

United Arab Emirates Back to the future?

The UAE market is focusing on back-to-basics measures such as cost-cutting and prioritizing profitability over expansion to ensure future growth



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Three years ago a major industry figure in the Middle East said that strong growth in the region's beauty market was sustainable as long as the factors driving tourism and the real estate boom remained. These factors now look shaky: in 2009, the number of tourists dropped dramatically, especially from Russia and Saudi Arabia, expatriate workers were fired and returned home and real estate is looking more bust than boom. So what's the prognosis for beauty? Are the days of double-digit growth over? Industry sources believe the on average 12% growth rates the market has seen for the past three years will be replaced by more modest annual increases of 5% in the future.

The United Arab Emirates' (UAE) prestige beauty market is estimated to have fallen by 15-20% in 2009, with Dubai hit harder than other cities there, such as Abu Dhabi and other countries in the region. Saudi Arabia, for example, which accounts for around 45% of the GCC's (Gulf Cooperation Council) beauty market, saw much slower declines than the UAE with a drop of around 5% last year. In comparison, the UAE and Saudi Arabia markets saw growth of 13.7% and 11.2% respectively in 2008, according to Euromonitor.

Despite the shock of Dubai's recent debt crisis, market watchers say this latest event will have little direct impact on the beauty market. "Many companies had already stopped investing in Dubai anyway this year because of the global recession; consumer confidence has already been hit and consumption cut, so this new crisis will not add much to that," says a manager for a major retail group in the region.

Changing with consumers

Bruised consumer confidence has resulted in a slight change in shopping habits. Senior show manager of the region's trade event Beauty World Middle East Elaine O'Connell says that although people may not be spending as much in terms of the brand they choose, they are still buying. Basket size has been reduced and there has been a certain amount of trading down, which has benefited the mass market. The mass side of the business saw growth of around 6-7% in 2009, according to manufacturers.

Retailers have been forced to react by adjusting their brand offer and stepping up services to entice consumers. "We have brought in two types of brands: those that have lower price points to drive traffic, such as make-up brand Arcencil, and those that are more niche," says Chalhoub beauty retail general manager David Verducryse.

In prestige, retailers say there has been little discounting, apart from sporadic reductions to clear certain stocks, and that there has not been any kind of price war. Price reductions have however, been a feature of the mass category. ■■■

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Beauty World Middle East
senior show manager
Elaine O'Connell

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■■■ “The trend has been to move away from multi-packs to discounted items, so consumers are getting better deals without having to buy more volume,” explains Beiersdorf Middle East managing director Robert Taylor-Hughes.

Build and they will come?

Retailers may also begin to look more carefully at their expansion strategies. Like everything else in the UAE, there has been rapid expansion in beauty retail in the past few years. It is estimated that the number of ‘A doors’ there has increased by 20% between 2006 and 2008. The market’s main retail players—Chalhoub Group, Al Tayer, Alshaya and Al Fahim—have rushed to open new doors to gain market share. However, the pace may now be tempered. “There has been a shift and there is no longer the race towards market share,” explains Vercruysse. “Now it’s more about maximizing revenue and having a profitable store network so we have the cash to pursue development.”

There is much talk about the need to focus on productivity per-square-meter, optimizing investment per door, reviewing the number of beauty consultants and generally reducing costs.

This optimization should also center on differentiating store concepts and creating a retail identity. The specialty space is fast becoming crowded, with perfumery Sephora, Chalhoub’s Faces chain, Alshaya’s Vavavoom and Al Tayer’s Areej all vying for share. Mono-brand stores are also focusing more on building a strong, recognizable format. Dubai-based fragrance brand and retailer Ajmal, for example, is revamping its store network of 129 stores in the GCC. “We need to have a stronger concept, with a more international design and with layout and merchandising that is easier to navigate,” says company deputy general manager Abdulla Ajmal.

