

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**

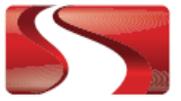
**Q4 - 2011**

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#### AT A GLANCE

- The composite business confidence index for SMEs in Dubai rose in the fourth quarter (Q4) of 2011 by approximately 10% compared to Q3, reaching 125 points, indicating a positive and rising business outlook of SMEs for the first quarter of the year 2012.
- The majority of SMEs are optimistic about Q1 (January – March, 2012), reporting expectations of rising sales and profits as compared to Q4, 2011. In terms of economic activities, expectations are higher among trading SMEs relative to services and manufacturing SMEs.
- Overall, the SME community is moderately less optimistic on their expectations on sales revenues and profits in Q1 2012, in comparison with the large companies in Dubai.
- Challenges: In the order of intensity, key challenges cited by businesses are insufficient demand for products and services, competition from local and international players, increasing government fees, rising costs of utilities, frequent changes in business regulations and delays in payments & collections.
- Despite these challenges, the positive outlook of businesses in Dubai is reflected in the confirmation of investment plans over a twelve-month time horizon. Around 38% of SMEs plan to upgrade technology (vs. 41% of SMEs as per the Q3 survey) and another 54% plan to expand their capacity (vs. 49% of SMEs as per the Q3 survey).



The Department of Economic Development (DED) is a government organization in Dubai 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 in Dubai, DED has launched Dubai’s Quarterly Business Surveys with the key objective to prepare a snapshot of Dubai’s current economic activity and outlook. DED has mandated leading global consultancy firm Dun & Bradstreet (D&B) for undertaking the survey.

This document presents a summary of the survey conducted in the 4<sup>th</sup> Quarter of 2011 and highlights the future expectations of SME businesses in Dubai. The survey was administered to 475 SME businesses in Dubai. In addition, the survey also examines key challenges hindering the growth and development of SME businesses and summarizes their investment outlook over the coming twelve months.

## **METHODOLOGY**

The quarterly business survey for Q4, 2011<sup>1</sup> was conducted on 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 GDP.

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<sup>1</sup> 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.



Distribution of survey respondents across industry groups						
	Trading (160)		Manufacturing (60)		Services (255)	
	Employees	Turnover	Employees	Turnover	Employees	Turnover
Micro	<= 9	& <= AED 9 mn	<= 20	& <= AED 10 mn	<= 20	& <= AED 3 mn
	45		9		65	
Small	<= 35	& <= AED 50 mn	<= 100	& <= AED 100 mn	<= 100	& <= AED 25 mn
	48		20		104	
Medium	<= 75	& <= AED 250 mn	<= 250	& <= AED 250 mn	<= 250	& <= AED 150 mn
	67		31		86	

● Number of Respondents

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.

### SME Business Confidence Index Calculations

The SME Business Confidence Index (BCI) is calculated as a weighted average score of the following ‘business outlook’ indicators,

- Selling Prices
- Volumes Sold
- Number of Employees
- Profits

For each indicator, ‘Resultant scores’ are calculated using the net balances method:

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

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

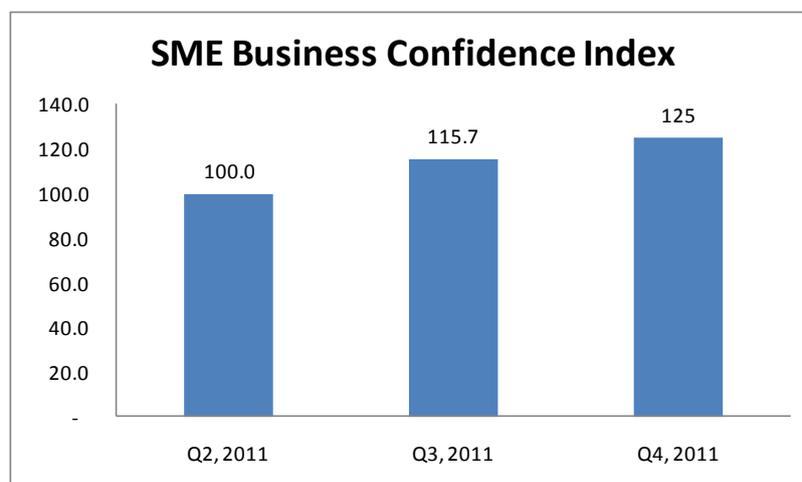


BCI scores are classified in the following three groups:

