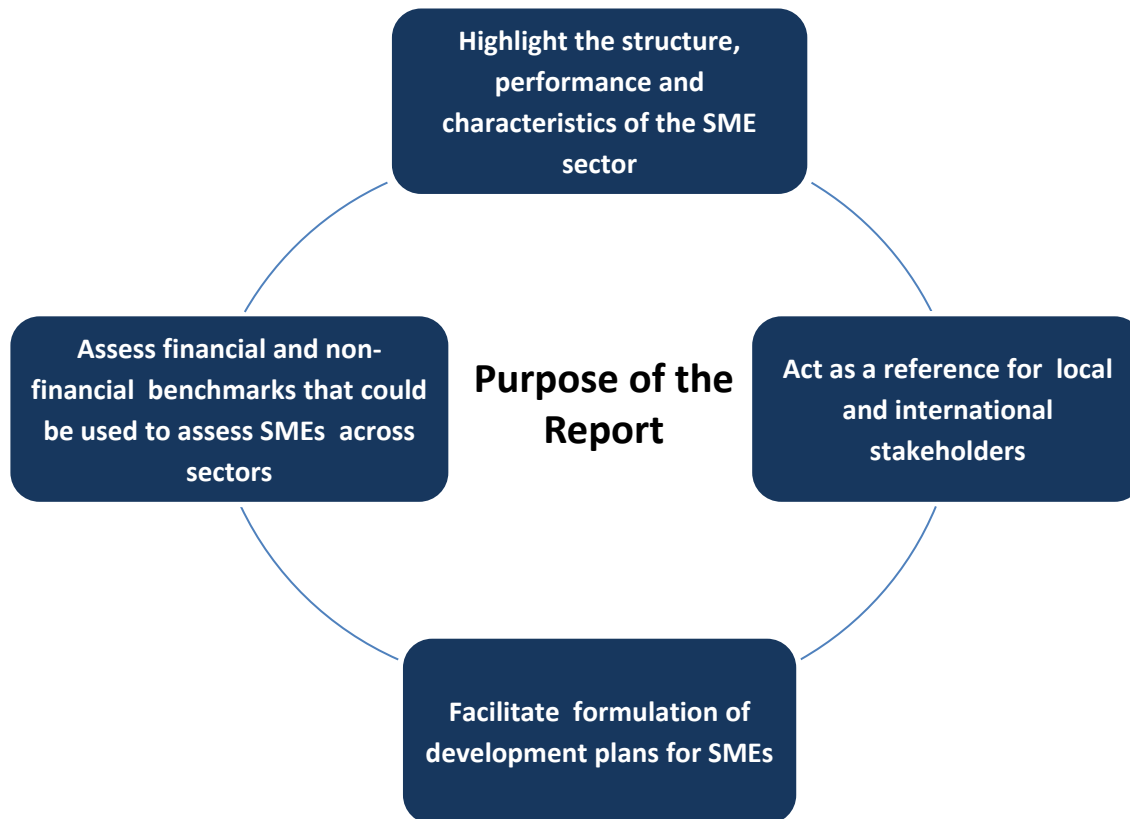




تقرير حالة الشركات الصغيرة والمتوسطة في دبي THE STATE OF SMALL & MEDIUM ENTERPRISES (SMEs) IN DUBAI

Rationale for the Report

The publication on the 'State of SMEs in Dubai' is the first comprehensive report that provides a multi-dimensional detailed view of the SME sector



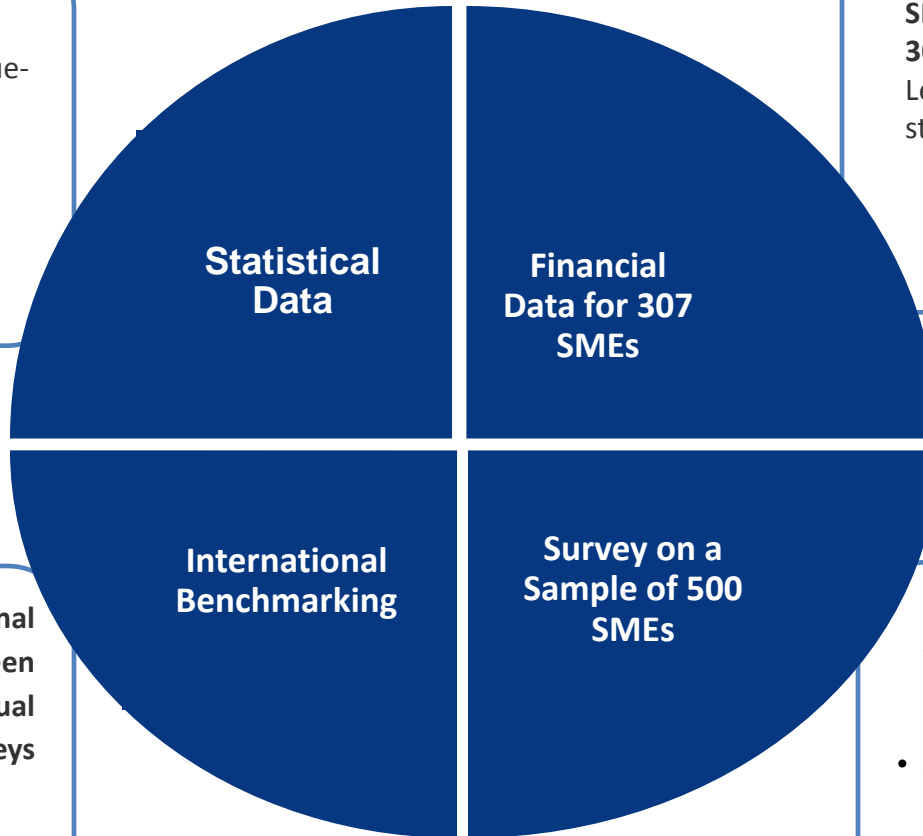
Globally, as best practice, **comprehensive SME annual reports** are published to provide a detailed view of the SME sector in respective countries / regions.

- *Annual Report on Small and Medium-sized Enterprises in the EU* (European Commission)
- *SMEs in New Zealand: Structure and Dynamics* (Ministry of Economic Development)
- *Small Business Publication, Australia* (Department of Innovation, Science & Research)
- *SME Annual Report Malaysia* (National SME Development Council)

The 'State of SMEs in Dubai' is the first ever comprehensive publication on the state and characteristics of the SME sector, published in the region.

Key Inputs for the Study

To provide a comprehensive picture of the current status of SMEs, the relevant data has been extracted from a number of sources



Data sourced from:

- Dubai Statistics Center (contribution of SMEs to value-add and employment)
- Department of Economic Development, Dubai (Business licenses data)

Assessment of Financial Health of SMEs based on Ratio Analysis of 307 SMEs to assess Profitability, Leverage, Solvency and Liquidity status of SMEs

Extensive international benchmarking has been conducted based on SME annual reports, SME-focused surveys and other statistical reports.

Assessment of the State & Characteristics of Dubai SMEs based on :

- Survey on a stratified randomly drawn **sample of 500 SMEs**
- Face-to-face meetings with business owners

Structure of the Report

A comprehensive report structure was developed based on benchmarking with other international SME annual reports

Section I: Economic Assessment	The Dubai Economy
	Business and SME Landscape in Dubai
Section II: Performance of Dubai's SME Sector	Economic Performance
	Business Performance
Section III: Financial Health of Dubai's SMEs	Financial Health of the Overall SME Sector
	Financial Health of the Dubai SME's GPP Members
Section IV: State & Characteristics of SMEs in Dubai	Key Findings on State & Characteristics of SMEs based on <u>key themes</u>
	Case Illustrations
Section V: Business Outlook & Key Business Objectives	Business Outlook
	Key Business Objectives
Section VI: Government Support Ecosystem for SMEs	Role and Initiatives of Dubai SME towards SME development
	Key Gaps in the SME Support Ecosystem

The Dubai SME Definition

	Trading		Manufacturing		Services	
	Employees	Turnover	Employees	Turnover	Employees	Turnover
Micro	< = 9	& < = AED 9 mn	< = 20	& < = AED 10 mn	< = 20	& < = AED 3 mn
Small	< = 35	& < = AED 50 mn	< = 100	& < = AED 100 mn	< = 100	& < = AED 25 mn
Medium	< = 75	& < = AED 250 mn	< = 250	& < = AED 250 mn	< = 250	& < = AED 150 mn

According to DSC Database:

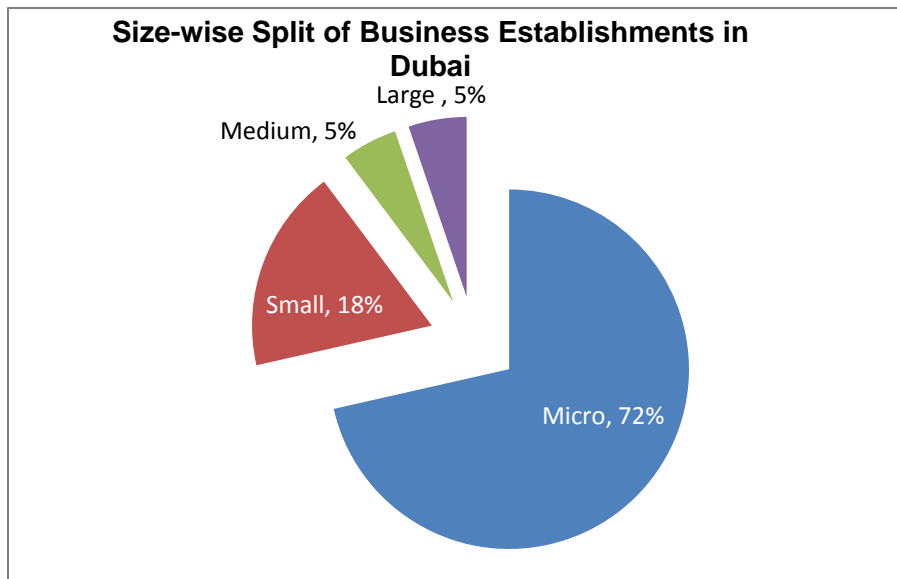
- SMEs count for **95%** of the total enterprise population in Dubai
- SMEs employ around **42%** of Dubai's workforce
- SMEs contribute **40%** of Dubai's GDP

Section I: Business and SME Landscape in Dubai

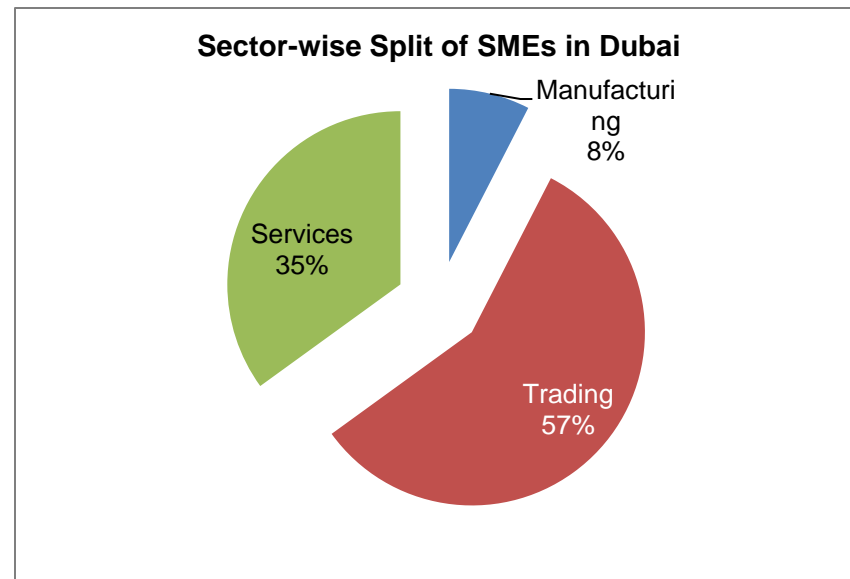
- **Number of Establishments**
- **Sectoral Distribution**

Number of Establishments and Sectoral Distribution

SMEs account for 95% of the business establishments in Dubai, with a majority of these operating in the Trading sector



Micro firms account for 72% of the total business count in Dubai, followed by Small and Medium firms accounting for 18% and 5% of the total business count, respectively.



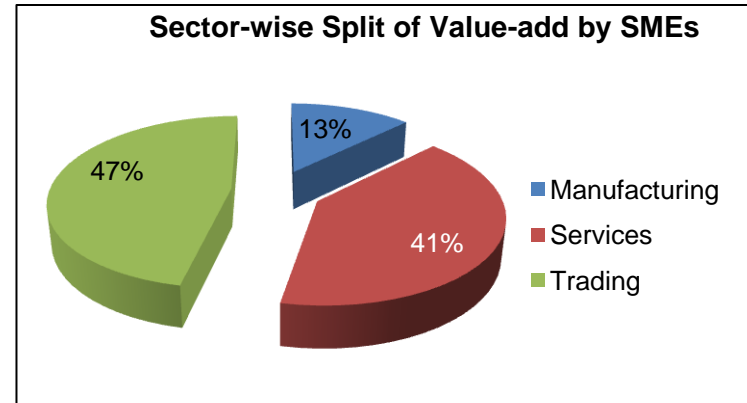
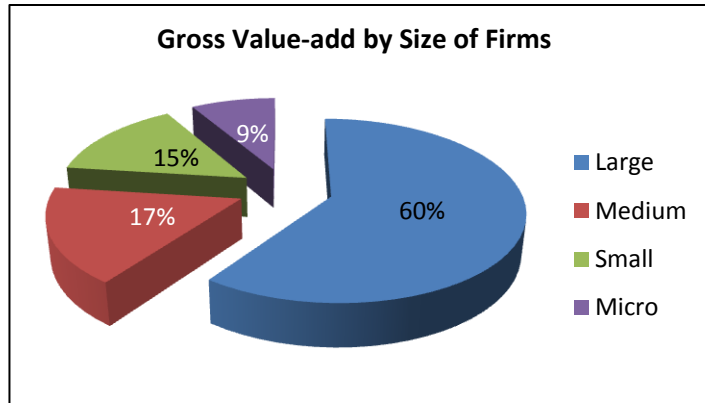
In terms of a sector-wise split, **the Trading sector accounts for a majority of SMEs**, followed by Services (35%) and subsequently by Manufacturing (8%).

Section II: Performance of Dubai's SME Sector

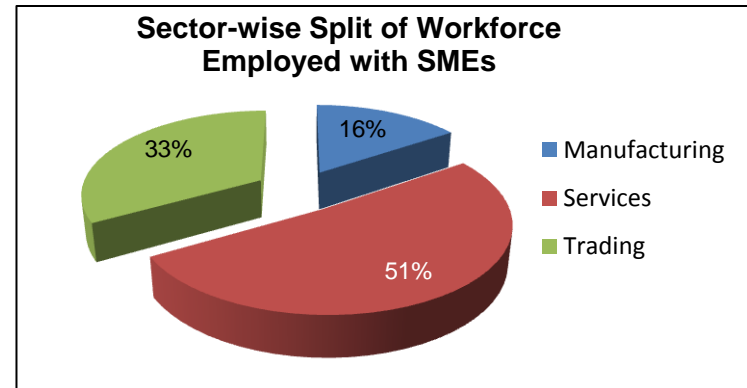
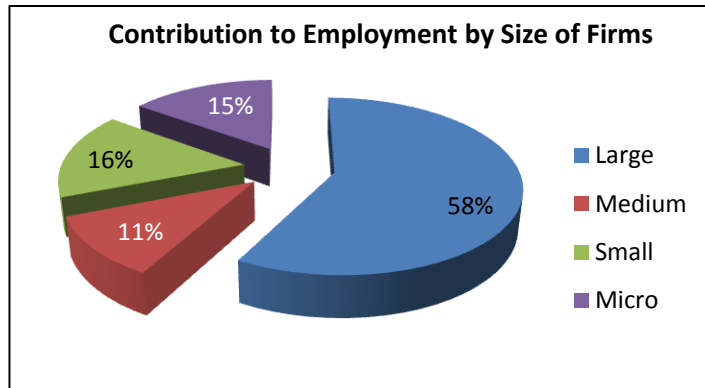
- **Gross Domestic Product (GDP) & Employment Distribution**
- **Productivity**

GDP Contribution and Employment Distribution of SMEs

SMEs contribute 40% to the GDP and 42% to the total employment in Dubai's economy



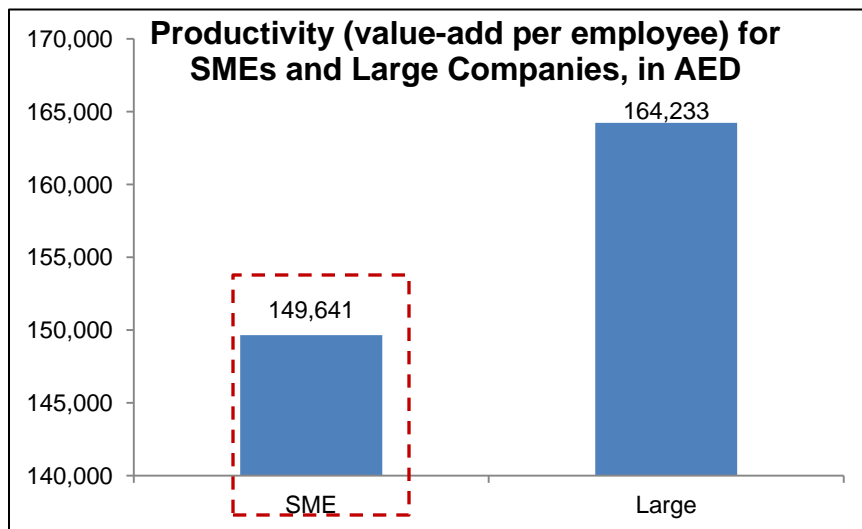
SMEs contribute 40% to the total value-add in the economy.
Trading SMEs are the highest contributors to the total value add in the economy.



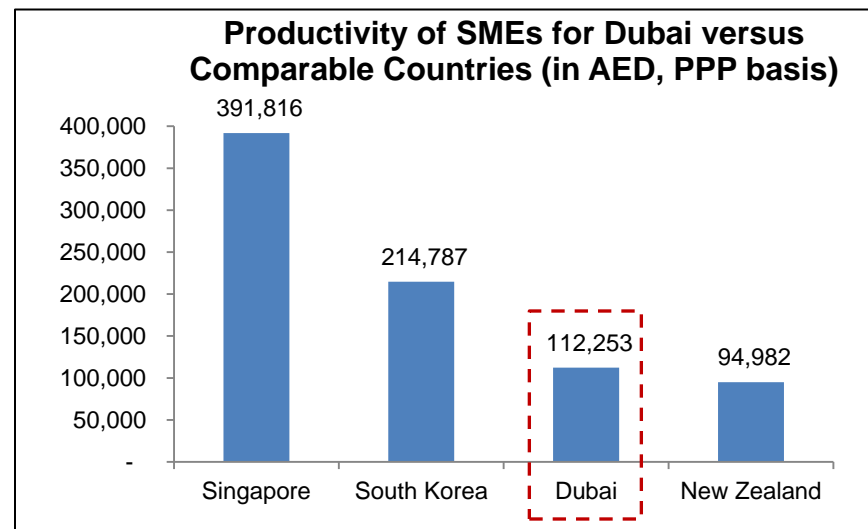
SMEs contribute 42% to the total workforce.
Majority of the workforce employed by the SMEs is in the Services sector.

Productivity of Dubai's SMEs

Productivity of SMEs in Dubai is comparatively lower in comparison to other trading and service economies



The contribution of SMEs to gross value-add in Dubai's economy is marginally lower than their contribution to employment implying that the labor productivity of SMEs is marginally lower than that of large businesses.



Productivity of Dubai's SMEs on a PPP basis is almost one-fourth of the productivity of Singapore-based SMEs and almost half the productivity levels of South Korean SMEs.

Reasons for Low Productivity of Dubai's SMEs

Low focus of businesses on **improvements / reengineering of business processes to improve efficiency**

Limited focus of businesses on **training, development and up skilling of employees**

Limited adoption by businesses of **advanced enterprise level ICT systems (ERP, CRM)**

Section III: Financial Health of Dubai's SMEs

Based on financial data of 307 SMEs across Manufacturing, Services and Trading sectors with representation of firms across enterprise sizes

Profitability Analysis – Net Margins

A comparison across sectors reflects that the Net Margins are the highest in the case of Business & Professional Services and Trading of Building Materials

Net Margin Ratio across Sectors

Key Segments – Services Sector		Key Segments – Trading Sector		Manufacturing Sector	
Business Services	10-22%	Building Materials	10-14%	Overall Sector	7-18%
Professional Services	8-20%	Machinery & Equipment	6-12%	<i>Details in the Appendix</i>	
Construction & Contracting	7-17%	IT/ Telecom/ Electronics	6-12%	<i>The margins across the segments within the Manufacturing sector have not been assessed due to lack of a sufficient sample size across the segments.</i>	
Restaurants & Catering	10-15%	Food & Beverages	6-12%		
Transport & Logistics	8-14%	Non-precious Metals	4-6%		
ICT	4-14%	Jewelry & Precious Stones – Wholesalers	2-7%		
Travel Agencies & Tour Operators	2-8%	<i>Details in the Appendix</i>			

Details in the Appendix

Highest Net Margins within the Sector

Lowest Net Margins within the Sector

Section IV: State and Characteristics of Dubai's SMEs

- ***Based on a detailed survey with 500 SMEs with representation of SMEs from Manufacturing, Services and Trading sectors across the three enterprise size classes (Micro, Small and Medium)***

Themes for the Assessment of State and Characteristics of Dubai's SMEs



Degree of International Orientation



Prevalence of Innovation



Level of IT Adoption



Degree of Human Capital Orientation



Degree of Corporate Governance Orientation



Level of Access to Finance



Scalability Potential

Orientation towards each of these themes has been assessed at three levels:

- **Low** refers to orientation on the specific theme indicated / reflected by up to 20% of the surveyed respondents
- **Moderate** refers to orientation on the specific theme indicated by 20-40% of the respondents
- **High** refers to orientation on the specific theme indicated by more than 40% of the respondents.

Degree of International Orientation



Dubai SMEs portray a strong inherent focus towards exports and a high degree of international orientation

Key Parameters	Key Findings
Share of Revenues from Exports	<ul style="list-style-type: none"> 51% of the SMEs surveyed are exporting to other countries (as compared to 44% in EU-27 and 18% in New Zealand). The highest proportion of Trading SMEs (40%) generate >50% of their sales from international markets / customers.
Mode of Internationalization	<ul style="list-style-type: none"> 74% of the SME exporters do not have a physical presence in other markets. 18% of SME exporters (primarily Services and Manufacturing firms) in Dubai have made direct investments (FDIs) in other countries (compared with 5% of SMEs in Europe).
Key International Markets	GCC, Asia-Pacific and Africa are the key international markets / export destinations for SMEs in Dubai.
Dedicated Employee for International Business	41% of the exporting SMEs have at least an employee dedicated for their international business operations.
Dedicated Plan / Strategy for International Business	56% of the exporting SMEs have a defined plan/ strategy for international business operations. The tendency of having a defined plan/ strategy for international business is observed to be more prevalent across Manufacturing SMEs.



UAE's Ranks on Key Indices

Infrastructure: **8th**
(out of 144 countries)¹

Trading Across Borders: **5th** (out of 185 countries)²

Orientation of SMEs

Overall Degree of Orientation: **High**

Sector with the Highest Orientation: **Trading**

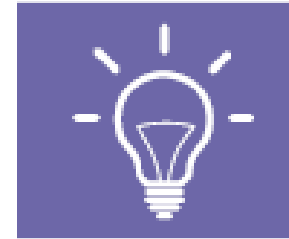
¹Global Competitiveness Index by World Economic Forum, 2012-13

²Doing Business Index, 2013 by World Bank

Prevalence of Innovation amongst Dubai's SMEs

The current state of innovation amongst Dubai SMEs is low, particularly in the case of Trading enterprises

Key Parameters	Key Findings
Innovation Input: Allocation of an annual budget for R&D	<ul style="list-style-type: none"> • A meager 8% of the SMEs surveyed, maintain an annual budget for conducting R&D and product development (<i>compared to 18% in New Zealand and 24% in the UK</i>). • Manufacturing SMEs are the most oriented towards R&D (17%).
Innovation Output: Innovation at a product and / or process level	<ul style="list-style-type: none"> • Only 13% of the surveyed SMEs were found to have implemented some level of innovation (<i>compared to 23% in both New Zealand and EU-27, and 25% in Malaysia</i>). • A higher focus on R&D by Manufacturing SMEs has translated into a higher levels of innovation output for these firms (29%).
Type & Objective for Implementing Innovation	<ul style="list-style-type: none"> • The major prevalence of innovation amongst Dubai SMEs is at the product / service level (42%) compared to innovation within internal processes (30%) and distribution & delivery formats (28%). • The key objective for implementing innovation by businesses is to differentiate their product / services from competitors' offerings (38%).
International Orientation and Innovation amongst SMEs	<ul style="list-style-type: none"> • There is higher prevalence of innovation amongst exporting businesses (75%), vis-à-vis non-exporting SMEs (48%).



UAE's Ranks on Key Indices

Innovation: 28th (out of 144 countries) ³
Global Innovation Index: 37th (out of 141 countries) ⁴

Orientation of SMEs

Overall Degree of Orientation: Low
Sector with the Highest Orientation: Manufacturing

³Global Competitiveness Index by World Economic Forum, 2012-13

⁴Co-published by INSEAD and the World Intellectual Property Organization

Level of IT Adoption amongst Dubai SMEs

The current state of ICT adoption is moderate amongst the Dubai SME community

Key Parameters	Key Findings
Level of IT Usage	<ul style="list-style-type: none"> • Only 21% of SMEs indicated deployment of advanced IT systems (ERP, CRM) to manage their business operations. • Services firms (26%) deploy IT more intensively than Manufacturing and Trading firms.
Presence of a Dedicated Employee / Department	<ul style="list-style-type: none"> • Overall 27% of SMEs have a dedicated IT employee or a full fledged IT department (comparable to 20% of SMEs in EU-27). • The presence of a dedicated IT employee tends to be more prominent amongst Manufacturing and Service SMEs.
Allocation of an Annual Budget for IT Expenditure	<ul style="list-style-type: none"> • Even though 70% of SMEs use basic (software for specific functions) or advanced IT systems, only 35% make an accounting provision for IT expenses in their annual budgets. The tendency to provision for an IT budget is the highest amongst Service firms (40%).
Presence of a Website & Online Ordering Capabilities	<ul style="list-style-type: none"> • Overall, half of the SMEs surveyed have a website; however a meager 6%, have online ordering capabilities (compared to 12% of SMEs in EU-27 and 31% of SMEs in New Zealand).
International Orientation and IT Adoption amongst SMEs	<ul style="list-style-type: none"> • Export-oriented SMEs have a higher rate of IT adoption versus non exporters (across all enterprise size classes). For instance, 46% of the Medium-sized SME exporters deploy advanced IT systems compared to 37% within the non-exporting category



UAE's Ranks on Key Indices

Use of ICT: **30th** (out of 144 countries)⁶

Technological Readiness: **32** (out of 144 countries)⁷

Orientation of SMEs

Overall Degree of Orientation: **Moderate**

Sector with the Highest Orientation: **Services**

⁶ The Global Information Technology Report 2012 by the World Economic Forum

⁷ Global Competitiveness Index 2012/13 by World Economic Forum

Degree of Human Capital Development Orientation

The overall state of orientation towards human capital development amongst Dubai's SMEs tends to be moderate.

Key Parameters

Presence of a Dedicated Employee / Department

Approach for Performance Appraisal

Type of Training Provided to Employees

Key Findings

- Only **25% of SMEs** indicated having a dedicated HR employee / department.
- Amongst the key sectors, Manufacturing SMEs tend to have the highest propensity to have a dedicated HR function (33%), closely followed by the Services sector (30%)

- 72% of SMEs evaluate and reward their employees' performance on a regular basis.
- **Only 24% of these SMEs have a regular KPI-based performance evaluation approach** and another 34% adopt a basic feedback or sales incentive-based approach.
- Conducting **regular KPI-based performance appraisals** is the most prevalent amongst Service SMEs (30%).

- **Only 26% of SMEs provide need-based or comprehensive training to their employees** (compared to 63% and 55% of SMEs in New Zealand and the UK, respectively).
- **Service SMEs are the most focused on training and development** with 32% of these firms providing intensive training to their employees.



