

مؤسسة محمد بن راشد للتنمية
المشاريع الصغيرة والمتوسطة
DUBAI SME



An Agency of the Department of Economic
Development – **Government of Dubai**

Dubai SME Pulse

Q2 - 2011

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AT A GLANCE

- Overall, SME firms established in Dubai reported stable performance in the second quarter of 2011 (April-June), as compared to the previous quarter (January-March) of this year; with key performance indicators sales revenue, selling prices and volumes sold remaining more or less stable in the two quarters. However, a large proportion of firms reported rising direct costs resulting in a profit squeeze
- At the sectoral level, the survey shows that manufacturing and services have performed relatively better than the trading sector on the basis of the same key indicators
- SMEs are optimistic about the next quarter (July – September, 2011), reporting expectations of rising sales revenue, primarily driven by an increase in expected sales volumes. Consequently, they are also optimistic about their profits as compared to Q2
- In the order of intensity, key challenges cited by SMEs are competition from international and local players, insufficient demand for products and services, lack of clarity & transparency of business regulations and increasing government fees
- The survey shows that SMEs are optimistic about their capital investment outlook: around 55% of them plan to upgrade their technology and 61% plan to expand capacity in the next 12 months

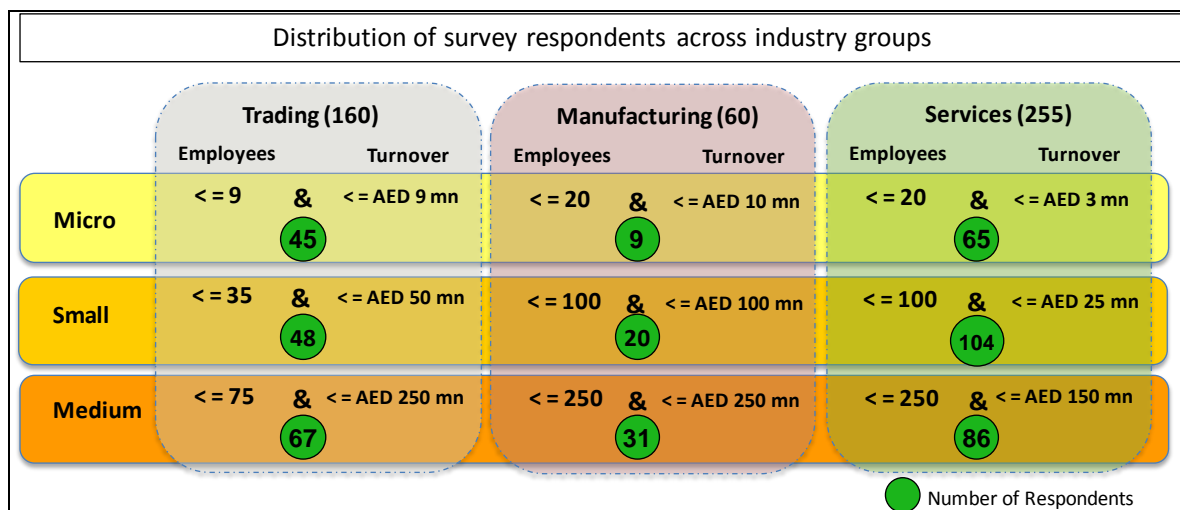
The Department of Economic Development (DED) is a government organization in Dubai that has the mandate to help achieve the key strategic objectives of fostering ‘Sustainable Economic Development’ and strengthening the ‘Competitiveness of Dubai’. In order to gauge the perceptions of the business community in Dubai, DED and its agency, Dubai SME launched the inaugural Quarterly Business Surveys starting in Q2 2011, with the key objective of having a snapshot understanding of Dubai SMEs’ current economic output and outlook.

The document provides an overview of key findings of the survey conducted with 475 SME businesses in Dubai. In addition to the current situation and future expectations, it examines key challenges to growth and development of SME businesses in Dubai and summarizes the investment outlook of SME businesses over the coming twelve months.



METHODOLOGY

The quarterly business survey for Q2, 2011 was conducted for a total of 475 SMEs across the Emirate of Dubai. The sample included a mix of small and medium enterprises, as per the Dubai SME definition, and ensured a representation from Manufacturing, Trading and Services in proportion of their respective contribution to Dubai's GDP.