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

### SME BUSINESS CONFIDENCE INDEX – Q4, 2011

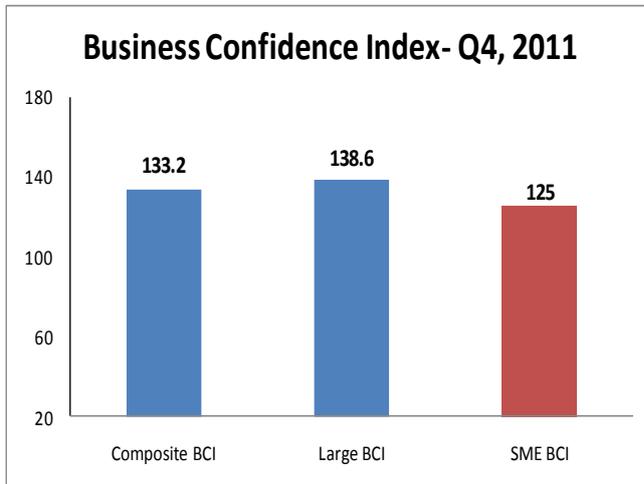
The SME Business Confidence Index for Dubai in Quarter 4, 2011 stood as follows:



*(Base Quarter, Q2, 2011)*

The composite confidence index for SMEs in Dubai rose to 125 points, indicating that overall business outlook amongst SMEs for the 1st quarter of the year 2012 (a score of 100 indicates stable/neutral sentiments).

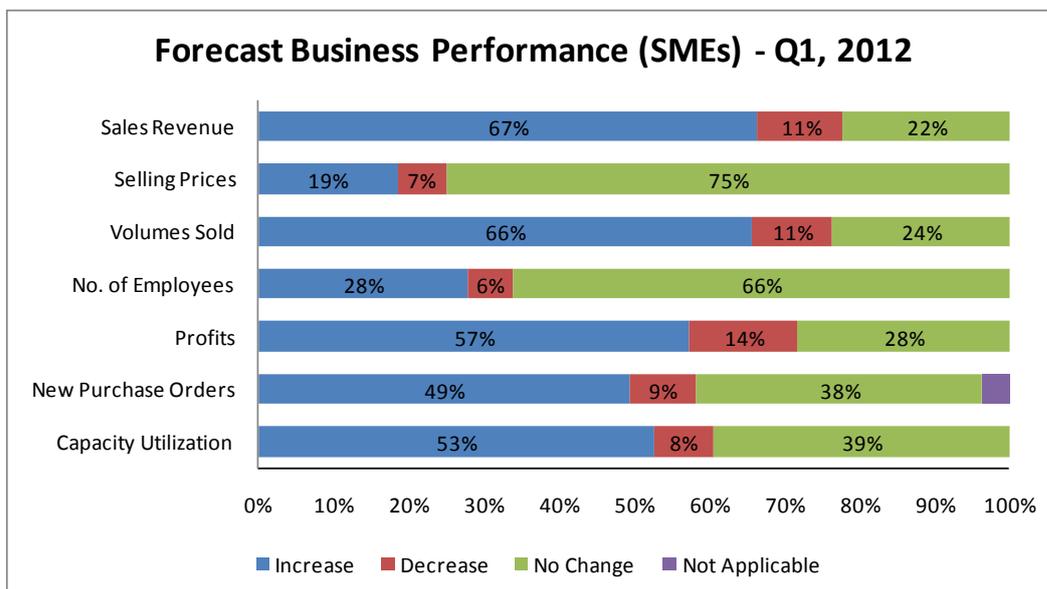
Moreover, a quarter-on-quarter comparison reflects that the SME confidence index has increased by approximately 25% compared to the index in Q2, 2011 and approximately 10% compared to the index in Q3, 2011.



However, expectations are more upbeat among large businesses as compared to the SMEs. This is reflected in their Q4 BCIs which are respectively equal to 125.0 for SMEs and 138.6 for large businesses. The higher confidence among large companies is primarily due to a more optimistic outlook on future profits. In contrast, previous quarter's

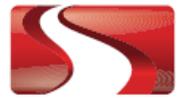
(Q3) findings showed higher optimism amongst SMEs.

### SME BUSINESS OUTLOOK – Q1, 2012



The survey reveals rising expectations of the SME community with respect to the key business performance indicators.

It shows that 67% of the SMEs are expecting a rise in their sales revenues in Q1 2012, an increase of 9 percentage points over the last quarter, while another 22% expect sales



revenues to remain stable. A comparison between large companies and SMEs shows that the former are moderately more optimistic about sales revenues than the latter, with a Net Balance<sup>2</sup> positive and equal respectively to 60% and 56%. In contrast, SMEs were more optimistic than the large companies with respect to sales revenues outlook for Q4, 2011.

In line with the overall business scenario, Trading SMEs are more optimistic about future sales revenues as compared to their counterparts in the Manufacturing and Services sectors (Net Balance of positive 59% for Trading SMEs against a positive Net Balance of 53% for both Manufacturing and Services SMEs).

Similarly to Q3, the optimistic sales revenue forecasts in Q4 are driven by higher volumes, with prices remaining stable (as elicited from 75% of SMEs in Q4 and 73% in Q3 stating expectations of stable prices). This signals an expected rise in the level of real economic activity in Q1, 2012 compared to Q4, 2011.

One of the significant drivers for the expected increase in volumes is the ongoing Dubai Shopping Festival (DSF). The Dubai Shopping Festival (DSF) attracts around 3.5 million visitors every year. An expectation of a similar footfall of tourists on account of the 2012 DSF has led to optimism amongst the Tourism, Hospitality & Retail businesses. Consequently, a majority of tour operators, restaurants, car rental companies, jewelry, electronics, apparel and textile trading businesses expect their sales to increase in the first quarter of 2012. This reflects the typical nature of such businesses, where sales cycles receive the maximum attraction during the high tourist season in Dubai (i.e. October to March).

In addition to Tourism, some of the Transportation & Logistics companies have expressed optimism about their sales, partly because they expect higher cargo movements in order to respond to the needs of the shopping festival.

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<sup>2</sup> Net Balance = % of respondents citing an increase - % of respondents citing a decrease



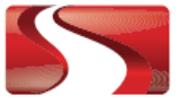
In line with overall business trends, majority of the Food & Beverage enterprises (Manufacturers and Traders of F&B) are expecting an increase or stability in the volume of their sales in Q1, 2012. Some of these companies have mentioned that they are likely to benefit from an increased demand stemming from the hospitality sector.

In contrast, the construction sector is expecting stability in the next quarter (Q1, 2012) whereby a majority of the respondents report that their sales revenues are likely to increase marginally, at best, or remain stable. Prospects for this activity are driven by expectations of new projects in the domestic market as well as contracts in other GCC countries.

In view of the expectation of higher sales, a majority of SMEs expect an increase in their capacity utilization as well. 53% of the SMEs expect an increase in capacity utilization in the next quarter while another 39% report 'no change' compared to Q4, 2011. Manufacturing firms are also seen to be most optimistic on increasing their capacity utilization, relative to their counterparts in Services and Trading. Moreover, SMEs are moderately more optimistic for the next quarter than large companies, with 53% of the SMEs expecting an increase in capacity utilization as compared to 48% of large companies.

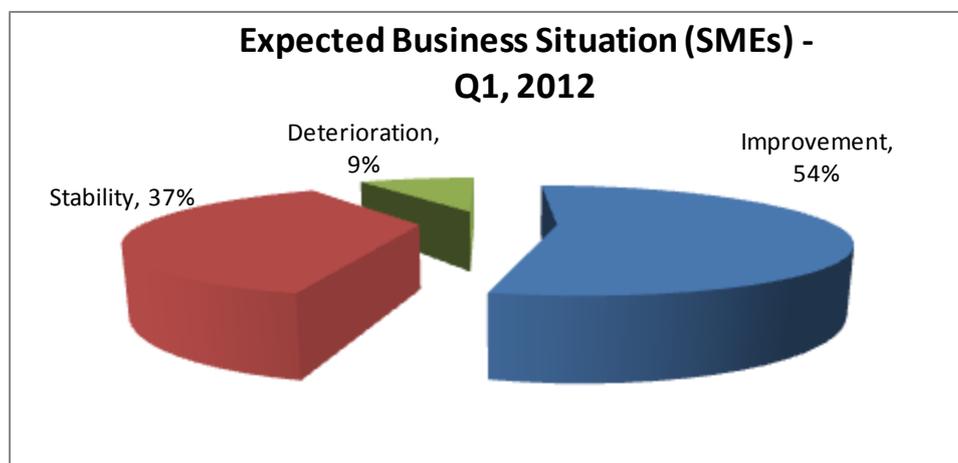
There is also an optimistic view on new purchase orders, with 49% of SMEs forecasting an increase in purchase orders in Q1, 2012 (versus 42% of SMEs, who were expecting an increase in purchase orders in Q4, 2011). Manufacturing SMEs are seen to have the most ambitious plans to increase their purchases in Q1, 2012.

