

# Patrick Chalhoub on the lucrative but volatile world of Middle East luxury

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John Underwood speaks to Patrick Chalhoub on highest-end retail and why a 97,000 sq ft shoe shop is nothing without ultra-personal customer service



Patrick Chalhoub springs into our interview room at Brown's with more energy than anyone has a right to on a wet Tuesday evening. Slight and friendly, he's about to give the keynote address at Walpole's Luxury in the Middle East seminar.

Chalhoub is the co-CEO of Chalhoub Group, the luxury retail and distribution company started by his parents in 1955 for the Middle East. The Chalhoub Group virtually created a new market by expanding into the Gulf when nobody else had thought to bother.

'My parents,' explains Chalhoub, 'had a taste for luxury and thought it would be something people could aspire to. They were in Syria, but they felt the market was too small; they foresaw that the Gulf would be a great place for luxury. They had vision.'

They certainly did. The luxury market in the Middle East is now worth well over \$6 billion, and a good chunk of it, no doubt, is spent in the Chalhoub Group's 640 outlets. Spread across fourteen countries, the company's stores are a mixture of franchises, joint ventures (a response to local laws capping foreign ownership of retail entities) and the Chalhoub Group's 'own concept' locations, such the Level Shoe District at Dubai Mall, a mammoth shoe shop spread across 97,000 sq ft.

It's not the size of the shoe shop that matters, though, but the slickness of the service, according to the panel afterwards. The speakers stress again and again the importance of ultra-personal customer service to affluent Middle Eastern shoppers, no matter where in the world they're browsing. Gordon Clark, UK and Ireland head of commercial for Global Blue, the tax-free shopping network, reveals that the average spend by Qatari nationals visiting the UK is £1,500 - per transaction.

That sort of disposable income justifies some deference (or, at least, a little care) on the part of sales staff. Clark had a salutary lesson for the audience: the story of a Mayfair jeweller which, when visited by a Middle Eastern man in t-shirt and torn jeans, had a security guard follow him around the showroom. The young man, who turned out to be an Emirati royal, left the shop in disgust.

One suspects that Chalhoub's staff would not have made the same mistake. The Chalhoub Group now operates three Retail Academies, based in Dubai and Saudi Arabia, which offer Edexcel-backed qualifications in areas including visual merchandising, stock control and customer service.

'We opened the first one in 2007,' Chalhoub tells me, 'and accelerated development during the financial crisis because we felt it was needed.' 350 staff now complete the first level of training each year. 'It's nothing compared to the size of the group,' says Chalhoub, but there are other initiatives too: supporting the education of employees' children, promoting training for Saudi women and planning more academies elsewhere in the region.

The overwhelming impression of the Walpole seminar is that a jolt of brainpower is a necessary prerequisite for working in the Middle East. Each speaker outlines some of the apparently endless challenges of shifting from a traditional Western market.

Jonathan Heilbron, president and CEO of shirtmakers Thomas Pink, mentions how unprepared his staff were for the local preference for highly branded products. Katie O'Rourke, a senior counsel at Charles Russell Speechlys who specialises in intellectual property, explains the huge complexity created by the lack of a standardised trademark across all six Gulf Cooperation Council nations.

The mishmash of IP standards, despite an official keenness to establish a Gulf-wide trademark, feels like a study of the region in microcosm. I ask Chalhoub how his company has survived 60 years of turbulence in the Middle East and North Africa.

Restrictive Syrian legislation prompted the Chalhoub's and their fledgling business to move to Lebanon, which was shortly to be split by civil war. A timely move to Kuwait was just in time for the Iraqi invasion. The Chalhoub Group's Dubai headquarters seem safe for now, but the company has a presence in several of the countries most affected by the Arab Spring and the rise of IS. Is there no temptation to cut and run, concentrating on the safe and fruitful Gulf markets?

Chalhoub's answer is two parts compassionate employer, one part canny operator. 'When it comes to Egypt, which has had four very difficult years -- we had five hundred people on the ground there, and they needed us. It has always been our philosophy never to withdraw for purely economic reasons. So we shrank the operation down, and now we can expand again. We will probably be the first ones to benefit from the recovery, because we maintained our presence.'

Would it all - the luxury retail culture of the Middle East - have happened without Chalhoub Group? Chalhoub will not be tempted into boasting. 'Of course it would. Would it have been as quick, as defined? Probably not. We have given our fingerprint to this market and moved it forwards.'

### ***What drives the Gulf's luxury consumers?***

The Chalhoub Group's most recent white paper, 'Gulf luxury consumers: a world apart?', identifies three distinct consumer trends among affluent Gulf nationals: the 'quest for indulgence', the 'need for recognition' and the 'longing for bonds'. It's indulgence that is driving this buoyant sector, with the average Chalhoub Group consumer spending \$2,400 monthly on beauty, fashion and gifts. 78 per cent

of consumers like to keep up with the latest trends, and 76 per cent want to have the latest in everything they own.

The white paper cites 'a powerful need for self-affirmation' as the key to the second trend. 74 per cent of surveyed Gulf nationals say it's important to stand out and 89 per cent look for unique luxury products, but 83 per cent stress the importance of being accepted. The entire region is very image-conscious but the appeal of trusted brands is strongest in conservative areas, with 90 per cent of respondents in Riyadh prioritising brand visibility compared to 70 per cent of those surveyed in (relatively) liberal Kuwait.

For Western brands with an eye on the Middle East, the key trend is the 'longing for bonds'. Family, tribal links and inherited tradition all retain huge importance across the Gulf, where 79 per cent of luxury consumers cite their friends as their biggest influences when shopping. Consumers are looking for a personal experience, with 57 per cent choosing a luxury brand because they trust it and 32 per cent because they grew up with it. Widespread social media use has also contributed to the importance of personal recommendations.

*Source: 'Gulf luxury consumers: a world apart?', Chalhoub Group, 2014*