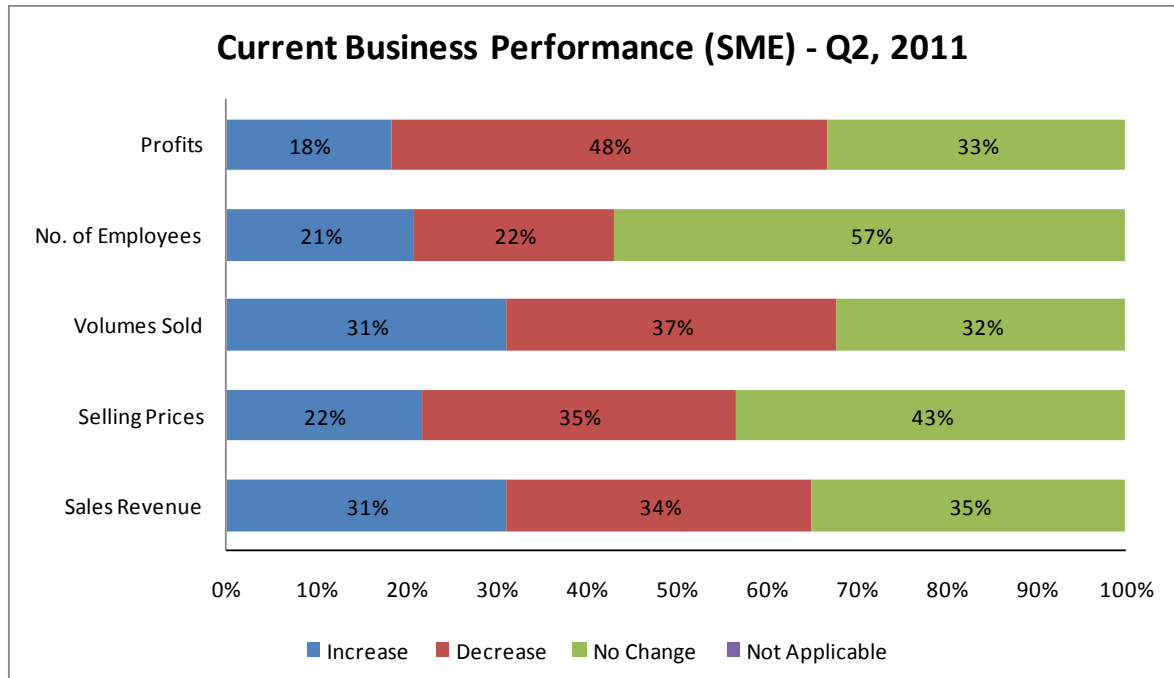
From the perspective of tapping 'business outlook' or expectations, the survey focused on key indicators, such as *sales, selling prices, volumes sold, profits and No. of employees*. Respondents were asked to indicate if they expect an 'increase', 'decrease' or 'no change' in these indicators. Additionally, the survey gathers feedback / observations on 'current business activity' or performance, as well as on cost related items (labor, raw material, cost of finance etc).

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 each year.



DUBAI SME PERFORMANCE - Q2, 2011

The results of the survey reveal relative stability across sectors between Q1 and Q2, by reference to key performance indicators.



The current quarter performance of the SME sector mirrors the performance of t Dubai’s overall business. Current quarter results point indeed to stability in sales revenue. A breakdown into unit prices and volumes further reveals that both parameters remained largely stable. Performance varied across sectors, with Manufacturing and Services firms reporting a marginally better performance with respect to Q1 compared to Trading entities.

Overall, SMEs maintained the same levels of capacity utilization and employment in Q2 as compared to Q1. Across sectors, the hiring performance of Services has been comparatively better than Manufacturing and Trading (25% businesses in Services reporting an increase in manpower vs. 18% for Trading and 12 % for Manufacturing).



It is also apparent from the current quarter results that increasing costs of raw materials have had a significant downside effect on SME margins. As expected, this increase was more of a concern to Manufacturing firms than to firms engaged in other activities, with 82% of them reporting a rise against 63% only for firms engaged in Trade activities.

