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CEO interview: Q&A with Patrick Chalhoub

TIM JACKSON, WGSN 19.06.09

The Chalhoub Group has spent more than five decades selling luxury in the Middle East. Co-CEO Patrick Chalhoub tells WGSN how the market and consumers have evolved, and highlights the current challenges.

Founded in Syria in 1955 the Chalhoub Group is one of the Middle East's leading luxury store operators and distributors, handling a portfolio of more than 200 beauty and luxury brands.

The company remains family-owned and is jointly headed by Patrick and Anthony Chalhoub from headquarters in Dubai. It operates across the Middle East with a growing business in the Indian market. WGSN speaks to co-CEO Patrick Chalhoub.

Patrick Chalhoub

Saks Fifth Avenue, Dubai

In what ways have the challenges of selling luxury in

Fact file

- Founded 1955 in Damascus by Michel and Widad Chalhoub
- Family-owned and headed by co-CEOs Anthony and Patrick Chalhoub
- More than 200 luxury beauty, fashion and gift brands in the portfolio, including joint ventures with Parfums Christian Dior, Puig and Coty
- Operates retail stores for Lanvin, Ralph Lauren and Marc Jacobs among others
- More than 300 retail outlets
- Present in 14 markets
- 5,000 staff

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the Middle East changed since the family started the business more than 50 years ago?

The market has really evolved substantially. In the 1950s and early 1960s there was no real market for luxury products and no real distribution. The challenge at that time was to make products available and make people aware of what was luxury and what was branding.

Gradually when people became more educated and wealth came into the market, distribution started to become more organised, so **in the 1970s and 1980s the challenges were to create the right environment** for the product, by moving from multibrand market stalls towards more sophisticated retailing in line with luxury products.

At the same time the customer moved from an era where anything branded was appealing to them, to an era of wanting to show status through the luxury products they bought.

More recently the market has changed again. The environment is now in place and the challenge is therefore more **customer-focused and is to be more marketing-oriented**.

The customer is more aware today - often more than us - of trends and fashion. The challenge now is to offer quality products, to give the customer value for money and to convince the customer why he should buy.

Before the current crisis, what financial and political events affected your business?

In 1975, we had the first oil boom and in 1990 the [first] Gulf War had quite an effect on the oil region in the Middle East, and also the terrorist attacks in 2001. But **the fundamental and biggest evolution is education**, which has made people more aware of everything around them.

Every time we have seen a cycle, we have had to adapt ourselves to circumstances and up to now we haven't seen what I would call a deep crisis in the region. I would say there have been **some cyclical crises** and sometimes it took a few years, a few months other times but [the markets] continued progressing.

How resilient is the Middle East market in the current economic crisis?

Firstly, we cannot live in a state of denial. There is a crisis which is hurting the Middle East. Secondly I would say the government and leaders of Middle Eastern countries have always used their wealth smartly, to create sustainable activity and not overspending when a lot of wealth was coming in.

Today, Middle Eastern governments are **continuing to build and invest in infrastructure** in a downturn, and haven't decreased budgets - quite the contrary. This has, I would say, given some wealth to the people.

What we are noticing, mainly in the Middle East, is **a crisis of consumer confidence**. People are afraid of losing their jobs. But the market has been quite resilient even though we are facing a difficult time.

What changes are you seeing in reaction to the crisis?

When there is a recession there is an emphasis to change [product and brand]. Some brands and products could disappear or may not have the capacity to adapt, compete or to reinvest. It is often smaller brands, but it could be strong luxury brands. What's happened to General Motors wouldn't have entered our imagination 10 years ago, so unfortunately there will be some players who will go.

The other evolution is consumers questioning what is important to them and the way they should act. Their **attitudes and aspirations are changing** in this period of instability and they are going back to authenticity, values and heritage.

This is definitely **an opportunity for new brands** and products able to convey those values to appear in the market. Firstly, there is a gap which has been created and secondly, there is a change in consumer attitude and if they can grasp this attitude, they will be part of the game.

Louis Vuitton, Abu Dhabi

Marc Jacobs, Dubai

Sephora, Bahrain

Celine, Dubai

What changes in consumer spending have you seen in past 12 months?

First we saw a small decrease in sales month after month - it hasn't been tough as it has in some other countries but sales have been going slightly down month after month. It's not so catastrophic. Having said that, when you analyse it, there are big movements and changes.

For example, product categories like **fashionable dresses have really taken a hit**, probably because there's less activity - people are cautious and holding less parties - whereas accessories such as shoes and bags, have been much less affected.

Expensive watches and jewellery have been extremely affected, down 30-50 per cent. Again it depends on the brands. Some are more solid, and have been much more resilient to what is happening. They are experiencing much less difficulty to the slowdown while other brands may have lost 20-30 per cent.

We are a distributor of French beauty brands L'Occitane, selling products such as bath gels and so on. We have **increased our sales**

by over 50 per cent over the period. Beauty products haven't had the same level of demand seen for fashion and gifts in the past five to 10 years, but they haven't had the same slump that we have seen for gift products either.

Poor infrastructure, the lack of retail experience of partners and government legislation are common problems facing luxury brands in emerging markets. Do you have any similar issues operating in the Middle East?

We find some of these problems in **the Near East countries - Syria, Jordan and especially Egypt -** but I think the maturity of these markets for luxury products is slightly more advanced than it is in India for example. But the Gulf area has a very liberal economic system and quite a mature market today so we don't see these problems.

If we go back to the history of our group, we've known similar problems in the 1960s and the 1970s when people were less aware. It takes a certain time to build up.

Chalhoub Group retail concepts Faces, Kuwait and Tanagra, Jeddah

Hong Kong is an important destination for luxury in

regards to the Chinese market. Is there an equivalent in the Middle East?

Dubai has really become a window for luxury products, not only for the Middle East but even for Iran and India. Consumers go to Dubai not only to shop but to look at the **choice of luxury products and have expert advice**.

Although Dubai plays the role of a window showcase and as a destination for luxury shopping, other markets - at least in the Gulf area - are evolving quickly, whether that's Riyadh or Jeddah in Saudi Arabia, or Bahrain or Kuwait.

What changes have you noticed in the Middle East consumer, particularly visitors?

We definitely feel that the indigenous, **middle-class Middle East Gulf customers** are flourishing and aspiring for luxury, and this is a real part of our focus. We also see a lot of Eastern European visitors because it's not very far and is almost the same time zone.

We also have seen more wealth in countries like India or Pakistan where their shopping destinations have been London, Singapore or Dubai. The Middle East has not really been prominent for Japanese and Chinese customers so the market is really attracting indigenous Gulf middle classes, Eastern Europeans and Russians, and also Indian and sub-continent nationalities who are here much more these days.

In what ways do consumers in the Middle East markets differ?

I would differentiate Dubai from the rest of the Middle East. Up until last year, there were five segments [of consumers] in Dubai, each representing 20 per cent of the market. These are UAE citizens; expats, particularly those from the Near East countries; Eastern European visitors; visitors from other Gulf countries; and the last 20 per cent are other nationalities, particularly Indians and Iranians. It has been quite a balanced flow.

If you look at the Gulf Cooperation Council countries overall, the split is 60 per cent local compared to 40 per cent of visitors. And in Saudi Arabia or Kuwait **consumption is 95 per cent local**.

This is why our strategy has always been to develop both the tourist market like Dubai for strong exposure but also be in Jeddah, Riyadh and Kuwait and so on, so the brand can build sustainable activity for the future.

I think what's happening today proves that **balance is the right strategy**, and not only to try to benefit from the visitor market.

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