Retailers are also now more ready to close under-performing doors. ■■■

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Beiersdorf Middle East
managing director
Robert Taylor-Hughes

Middle East C&T market by country 2008

Country	Sales €m	% change 08/07
Saudi Arabia	1,502.1	+11.2
Iran	1,412.5	+6.6
UAE	576.2	+13.7
Egypt	414.8	+8.8
Syria	200.8	+10.8
Oman	146.0	+10.3
Kuwait	128.8	-10.8
Lebanon	124.0	+9.1
Yemen	93.3	+11.2
Jordan	64.7	+5.8
Iraq	40.9	+9.8
Bahrain	38.1	+10.1
Qatar	31.5	-11.3

Source: Euromonitor

All figures modelled apart from Egypt, Iran, Saudi Arabia, UAE

Middle East & Africa C&T market by category 2008

Category	Sales €bn 2008	% change 08/07
Haircare	1.89	+8.1
Fragrance	1.59	+12.5
Skincare	1.36	+11.5
Color cosmetics	1.28	+9.2
Bath & shower products	1.02	+7.7
Oral hygiene	0.86	+6.0
Deodorants	0.57	+12.3
Total premium cosmetics	2.35	+10.9
Total cosmetics & toiletries	9.49	+9.6

Source: Euromonitor

Retail value RSP, 2008 exchange rates, value at current prices

-Premium cosmetic sales are additionally included within color cosmetics, haircare, fragrance, skincare, bath and shower products, deodorants, baby care & sun care

-Sum of sectors is greater than the market size as the four men’s toiletries subsectors are included in men’s grooming products as well as deodorants, skincare, bath and shower products and hair care.

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■■■ Chalhoub closed around six stores in 2009, while Al Fahim announced in June last year that it would shutter seven under-performing doors.

Vercruysse adds that it is those retailers that began to optimize their store networks last year and continue to do so in 2010 that will be well-positioned when growth returns to the market in 2011 and 2012.

When less means more

The closure of stores means that retail may end up being more in line with the number of consumers and market volume. Many see the number of doors in some locations as simply unsustainable—some malls for example can house up to seven or eight perfumeries.

The drop in footfall in malls since the recession may have made the decision to close stores easier. In the past year and a half two major malls have opened in Dubai: the Dubai Marina Mall and the Dubai Mall, located in the Downtown Burj Dubai development, which claims to be the largest mall in the world with a gross leasable area of 3.77m ft² (350,244m²). The Dubai Mall has been described as 'challenged', although analysts now say that traffic there is beginning to pick up, especially on weekends. And despite the lower traffic and the slowdown, the mall rents have not changed. As Beiersdorf's Taylor-Hughes comments: "If the malls are still asking for the same rents as before and the footfall is not there, the retailers won't make a profit. And so they are asking themselves if it is worth going there."

All this also has the brands looking more closely at which stores they should and should not sell through, and if they should reduce their number of doors. They are now asking more often why they should they dilute profitability by having two or three doors in a new mall if the volume is not there.

Slow and steady expansion

But despite the store closures, retailers still have an ambitious number of openings planned. Boots opened a new 400m² (4,305ft²) flagship store in Dubai Mall last year. Al Tayer's Areej says it still has ambitions to spread its chain through the UAE and the region—it opened its first two stores in Saudi Arabia in August 2009; while Al Fahim group ceo Mohammed Al Fahim says he remains "committed to UAE expansion, selectively opening new stores, refurbishing strategic ones and pruning underperforming stores" and is going ahead with plans to open 16 new stores in the GCC, including five new Paris Gallery outlets. Chalhoub's Faces too will open six stores in the region in 2010.

There are also new arrivals on the market. In April last year, Dubai-based Landmark Group opened a new beauty concept store called Beautybay. The store is based on offering a wide range of brands, including exclusives and value products, as well as a high-level of customer service. The group opened five doors in its first six months of operation.