Rising expectations about sales revenues are also consistent with reported hiring plans, wherein the percentage of SMEs planning to increase their workforce has increased from 18% for Q4, 2011 outlook to 28% for Q1, 2012 outlook, with Manufacturing and Service SMEs expressing the strongest intentions to increase their workforce in Q1, 2012. However, new recruitments are expected from about 28% of SMEs while two thirds expect to maintain the same level of employment as in Q4, 2011.

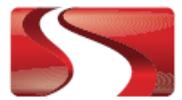


The Q4 survey also reveals a rise in the number of SMEs that foresee an improvement in profits for Q1, 2012 (57% of SMEs expect an increase in profits in Q1, 2012 versus 45% of SMES who were expecting an increase in profits in Q4, 2011). However, the large companies are more optimistic with regards to their Profits in Q1, as compared to SMEs (57% SMEs are expecting a rise in profits in Q1 as compared to 64% of large companies).

Furthermore, in terms of sectors, Manufacturing SMEs are more upbeat about future profits than those operating in Trading and other Services. In comparison, Service SMEs were the most optimistic in terms of the expected profits in Q4, 2011.



In summary, expectations on key business performance indicators look positive and reflect a high level of optimism amongst the SME community in Dubai. This is reflected in the fact that 54% of business respondents expect an improvement in the overall business scenario, while an additional 37% expect the business situation to continue to be at the same levels as in Q4, with a minimal proportion (i.e. 9%) expecting the situation to worsen.



## SME PERFORMANCE – Q4, 2011

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.

**Overall, the survey shows an improvement in the real economic activity in Dubai in Q4, 2011, with a higher number of SMEs reporting an increase rather than a decrease in sales volumes (Net Balance on sales volumes of positive 1% in Q4).**

The other key highlights of business performance in this quarter are as follows:

- Manufacturing SMEs performed better than their Services and Trading counterparts in terms of sales volumes in Q4.
- The large companies performed better than SMEs in terms of sales volumes, with a larger majority of the former reporting an increase in Q4, 2011.
- The end of Ramadan in September, and the beginning of winters and the holiday season in this quarter were the key drivers for improvement in sales volumes for Tourism and Hospitality businesses and businesses engaged in manufacturing and trading of Jewelry and Food & Beverages.
- Increased promotional activities of corporates and higher printing requirements for festive greetings benefited the businesses involved in the Advertising and Printing industry (including advertising firms, printing and publishing firms, manufacturers and traders of paper and other advertising materials).
- On the other hand, a majority of businesses related to the Construction industry experienced a decline in their sales volumes in this quarter, owing to lack of domestic demand and strong competition in the market. The decline was seen in the case of contracting companies, manufacturers and traders of building materials, construction equipment rental companies, architectural and engineering consulting firms, etc.
- In addition to improvement in sales, new hiring has been reported, as shown in a positive Net Balance of 7%, although a majority of firms (67%) reported 'no change' in



