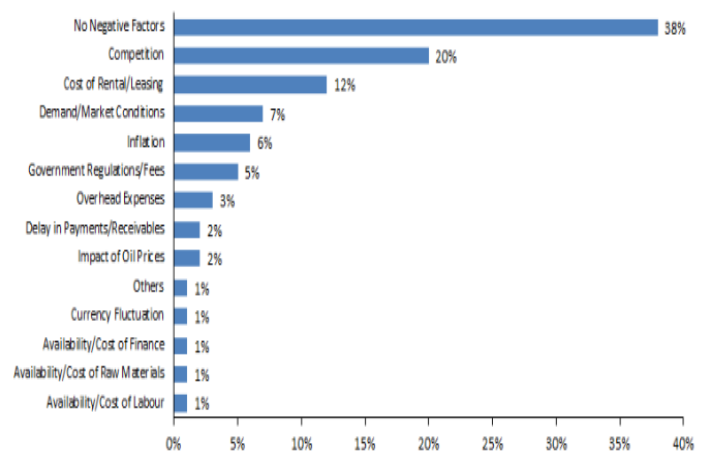


Figure 6: Key SME Business Challenges - Q4, 2014



The survey shows that competition maintains its position as the top most challenge facing Dubai's SMEs, followed by the rising cost of rental/leasing.

In pecking order of adversity, the major challenges impacting SMEs in Dubai can be summarized as follows:

1. Competition (*cited by 20% of the respondents*): Rising competition from local and international players remains the most important challenge being faced by Dubai-based SMEs. In the previous quarter, 17% of the respondents reported competition as a leading concern. Additionally, 34% of the respondents that cited competition as a challenge stated that the overall intensity of competitive pressure has increased this quarter.

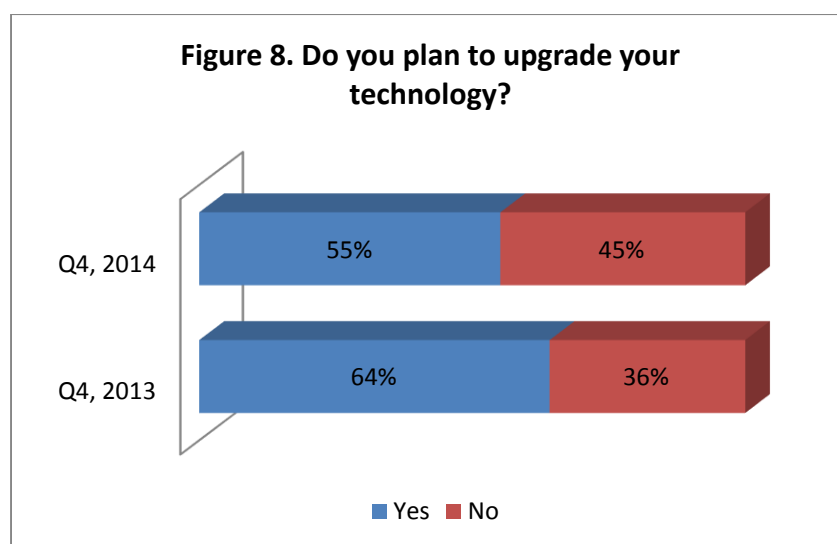
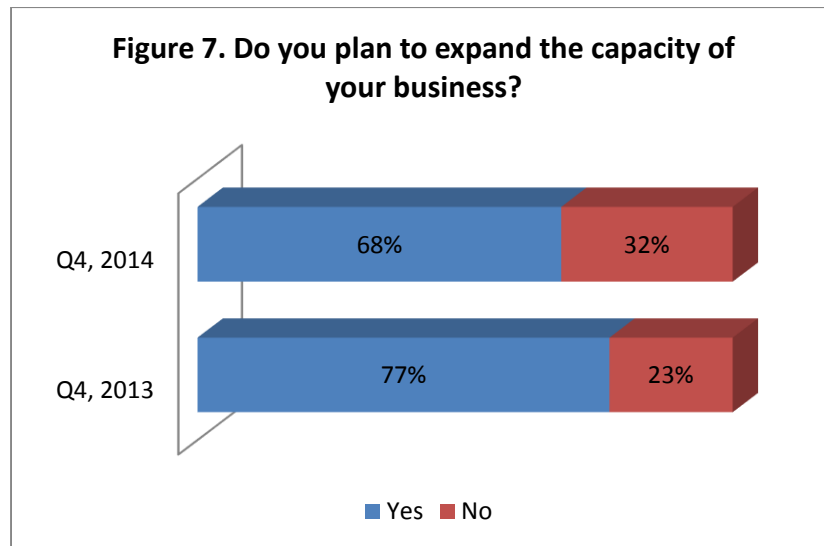


2. High cost of rental/leasing (*cited by 12% of the respondents*): 31% of the respondents that cited high cost of rental/leasing as a challenge indicated that the severity of increasing rentals has increased in the current quarter.
3. Demand/market conditions (*cited by 7% of the respondents*): Dubai's SMEs have cited this as the third most intensive challenge impacting their business operations and 15% indicated that its severity increased during Q4, 2014.
4. Inflation (*cited by 6% of the respondents*): Inflationary pressures are a cause for concern for 6% of the SMEs.
5. Government regulations/fees (*cited by 5% of the respondents*): Issues related to government regulations was a concern for 5% of businesses during the fourth quarter of 2014.

The topmost challenges for both SMEs and large companies remain the same, with competition and rising costs of rental/leasing emerging as most prominent in terms of severity.

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 current quarter survey also shows that investment plans for capacity expansion are steady on a q-o-q basis, but weaker when compared to last year. 68% participants plan to invest in capacity expansion in Q4, 2014 compared to corresponding 69% in Q3, 2014 and 77% in Q4, 2013.



Business investment plans in technology upgrades have moderated when compared to the last quarter as well as last year (55% of the firms expect to invest in technology upgrades in Q4, 2014 versus corresponding 61% in Q3, 2014 and 64% in Q4, 2013).

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

Respondents that do not plan to expand, have cited satisfaction with the current scale of their operations and/or a focus on achieving stability and profitability as the key reasons for not expanding their business capacity.

A comparison across the three key sectors shows that the manufacturing and trading sectors are more inclined towards capacity expansion (74% in manufacturing, 73% in trading and 63% in services are planning for such investments). With respect to technology upgrade, manufacturing firms (61%) are more inclined compared to service firms (51%) and trading companies (57%).

Further, large businesses are more inclined towards technology upgrades as well as capacity expansion, as compared to SMEs. Exporters have indicated higher focus on plans for capacity expansion and technology upgrades, as compared to domestic 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