More foreign department stores are also entering the market. US chain Bloomingdale's (in partnership with Al Tayer) will launch in the Dubai Mall this year. It will join French retailer Galeries Lafayette, which opened in the mall in May 2009, to form the two main anchors of the retail complex. These new chains to the market will compete directly with Saks and Harvey Nichols, and the question is whether there is room for so many big-name luxury banners in a market that has lost many of its luxury spenders. ■■■

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Chalhoub beauty retail general manager David Vercruysse

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■ ■ ■ The race for market share among retailers may have slowed slightly, but it is unlikely to go away. It is thought that in the next one to two years the main retail players will begin to look to mergers and acquisitions to boost share. The market is still fragmented with the top four (Chalhoub, Alshaya, Al Tayer and Al Fahim) accounting for just 40-45% of the beauty retail market in the Middle East, and it seems only a matter of time before the category begins to see some consolidation.

For now, however, the focus on assortment and productivity per store means that perhaps there is more attention being paid to the consumer and the shopper than to the competition. This can only be positive in a market where there is little consumer research and the customer base (due in part to its youth) changes very fast. ■

Retail snapshot

Chalhoub Group

Faces: 72 stores (Saudi Arabia 38; UAE 9; Kuwait 7; Bahrain 5; Egypt 6; Syria 5; Qatar 2)

Sephora: 18 stores (Saudi Arabia 9; UAE 3; Bahrain 2; Qatar 2; Kuwait 1; Oman 1)

Saks: 3 stores (UAE 2; Bahrain 1)

Chalhoub operates its own store network Faces, has a joint venture with Sephora and a partnership with Saks in the region. The group is focusing on optimizing its Faces perfumery to improve store productivity. It has closed three to four underperforming stores in Saudi Arabia, one in Bahrain and another in the UAE. It will open six new Faces stores next year. In 2008 the group started revamping its Faces network to create a more branded store image.

*Chalhoub also has franchises for L'Occitane, Biotherm, Make Up For Ever and Molton Brown.

Al Fahim

Paris Gallery: 37 stores

Karisma: 5 stores

Al Fahim operates the Paris Galley retail chain, a department store-style format that sells beauty, accessories and shoes. In June 2009, Al Fahim announced that it would open 16 new stores totaling 305,273ft² (28,360m²), including five Paris Gallery stores, one major renovation and the closure of seven under-performing stores. The group will open its 38th Paris Gallery store in the UAE in Mirdiff City Centre in February 2010.

Alshaya

VaVaVoom: 24 stores (Saudi Arabia 19; Kuwait 2; UAE 1; Bahrain 1; Jordan 1)

Boots: 39 stores (UAE 23; Kuwait 13; Qatar 2; Bahrain 1)

Debenhams: 22 stores (Saudi Arabia 9; UAE 6; Kuwait 3; Bahrain 1; Qatar 1; Turkey 1; Jordan 1)

Alshaya operates its own retail concept, VaVaVoom, which offers an edgy concept with beauty studios and nail bars, and has partnerships with Boots and Debenhams in the region. The group opened its 400m² (4,305ft²) flagship Boots store in The Dubai Mall last year.

*Alshaya also operates retail stores for The Body Shop, MAC, Jo Malone and Kiehl's.

Al Tayer

Areej: 18 stores (UAE 15; Saudi Arabia 2; Oman 1)

Missha: 15 stores (Saudi Arabia 7; UAE 6; Bahrain 1; Oman 1)

Harvey Nichols: 1 store

Al Tayer operates its own beauty retail store Areej and has partnerships with Korean brand and retailer Missha and UK department store Harvey Nichols. The company has 18 Areej stores in the region and opened its first two stores in Saudi Arabia at Riyadh Gallery and Dhahran Mall in August 2009. In January 2009 it opened a Missha flagship at the Dubai Mall and its first seven Missha stores in Saudi Arabia in July. The group also partnered with US department store Bloomingdale's, which opens at The Dubai Mall this spring.

In our next issue: men's fragrance insight