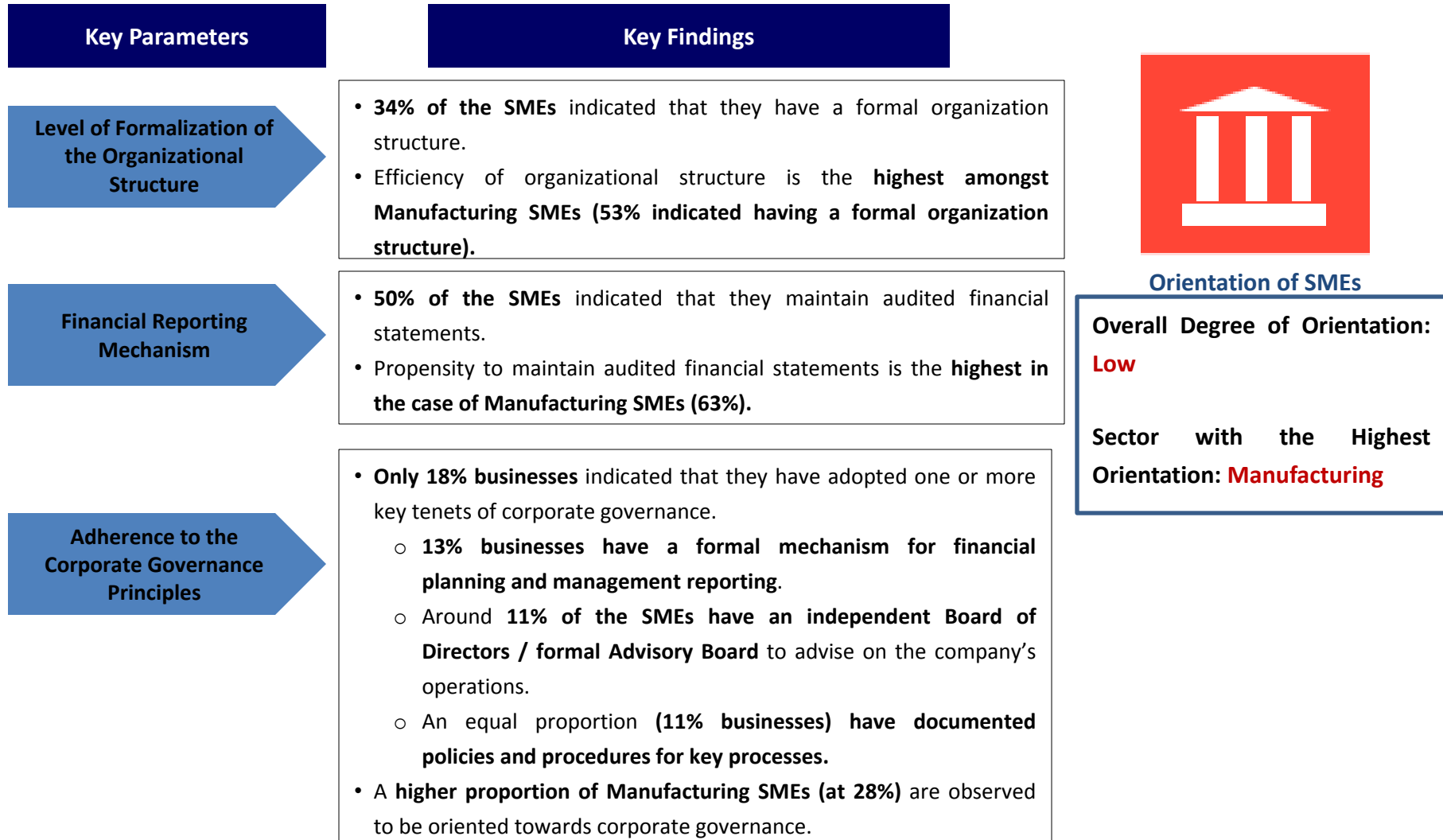
Orientation of SMEs

Overall Degree of Orientation:
Moderate

Sector with the Highest Orientation: Services

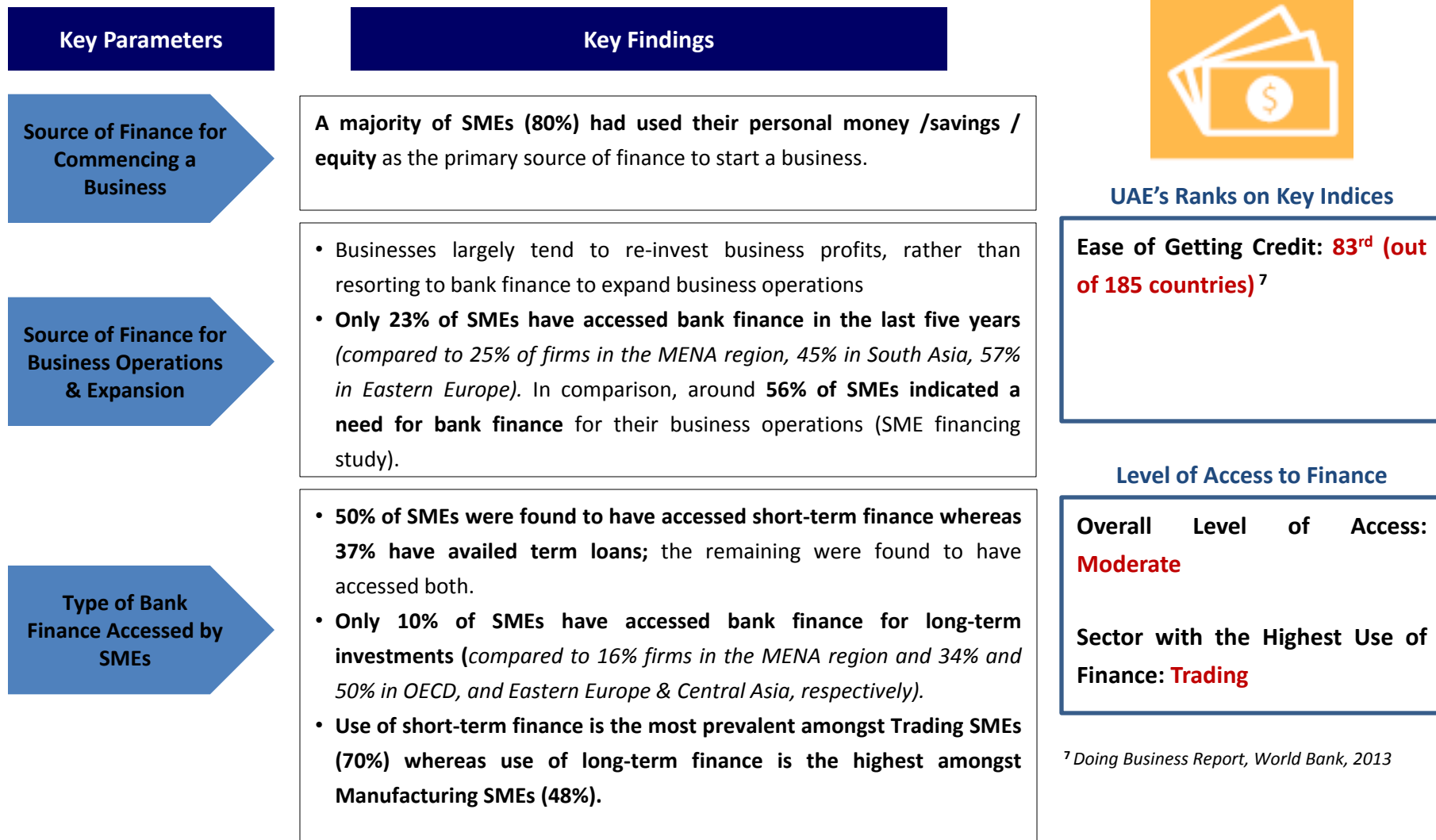
Degree of Corporate Governance Orientation

The current degree of orientation towards the core principles of corporate governance tends to remain low amongst Dubai's SMEs



Access to Finance for Dubai SMEs

The current state of access to finance reflects a moderate availability of affordable bank finance for Dubai's SMEs



⁷ Doing Business Report, World Bank, 2013

Scalability Potential of SMEs

Scalability potential of Dubai SMEs tends to be low due to high existing capacity utilization coupled with high fixed cost overheads

Key Parameters

Current Capacity Utilization

- Around **77% of SMEs have a capacity utilization of more than 50%**.
- Capacity utilization is the highest amongst Manufacturing SMEs
- (84% of businesses have indicated capacity utilization of more than 50%).

Share of Operating Fixed Costs as Proportion of Total Costs

- **Share of fixed cost overheads within the total cost structure is found to be more than 50% across 35% of SMEs.**
- Trading SMEs have a low fixed cost structure (46% of these businesses have a fixed cost structure in the range of 0-30%).

Expectation of Annual Growth in Demand for Products / Services

- Overall, **70% of the SMEs expect a medium (5-10%) to high (>10%) growth in demand for their products / services over the next 3-5 years.**
- Manufacturing SMEs are the most optimistic with 82% of these firms expecting medium to high growth.

Scalability Potential

- **Only 19% of SMEs in Dubai have a high scalability potential.**
- In spite of a expectation of growth in demand, the scalability potential of Dubai SMEs is low **due to prevalence of high overhead structures, coupled with high existing capacity utilization levels**

Key Findings



Scalability Potential of SMEs

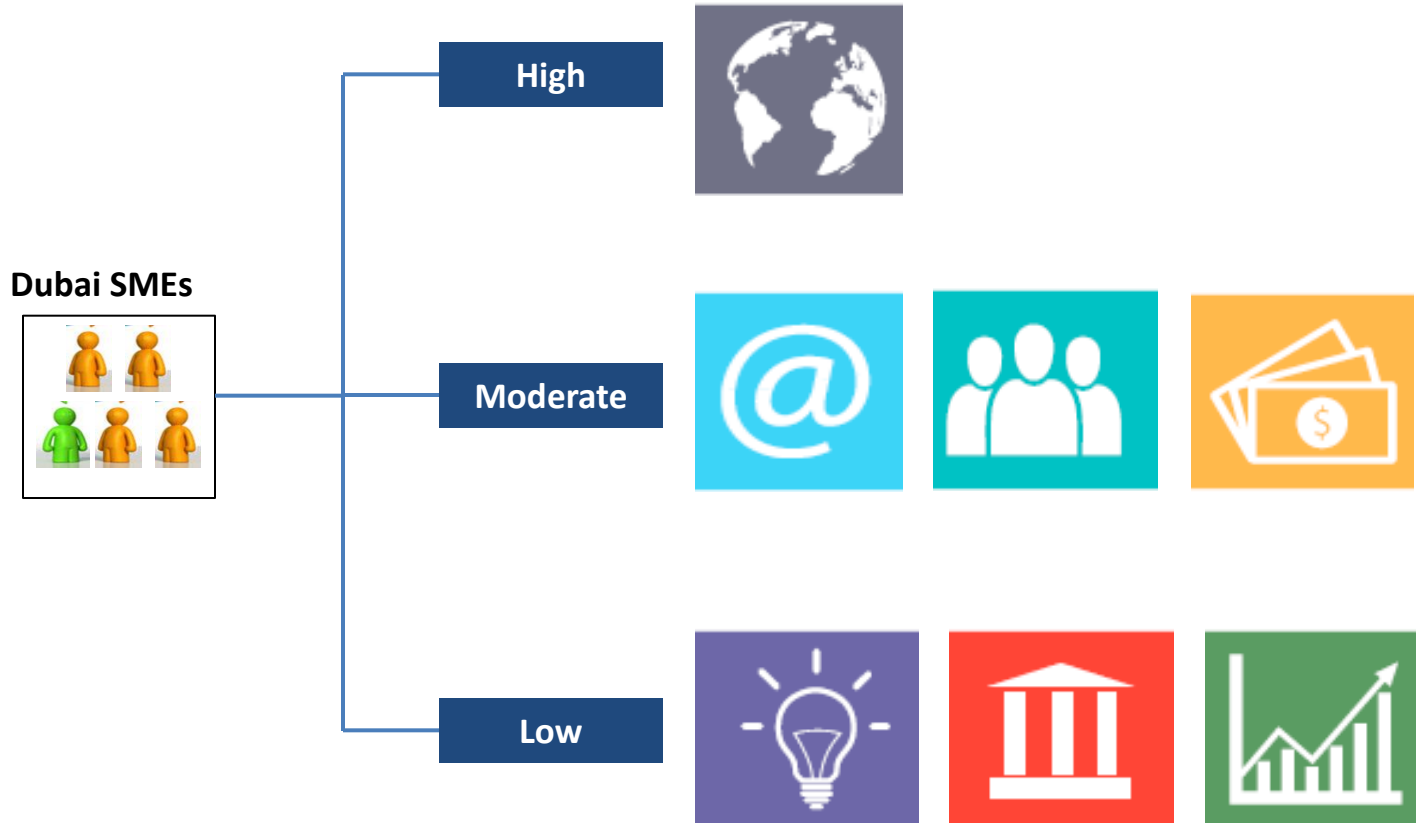
Overall Potential: Low

Sector with the Highest Potential: Similar across sectors

A high scalability potential is reflected through a combination of high demand, coupled with a low fixed cost base (fixed costs accounting for 0-30% of total costs) and / or low to medium capacity utilization (up to 50%).

Summary








Dubai SMEs are highly oriented towards internationalization; however are low in orientation towards innovation and corporate governance and scalability potential



- *Low refers to orientation on the specific theme indicated / reflected by up to 20% of the surveyed respondents*
- *Medium refers to orientation on the specific theme indicated by 20-40% of the respondents*
- *High refers to orientation on the specific theme indicated by more than 40% of the respondents.*

Sector-wise State & Characteristics of Dubai SMEs

There are variations in state and characteristics of SMEs across sectors

	Sector with Highest Orientation	Sector with Lowest Orientation
	Trading	Services
	Manufacturing	Trading
	Services	Trading
	Services	Trading
	Manufacturing	Trading & Services
	Trading	Services
	Similar across all sectors	