

Tiles and Ceramics Market

Assessing Growth Trends and New Opportunities in
the Gulf Cooperation Council (GCC)

F R O S T  S U L L I V A N

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Introduction

The Middle East is home to some of the most active construction markets in the world. The United Arab Emirates (UAE) is the most active construction market in the region, with the Kingdom of Saudi Arabia (KSA) and Qatar contributing as growth centres. Dubai and Abu Dhabi make up for almost 90 per cent of the construction taking place in the UAE. There are over 10,000 projects under construction or in the design and planning phase in the GCC. The large-scale construction projects in this region consistently feed the demand for large volumes of construction materials.

The tiles market is one of the fastest growing ones in the building materials industry. Imports play a major role in the GCC tiles market; the region imports almost 40 per cent of its total demand. China, Spain, Italy, Egypt, and India are the largest exporters of tiles to the countries in the GCC. The region also actively exports tiles mainly to other nations in the Middle East and Africa. It is able to competitively price its products mainly due to the availability of raw materials like feldspar or kaolin. Hence, the raw material cost is expected to remain stable in the near future.

Key Market Characteristics

High Gross Margin: Industry participants of tiles and ceramics in the GCC enjoy high gross profits and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) margins. Gross profits range between 40 per cent and 50 per cent and companies have reported high EBITDA margins of close to 35-42 per cent. Low procurement cost of raw materials and subsidised fuel costs help the margins.

Costs Dependent on Subsidies for Fuel: All the countries in the GCC provide fuel and power at subsidised cost for industrial activities. This has traditionally helped industry participants to enjoy better profits. However, due to depleting hydrocarbon reserves and increasing energy consciousness, governments are forced to withdraw subsidies resulting in increasing fuel cost.

Increasing Demand Leading to Increased Production and Output: Heightened construction activities result in increased demand for tiles influencing industry participants to increase output. However, this also increases the risk of vulnerability to construction and oversupply.

Influx of Low-cost Imports from China: Another key characteristic of this market is the influx of low-cost imports from China. Europe has imposed an anti-dumping ban on Chinese tiles; hence, Chinese suppliers are targeting the Middle East.

Expats and Youth Influencing Product Preferences: Product preferences are changing rapidly owing to expanding expat population and altering expectations from the young population. This has not only influenced product developments but also the marketing and sales strategies of suppliers.

Market Overview

The tiles market in the GCC is one of the most dynamic ones, globally, in terms of the kind of demand it generates. There is high demand for both high quality, high-priced tiles, and at the same time there is demand for economical and cost-effective products.

The GCC market for tiles was estimated to be more than 450-500 Million sq. m in 2014 out of which 60-70 per cent of the market demand was for ceramic tiles. The market continues to be dominated by suppliers from the UAE. The market is expected to grow at a Compound Annual Growth Rate (CAGR) of more than 10-12 per cent until 2020, mainly driven by the growing demand from new construction in segments like residential and hospitality.

Factors influencing the Market

Market Drivers

- **Construction Sector Expansion:** The construction sector in the region is fast expanding, mainly driven by government-backed investments. The oil-based markets are rapidly diversifying their economy in order to reduce dependence on oil. Fluctuations in global oil prices make the market extremely volatile; however, with increasing investments in construction, several other industries like banking, hospitality, and tourism are flourishing. It is estimated that over USD 3 Trillion worth of projects are under construction or in the design and planning stage. The construction industry is growing at the rate of more than 5 per cent year-on-year (YoY), despite the regional political unrest, which has upset investor confidence. Thus, construction is the foremost driving force for the tiles market.
- **Demand for Quality and High-priced Materials:** The GCC is home to a large number of High Net worth Individuals (HNI) making it a natural choice for luxury and high-quality products. Tiles and construction materials are no exception. The vast number of large-scale projects demands high-quality tiles mainly from the European market. The Middle East is now the largest importer and trading partner of Europe for tiles. Due to slowdown in European economies and construction markets, high-quality products have found their way into the Middle East market where there is a significant demand for the same.

Market Restraints

- **High Competition and Influx of Sub-standard Products:** There is stiff competition for tiles suppliers in the GCC market. High market attractiveness has brought in a large number of companies from across the world. While majority of the suppliers provide high-quality materials, there are also instances of substandard products making its way into the market. Governments are taking measures to curb the influx of fake or substandard materials into the region.

- **Volatility in Prices:** Prices of products are now determined by the end-user. Owing to the presence of stiff competition, suppliers are expected to squeeze the margins in order to sustain competition. Similarly, owing to the dynamism of global economy and trade policies, the prices of these products are volatile making it difficult for suppliers to follow a single pricing model.
- **Availability of Substitutes:** Tiles are popular choice for flooring applications. However, recently, there has been advent of substitutes; especially, in commercial and infrastructure segments. This has shrunk the market opportunities mainly because the substitutes are more economical compared to the tiles.

Industry Challenges

- **Changing Customer Preferences:** The tiles market is vulnerable to the changing preference of customers, who constantly change their taste and preferences, especially when it comes to aesthetics and visual appearance. Hence, it is not possible to follow a single trend and stock products. Due to consistent change in preferences, suppliers are forced to constantly keep of track of the market trends before stocking.
- **Irregularities in Laws and Regulations:** Variations in laws and regulations between different countries in the region and different emirates in the UAE have challenged the suppliers' distribution and marketing strategy. Applying a uniform strategy is not possible in this region. Suppliers have to adopt differential strategies not only based on changing trends but also regulations.
- **Paradigm Shift in Sales and Distribution Model:** There is a rapid change in trends and buying patterns. Customers are now increasingly demanding better aesthetics and durability of products. Change has also been noted in buying behavior, which has forced suppliers to shift from regular retail stores to lifestyle stores supplying a wide variety of options. This trend is now very evident in developed markets like the UAE and Qatar, and is soon expected to percolate into other markets including the KSA and Kuwait.

Industry Trends

Increasing importance of residential market in the total construction mix has influenced the structural change in distribution of tiles in the Middle East. The market is characterised by a large number of high-rise apartments built by large and international contractors on one side and, on the other side, individual units are built countrywide by local contractors. While large projects procure directly, small individual units procure through the distribution or merchant network. Hence, it is prudent to alter the distribution pattern based on the total construction mix.

Larger role for European suppliers is another key trend in this industry. