

by Patrick
Chalhouh

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The Middle East: today and tomorrow

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Patrick Chalhouh, CEO of the Chalhouh Group, examines the health of the diverse Middle Eastern market and explains how to harness the potential of a region which has been challenged but by no means defeated.

DUBAI – As the recovery seems to become more than a whisper, the time has come to look around. Who's here? Where are we? Where are we going? If change is a constant in the Middle East, sometimes brutal, sometimes soft but often quick, the economic downturn was a novelty. New in its scale, new in its "regionalization", new in the change it brought. So as the global luxury market retrieves a certain momentum, assessing the region, analyzing today and anticipating tomorrow become a necessity. With all headlines wooed by the BRIC, does the Middle East still have a future as an emerging luxury market? And beyond the entity "Middle East", are we facing a uniform scenario, a homogenized development, an equality of potentials?

Well on the contrary, one word is to be kept in mind when looking at the Middle East market: diversity. No market looks alike and therefore no market has the same outlook. So a first question to be raised is pertaining to the future of the established Middle East luxury markets. Is it really the end of Dubai's dream as quickly chronicled by western media? And what is the remaining potential, if any, of the less advertised markets of Saudi Arabia and Kuwait?

Well quite safely we can state that no, Dubai is not over. And if the impact of the economic crisis has been severe on Dubai and its development scheme, more severe than on any market in the region, it brought a return to reality and led to an introspection that was necessary for the emirate to guarantee its sustainability. The intervention of the government to support troubled conglomerate Dubai World boosted investors' sentiment. The dangerous exuberance of the real estate sector is practically history with a rising expectation that projects will now more and more match market needs in quantitative and qualitative terms despite a still running oversupply risk at least for the short term outlook. Consumers are returning to the malls as confidence in the future is growing. Likewise recent reports predicted retail sales to rebound in 2010 while retailers are expected to get better deals on rents.

What made Dubai's success still prevails. Its location, at the heart of the Middle East, remains its biggest strength. Its outstanding infrastructures, unmatched by nowhere in the Gulf, the Near East and probably the MENA region guarantee the emirate a definite long-lasting competitive advantage. Its tourism industry is picking up and a new wave of high spenders namely Chinese are landing on its sunny beaches and marble retail floors, increasingly making up for the drop in Russian visitors. And not to forget, Dubai still houses a growing and by regional standard sizeable wealthy population for whom shopping is a way of life.

However, the outlook is not all positive and easy and Dubai will need to take drastic measures to ensure its sustainability. It will have to adjust to changes to capitalize in its strength. It will need to keep on working on the health of its economy as a true recovery of its luxury market will depend on the overall strength of its economic recovery. Dubai will need to adapt to a shifting consumer base both residential and tourist along with editing its retail infrastructure and offer. And more than anything, Dubai will need to redefine its image and its positioning, blurred in consumers' minds by an overall discounting of the city.

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The Middle East: today and tomorrow

Patrick Chalhouh, CEO of the Chalhouh Group, examines the health of the diverse Middle Eastern market and explains how to harness the potential of a region which has been challenged but by no means defeated.

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Neighboring markets of Saudi Arabia and Kuwait are as well still holding their spot on the Middle East luxury market chess board. The Kingdom remains the biggest regional market where a tremendous wealth is nesting and it is rather fair to say that the market is still relatively untapped given the scale of its potential. But it is a very specific market, difficult to crack and operate in which requires a deep understanding of its consumers, its culture and its evolutionary path. Adding to the challenge, Saudi consumers appear to be little engaged in the various product categories and characterized by relatively set choices or even ‘dictated’ towards what is considered reputable and recommended by family or friends. The trend is further accentuated in Riyadh, the capital, where conservatism is stronger than in Jeddah, relatively more open to in-store activities and events. Saudi Arabia is consequently and definitely a market where so much more can be done but it requires investments and time.

Kuwait is as well a very interesting market. If the growth potential is today much smaller than in Saudi Arabia as currently better optimized with an adapted retail coverage and wider brand offer, it remains a very resourceful country with consumers that are amongst the most savvy and sophisticated ones in the region. Quite avid, Kuwaiti shoppers spend heavily and frequently. Likewise, Kuwait’s future lies as regional trendsetter rather than in an extensive retail expansion.

So while the Middle East established markets will still be playing a key role in tomorrow’s regional luxury landscape, other places are emerging and will have to be taken into account. Abu Dhabi and Qatar markets are today rightfully on everyone lips and even more regional cities are today seeking to make a name for themselves.



Paule Ka The avenues Kuwait

One major evolution brought up by the downturn, a change that is affecting everyone involved in the region, is a rebalancing between markets namely in between the most globalized markets of Dubai, Jeddah and Kuwait and the more local-based economic powers of Abu Dhabi, Riyadh and Qatar. But the rise of these markets should come as a complement to traditional places rather than a replacement.

