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Luxury and the Abaya: The Middle East makes its mark

Classic brands are playing by different rules today to grow in the new markets of the East. But is the "New Look" worth it?

The continued growth of emerging markets like the Middle East and China are "transforming the luxury industry", said **Claudio D'Arpizio**, a Bain & Company partner and lead author of its 'Spring 2011 Update: Luxury Goods Worldwide Market Study' upon the report's release in May. "Luxury has made a brilliant return to the retail stage, but the script has been re-written" to suit both the escalating demand and the new consumer.

The Chalhoub Group, a major player in luxury goods in the Middle East, would support this claim. The company's joint CEO, **Patrick Chalhoub**, says the Gulf remains a major pool for growth despite the impact of the financial crisis, "with a luxury goods market still estimated at around 4 billion euros and an expected five to eight percent growth (according to Bain & Company), higher than the worldwide luxury market growth at three to five percent".

Cyrille Fabre (MBA '03D) a partner at Bain in charge of its Consumer Goods and Retail practice in the Middle East, quotes a recent retail report from CB Richard Ellis showing 85 percent of luxury retailers are present in Dubai, the third highest density of this sector in the world after Hong Kong (91 percent) and London (87 percent).

New buyers want something else

Apart from growth, the researcher and the retail group are also seeing new buyers who want new styles that are often far from the conservative luxury fashion norms that the West prefers. But just how far has the pendulum swung? Enough, it seems, for the likes of Patrick Chalhoub - whose company is operational in 14 countries across the region, where it sells 280 luxury brands in more than 370 stores – to have identified some key demographics. Apart from home-grown brands, Chalhoub Group also has retail joint ventures with Louis Vuitton, Christian Dior and Christian Louboutin, and employs about 6,000 staff.

Both Bain and Chalhoub describe an increasingly younger regional mix for luxury demand. And there are other factors - religious and cultural restrictions in the Middle East on dress, for example, make the purchase of items with large brash logos and brands more prevalent, items which in the West might be described as gauche. It is precisely this cultural divide in taste that operators like Chalhoub must address. Although conservative Western luxury tastes are still followed, more and more individual cultures and markets are demanding their own styles be catered to. A supersized LVMH handbag with large tassels, gold buckles and logo might turn the nose of any self-respecting, fashion-conscious Frenchwoman, but in places where the handbag is the only conspicuous accessory allowable by culture, or sometimes by law, somehow that form of expression begins to make sense. Younger customers also care less and less for established fashion norms.

Economics, social status and history all play a part in the luxury scenario for these markets, says Professor **Frederic Godart**, an Assistant Professor of Organisational Behaviour at INSEAD whose research investigates the role played by status and style in the structure of industries and covers several areas including fashion design, fashion modelling and watchmaking.

A case of conspicuous consumption

"In both cases [the Middle East and China], there is a tradition of luxury and conspicuous consumption that is not new at all and has deep historical roots," he says. "What we are witnessing now is more a "rebirth" and spread of a taste for luxury that is related to growth of the middle class. Luxury is a way for new members of this class to express their social rise. At the heart of luxury lies conspicuous consumption, the need to express one's social status and power through manufactured objects."

Chalhoub says there are identifiable, if general, trends for new Middle Eastern luxury consumers. "They are young; they share a common interest for shopping (mainly due to the hot weather, as air-conditioned malls are central to any social interaction); they are brand-savvy; they tend to strive for individuality in anything they buy (limited editions, personalised items etc) while staying bound to strong social codes, respecting traditional values and family codes."

Fabre says in the Gulf region the high consumption of luxury goods per capita is driven by age (50 percent of luxury purchases are from customers under 30 years of age), a high income with a high purchase frequency, a strong appeal for novelty, and a tendency to change high-tech items and fashion brands frequently, irrespective of any need to do so.

"There is the same willingness to leverage fashion to express oneself, but there are differences in the how," he says. "It must be socially acceptable (hence the enhanced focus on brands). And there is a stronger importance of accessories and shoes as a means of self-expression, given the relatively uniformed Abaya (traditional black gown worn by women across the Gulf)."

The Middle Eastern success stories most notably influencing growth trends in the region are the stable, oil-rich emirates and kingdoms centred in and around the Gulf - nations like the United Arab Emirates (UAE), where you can buy gold bullion from a vending machine and diamond-studded mobile phones are in high demand. Last year the number of luxury outlets in the world increased by 14 percent according to a report by the consultancy Ledbury Research quoted in the Financial Times, while in the UAE the number of luxury stores increased by almost 50 percent.

Political issues

"We are optimistic for 2011, yet the region still faces macro issues and political instability that have to be factored into any strategy for the future," says Chalhoub. "Having said this, we strongly believe in the strong potential of the Middle East, and invest in sustainability initiatives and investments, including re-enforcing key markets and rolling out new concept stores."

But as far as any major transformation that would see the burgeoning luxury retail trade in emerging markets dominate the direction of long established luxury brands, Godart says perhaps not just yet.

"Taste in luxury is stuck between the local and the global, and it is not clear which one should prevail," he says. "In China and the Middle East, there is still a taste for Western brands, and what is foreign is strongly (desired), at least in this field. China and the Middle East are so close, yet so far. Each civilisation or culture has developed its own idiosyncrasies, but really luxury is still economically dominated by Western brands. That said, sociologically, local cultures will select some luxury objects over others, those which make sense culturally."

The rise of local luxury branding for these markets is a given, "but again, financial power is, in this field, in the hands of Western (and actually, mostly European) conglomerates that will probably expand their portfolio of local brands, just as Richemont did with [its acquisition of Chinese fashion house] Shanghai Tang."

Godart says Western brands are willing to embrace new influences and Chinese, as well as Indian, designers are becoming highly influential… in and on Western brands. He notes the two main luxury conglomerates are LVMH and PPR (both French), the United States and Europe are still leading the pack in terms of the size of their luxury markets, and "maybe more strikingly, the ten most valuable luxury brands are all French or Italian". The script may be rewritten, but the leading roles, he says, remain unchanged. "The key idea for brands is to keep a global image while pleasing local customers: it's "glocalisation" in action."

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