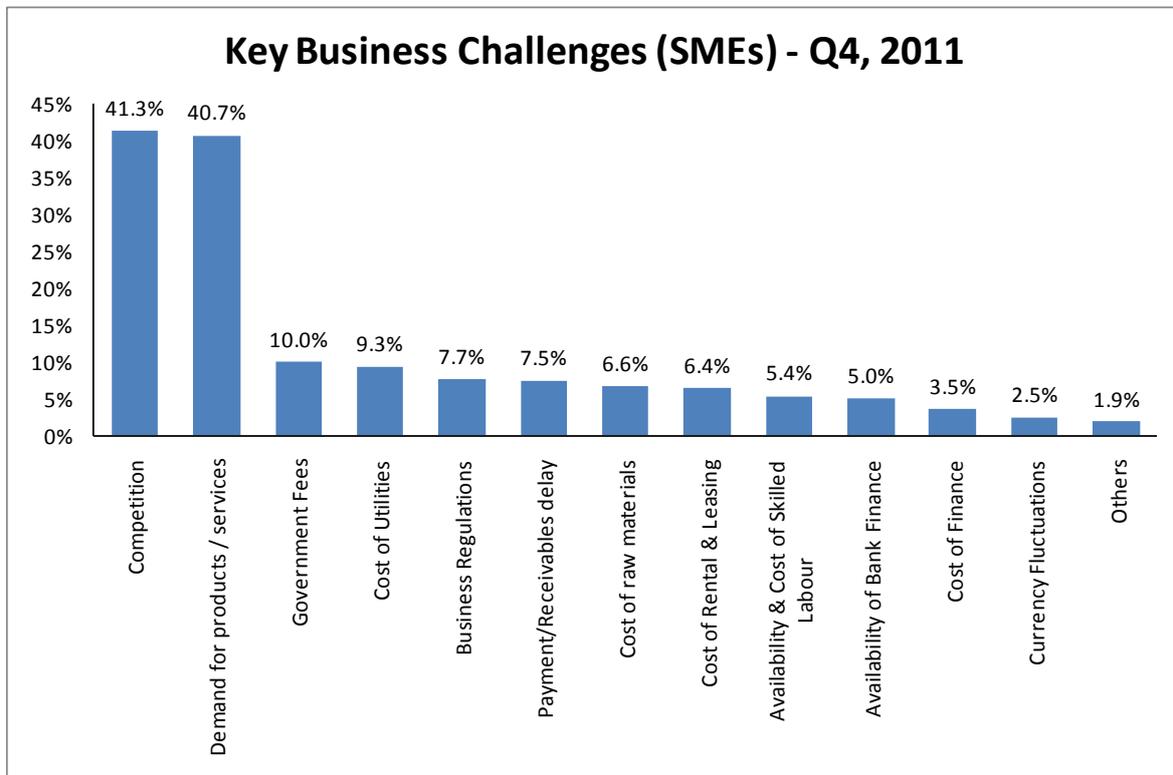
their employee count for this quarter. However, a higher proportion of large companies reported an increase in their employee count as compared to SMEs, 28% for the former against 20% for the latter.

- There was also a positive trend observed with respect to capacity utilization. A higher proportion of Manufacturing SMEs experienced an increase in capacity utilization as compared to the Services and Trading sectors. The average capacity utilization for Manufacturing SMEs improved from 50-60% in Q3 to 65-70% in Q4.
- As expected, the cost of finance shouldn't change significantly from one quarter to another. A significantly higher proportion of the SMEs (approximately 30 percentage points higher as compared to Q3) reported 'no change' in cost of finance in the current quarter.
- Likewise, the cost of labor remained relatively stable in Q4, with 71% of SMEs reporting no change in unit labor costs and 25% reporting an increase that is imputed to annual increments provided to employees in order to reward their performance and match any increases in the cost of living.
- The cost of raw materials in Q4 was still a cause of concern for a large number of SMEs as 39% of them reported an increase. As expected, this rise impacted the manufacturing more than trading and service SMEs.
- Overall, the survey shows an improvement in sales, even though it was not reflected in reported profit performance.
- From a sectoral perspective, Manufacturing SMEs performed better than their Services and Trading counterparts in the current quarter, in terms of profits.
- Moreover, converse to the performance on sales revenue, the performance of SMEs in terms of profits was better than the large companies, with a higher proportion (56%) of large firms reporting a decline in profits as compared to the SME sector.



## KEY BUSINESS CHALLENGES IN DUBAI

The survey also addressed key challenges faced by SMEs, as perceived at the end of Q4.



