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# Luxury Retailing in the Gulf Faces a 'New Norm'

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Dubai Mall

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**DUBAI** — The Chalhoub Group, one of the leading operators of luxury brands in the Middle East, released a white paper today describing changing market conditions across the region.

After three decades of rapid gains, the Gulf is now experiencing more moderate growth. The company asserts the region is moving from a “wild west” frontier market structure and attitude, characterized by huge untapped potential, toward a more mature phase, which Chalhoub has dubbed the “new norm.”

Anthony Chalhoub, co-chief executive officer of the Chalhoub Group, said “2015 was very challenging for the region, both geopolitically and economically. The drop in oil prices, along with exchange rate fluctuations, is affecting our group’s financial growth.”

After a quarter-century of strong economic growth, averaging 5.6 percent annually across the six countries of the Gulf Cooperation Council between 1990 and 2015, the company asserts the region is facing headwinds from forces both familiar and new. Economic growth slowed down from 3.3 percent in 2015 to an estimated 2.7 percent in 2016, just below the global growth forecast of 2.9 percent.

Chalhoub remains optimistic, saying companies can still thrive in the region, but it will require more work and planning, and increased energy and agility from all stakeholders.

“As the leading partner for luxury across the Middle East, it is our responsibility to look beyond these geopolitical and economic fluctuations and go deeper to understand the profound forces that are reshaping luxury in the Gulf. We have been in the region for over 60 years and have faced many changes and challenges during this time. In overcoming each one, we have reinforced our leadership position,” Chalhoub said. “It is our duty to try to anticipate change and make the right moves to help our partners succeed in the region. Together, then, we will be ready and well-equipped to welcome this new norm.”

Overall, the region remains highly attractive to international luxury brands. Gulf countries are still expected to see higher gross domestic product growth, averaging 2.9 percent annually through 2018, compared to countries in Europe, at 1.7 percent, or the U.S., at 2.4 percent. And despite the low oil-price environment, the region still has some of the largest reserves of hydrocarbons in the world, providing a reliable source of income for the long term.

While the initial growth phase for luxury brands in the region was focused on opening stores, it has now shifted to quality over quantity.

"For years, two-thirds of the luxury sector's growth rate was mainly driven by the expansion of retail offers and the opening of new stores. After 2020, this expansion may slow down. Growth will not only result from the replication and the good execution of international proven concepts. Strategies of differentiation will prevail," said Cyrille Fabre, a partner at Bain & Co.

As more and more franchise partners are moving into joint-venture agreements and operating independently in the market, the Chalhoub Group underscored the role of the local distributor and partner in providing expertise to support brands in their development. The white paper describes how local partners must nurture innovation to create unique and compelling shopping experiences that meet market needs and offer expertise to impart customer-centric, bespoke product offers and services, something that is in high demand in the Gulf especially.

"The Gulf region has witnessed a period of abundance for the past 25 years with the building of incredible infrastructure and the education of its young population," said Patrick Chalhoub, co-ceo of the Chalhoub Group. "It is now entering a new phase of maturity, of knowledge, of seriousness and of stronger governance. To be successful, we will have to be aspirational, relevant, meaningful and competitive, and adapt to the changes and to the new norm."

Part of that adaptation includes pricing strategy. With one of the highest Internet penetration rates in the world — 91.5 percent in Qatar, 90.5 percent in the United Arab Emirates and 63.7 percent in Saudi Arabia — luxury consumers in the Gulf are increasingly price sensitive, especially in light of currency fluctuations. Retailers, including Chalhoub, have had to respond to this by adapting pricing models.

"The regular price comparison surveys we conduct across major international shopping destinations highlight huge differentials in pricing, with Gulf price tags among the most expensive ones," said Fadi Jabbour, chief operating officer of Chalhoub Group Retail. "That is why in early 2015 we began to lower some retail prices by reducing our margins and renegotiating purchasing orders."

The Chalhoub Group says it is also more focused than ever on "customer-centric" retailing. This means creating retail environments that are less transactional and more experiential.

"Today's consumers are not only looking to purchase a product. They are looking for a memorable experience; they expect to be taken on a journey," said Linton Crockford-Moore, creative director of Chalhoub Group.

Level Shoes, which opened in 2011 in Dubai Mall, was one such concept introduced by the company. The store delivers a captivating experience to customers by offering an immersive shoe experience across 106,665 square feet. Considered the world's largest shoe store, it offers luxurious and bespoke collections, along with concierge services, a foot spa and dedicated stylists to cater to VIP guests.

Building on the success of this model, the Chalhoub Group opened Tryano, a department store dedicated to handbags, beauty and kids in Abu Dhabi last year and most recently, Level Kids, the world's largest children's store located in Dubai. The stores are focused on customer service that is also digitally enhanced, utilizing technology such as 3-D printers, intelligent mirrors, iPads, virtual-reality glasses, holograms, recognition devices and bio-sensors.

The white paper concludes by asserting the company expects the mature phase to evolve rapidly in the Gulf. It states: "Change can happen quickly, given the energy and the ambition of a more qualified, younger and entrepreneurial population. The region has the capacity to evolve and to find its own way, while taking inspiration from international best practices."