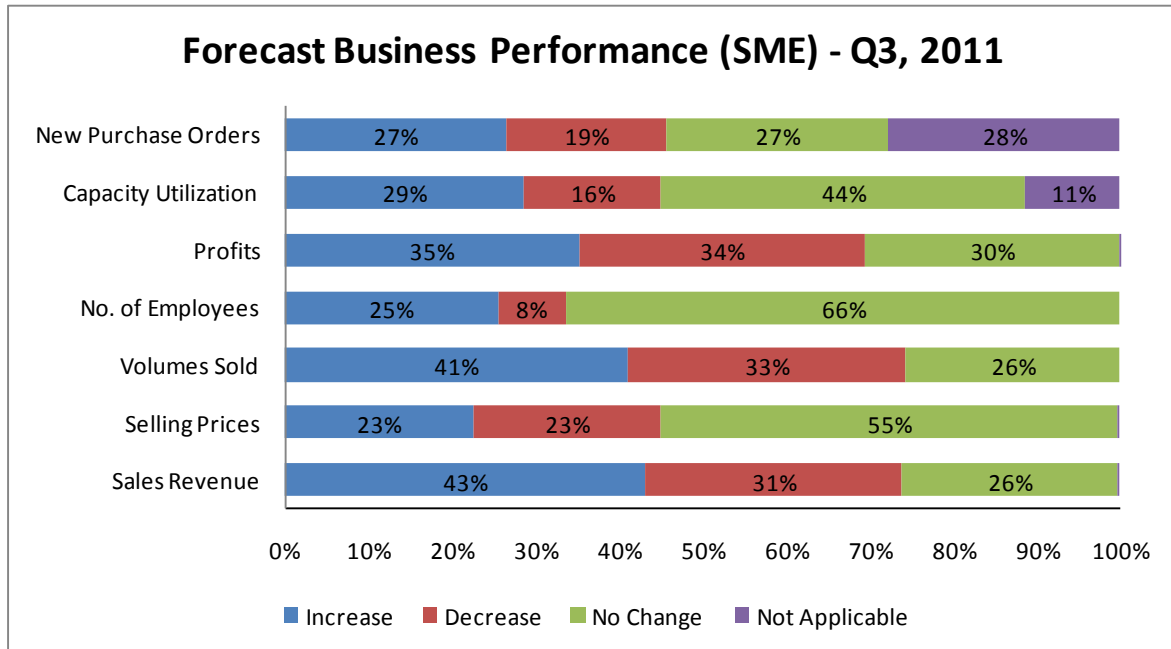
The cost of finance is not expected to change significantly from one quarter to another. Almost half of the respondents reported either stability or some decline between Q1 and Q2, while the remaining half was divided between an increase (28%) and no relevance (26%) of the issue for their business. The non relevance case involves small businesses which choose not to resort to external / bank finance or are shut out of such finance. More specifically, a relatively large proportion of Service firms (around 39%) have reported not using bank finance against 10% and 11% for the Manufacturing and Trading firms respectively.

The respondents' views on labor cost were almost equally divided between no change or some decline, and an increase in Q2 relative to Q1. Reasons cited for the increase include primarily a) the impact of visa renewal costs (due to a change in work visa duration from 3 years to 2 years), b) salary increments to compensate for inflation and c) retention measures to counter reverse migration trends of labor from South Asia returning back to their home countries due to rising pay there and therefore higher reservation salaries for staying in Dubai.

Thus, although sales remained more or less constant in Q2, the reported increase in direct costs seems to have resulted in pressure on profit margins. This pressure was felt more by companies in the Trading sector, 58% reporting a decline in profits against 47% for Manufacturing and 43% for Services.



DUBAI SME OUTLOOK - Q3, 2011



A look at overall SME expectations for the coming quarter (Q3) show positive trends, with 43% of firms optimistic about sales prospects while about 26% think that their sales will remain stable. At the sectoral level, services companies seem to be most optimistic about these prospects.

It is also interesting to notice that these optimistic forecasts are driven by the expectation of higher volumes while prices are expected to remain stable, which signals a rise in the level of real economic activity in Q3 compared to Q2. However, Trading companies are also betting on rising selling prices in the coming quarter.