The rise of Abu Dhabi is a matter that has raised a lot of interest and even interrogations. Being so close to Dubai, does Abu Dhabi have a future as a shopping destination or will its success be conditioned to the failure of Dubai? More realistically the future of both emirates is interlinked and complements each others. If Abu Dhabi has the wealth, Dubai has the required infrastructure. If Abu Dhabi has a more local based population, on average wealthier, Dubai has the main bulk of tourists. If Abu Dhabi is seeking to become a cultural hub, Dubai is set to remain the leisure capital. Likewise both cities are just destined to become more and more integrated, balancing one another's weaknesses and capitalizing on the other's strength. If Abu Dhabi is today increasingly attracting brands, it suffers from a retail space scarcity. Despite various retail projects in the pipeline, its development should follow a less frenetic pace than the one of Dubai as carefully planned, leaving the emirate with a retail under capacity for years to come. However its strategic development targeting cultural developments, financial services and high end tourism coupled with abundant energy resources guarantees its long-term future as a luxury market.

Now looking at Qatar, it actually presents a lot of similarities with Abu Dhabi. It is a market with a terrific potential underpinned by an immense wealth and a flourishing economy. But unlike Abu Dhabi, Qatar carries a retail offer more in line with the country's needs especially further to the recent opening of mega complexes and given the limited size of the market.

As for Riyadh, a consequent growth is also to be expected being the economic heart of Saudi Arabia boasting all the public bodies and administrations and housing a relatively wealthier population than in Jeddah. However its retail sector is currently rather concentrated and on average well catered.

“ Abu Dhabi and Qatar markets are today rightfully on everyone lips and even more regional cities are today seeking to make a name for themselves. ”

And beyond the publically witnessed emergence of those markets, other places such as Beirut and Cairo are aiming at becoming the next relays of growth. Likewise, Beirut which has registered an extremely positive year in 2009 with record figures in tourism and strong flow of foreign investments has seen a series of openings and is increasingly dreaming of recovering its spot as regional leisure and shopping capital. If its ambitions are founded on clear competitive advantages such as clement weather, an unbeatable standard of living and good sophistication of its offer, Beirut still has to overcome a limited wealth amongst its population with a strong seasonality of its demand and a retail space remaining under construction.

Cairo's panorama is a bit different: a structuring market, lacking qualitative luxury retail space and offer, victim of a tough regulatory framework but with a still limited yet growing affluent population, demanding and until now left only partially catered.

So to sum up, the downturn in the Middle East more than triggering a decline for the region led to an increased dynamism bringing necessary sense back into governments' strategies and uncontrolled developments while sparking off new places that will come and complement the regional offer, helping the overall region in its maturation and sophistication process.

Patrick Chalhouh, CEO, Chalhouh Group

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MORE INFO



Patrick Chalhouh is extremely well-placed to offer insight on the Middle East, having spent the past 30 years working as a luxury industry leader in the region. He is currently based in Dubai where he is CEO, responsible for the strategic development of his family's formidable luxury conglomerate, the Chalhouh Group.

Comprised of over 5,800 people operating throughout the Middle East, the Chalhouh Group represents a portfolio of over 280 luxury brands in the beauty, fashion and gifts sectors, and counts brands including Baccarat, Christian Dior, Louis Vuitton, Vertu, Ralph Lauren, Christian Lacroix, Sephora, Larvin and Marc Jacobs as partners.

The group also manages more than 350 retail outlets and offers regional and local distribution in 14 countries. Patrick has spoken on the subject of Luxury at numerous prestigious events and conferences including the World Retail Congress and Leaders in Luxury, Middle East

www.chalhouhgroup.com

COMMENTS

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Richard Bellanger
CEO
**HAUS SMANN
Prestige Paris -
Luxury Real
Estate**

8 Jun 2010 15:10
Very good article. Thanks.

 REPORT ABUSE



Patrice de Place
President of the
Artistic Committee
& Executive Vice
President
**Mod'Art
International**

8 Jun 2010 16:46
Cher Patrick,
Bravo pour votre article passionnant.
J'ai été heureux, par son intermédiaire, d'avoir un contact avec vous....depuis le temps!!!
Amicalement.
Patrice de Place

 REPORT ABUSE



Sindy Liu
Student
Glasgow
Caledonian
University

9 Jun 2010 19:53
interesting! but i think luxury companies must adjust quite a lot in middle east market? e.g. the level of sexual content in advertising. and it must be quite difficult for clothing brands due to the difference in culture? i'm specillise in the chinese market, but would love to find out about other new markets. anyone interested in talking about luxury do get in touch :)

 REPORT ABUSE



Eva Carola Muths
Marketing Manager
**Elite Jets FZCO
Dubai**

22 Jun 2010 10:47
Dear Mr. Chalhouh,
It is great to read an article like yours, written by a successful business men who has worked and lived here in the UAE for probably 20+ years??.
I have been in Dubai almost 22 years now ... and I feel sad and angry seeing how the international media is picking on Dubai, rather than looking at their own country affairs. Hence your article is very encouraging ... helping us to continue with business as usual and with a positive outlook.
Thank You!