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

1. Reduced demand for products and services (*cited by 41% of the respondents*). The survey revealed that a decline in demand was experienced by SMEs that were highly dependent on construction activity & government projects. In addition, the current economic climate in the US and Europe, coupled with political instability in the region has created ripple effects impacting businesses engaged in Transportation & Logistics, and Trading & Manufacturing companies focusing on exports.
2. Competition (*cited by 40% of the respondents*). The survey revealed that competition from international and local players has impacted revenues and profit margins, especially in sectors such as food trading, jewelry, textiles, construction materials and electronics.

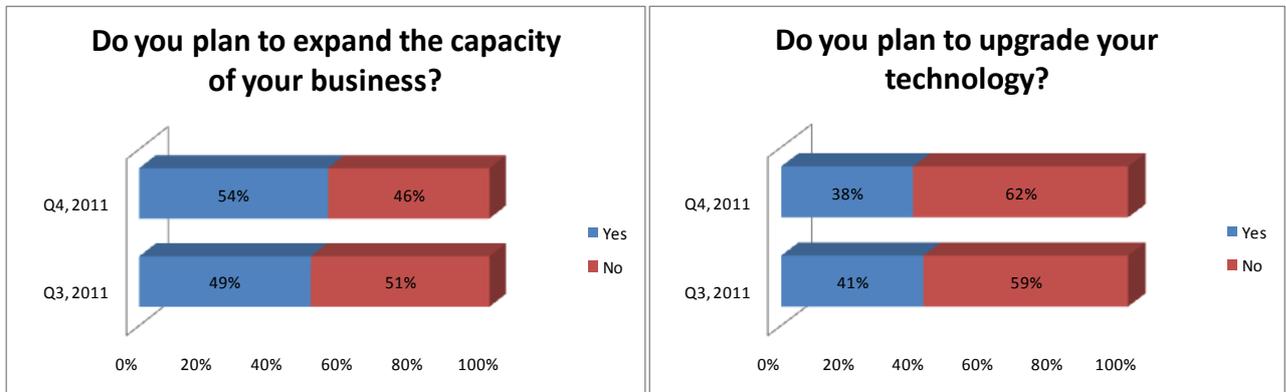


3. Rising government fees (*cited by 10% of the respondents*), with respect to fees (such as employee visa, license renewal and municipality) and duties (such as custom, import and port charges) has been cited as the third most prominent challenge amongst the businesses in Dubai.
4. High cost of utilities (*cited by 9% of the respondents*) was voiced as a concern, associated with cost of electricity, water, telecom and internet charges.
5. Frequent changes in business regulations (*relating to imports, municipality and traffic rules*) coupled with a lack of communication of such changes, are reported as a challenge by 8% of the respondents. The formalities and paperwork (particularly in customs), leading to transshipment delays was also voiced as a key challenge by respondents.
6. Delays in payment receivables are expressed as a growing challenge cited by 7% of the respondents. The survey revealed that businesses faced challenges in Q4, in collecting money from clients, making timely payments to suppliers and negotiating better credit terms.
7. Volatility in the cost of raw materials, cost of skilled labour, rental costs and lack of accessibility to bank finance coupled with rising cost of finance are the other challenges that have been highlighted by respondents. A few of the respondents also reported inability to manage internal overhead costs, lack of market information and currency fluctuations as causes of concern.

Overall, the challenges for SMEs were similar to those faced by large companies. However, for the latter the availability and cost of skilled labor figure among the most serious challenges, just after the demand for products & services, and competition,



## INVESTMENT OUTLOOK



Capital investment plans over a twelve-month horizon are steady, as 38% of SMEs plan to upgrade technology (vs. 41% of SMEs as per the Q3 survey) and 54% of SMEs plan to expand their capacity (vs. 49% of SMEs as per the Q3 survey).

- From a sectoral perspective, Trading SMEs are the most optimistic about investing in capacity expansion, with approximately 60% expressing an intent to invest in capacity expansion. In comparison, Manufacturing SMEs are more inclined to increase investments in technology upgradation as compared to their Trading and Services counterparts.
- From a business size perspective, large businesses are more inclined to upgrade technology than SMEs while no significant difference is noticed between the two categories in terms of capacity expansion
- In the context of a comparison between exporters and non-exporters, the survey reveals that the exporting SME community is more inclined towards investments in capacity and technology upgradation, as compared to the non-exporting businesses.
- Further, the survey reveals that there is no significant difference in capacity expansion and technology upgradation plans of SMEs registered in the Dubai mainland and Freezones.



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