In line with these positive expectations, firms report to enhance their new purchase orders in Q3 as compared to Q1, with the proportion of those planning to increase these orders exceeding significantly the proportion of those planning to reduce them. These expectations are the strongest among services and trading firms.



In terms of outlook for employment, Services and Manufacturing firms expect to increase their manpower in Q3 while Trading companies are leaning towards maintaining the same level of employment as in Q1. However, overall, firms are expecting to increase their workforce, which is a positive development.

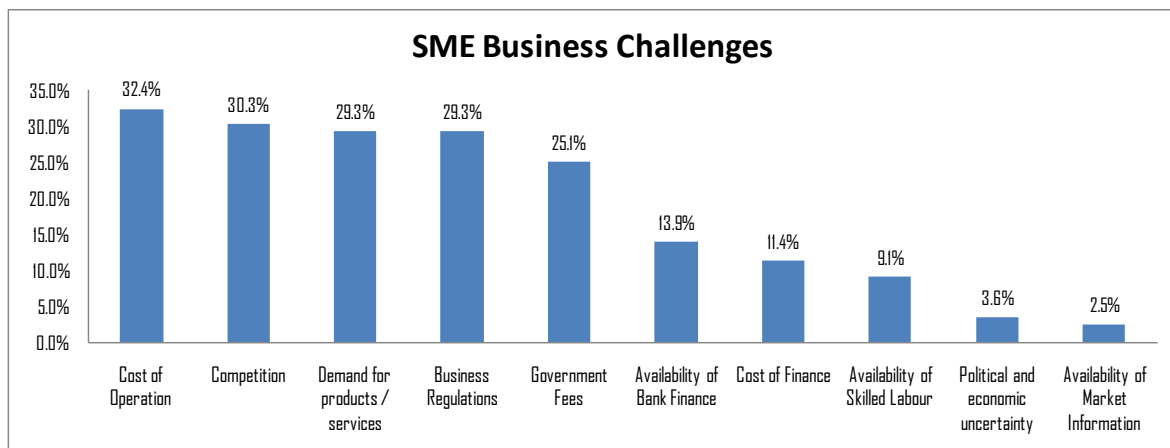
Respondents are also optimistic about their future profits as 35% expect rising profits and another 30% forecast stability in comparison with Q2. Firms engaged in services are more upbeat about future profits than those operating in manufacturing and trade, with 42% of them expecting increases in profits against 32% for manufacturing and only 26% for trading.

The overall assessment is that firms expect better business performance indicators and improved economic activity in the third quarter compared to the second quarter of the year 2011.



KEY SME CHALLENGES IN DUBAI

Survey results reveal the following key challenges hindering the growth & development of SME businesses in Dubai.



The major challenges impacting the SME business environment in Dubai are as follows:

1. High cost of operations (*cited by 33% of respondents*) - The survey reveals that the high cost of operations is the key challenge faced by SMEs in Dubai. For the purpose of the survey, cost of operation includes direct costs (raw materials, labor) as well as indirect costs (rentals, leasing and utilities).
2. Increased competitive intensity from local and international players (*cited by 30% of respondents*) and low demand which is the protracted effect of the earlier slowdown in domestic and international demand (*cited by 29% of respondents*).
3. Lack of clarity & transparency of business regulations (*cited by 29% of respondents*): lack of clarity on business licensing and registration procedures as well as inadequate transparency in enforcing commercial contracts and protecting creditors' rights. Respondents have also cited increases in government fees such as visa and licensing fees to have had an adverse impact on their margins.



INVESTMENT OUTLOOK

Over a twelve-month time frame, SMEs are optimistic about their capital investment outlook. Around 55% of them plan to upgrade technology and 61% intend to expand the capacity in the next 12 months.

- From a sectoral perspective, Service oriented companies are the most optimistic about expanding their capacities, while Manufacturing firms have their attention focused on investing in technology upgrading. Trading companies are comparatively less inclined towards upgrading their technology, perhaps because of the nature of their operations which tend to be relatively less technology intensive than other activities such as manufacturing.
- Overall, there are no significant differences between exporting and domestically oriented SMEs: both are keener in the next twelve months on expanding capacity than on upgrading technology.



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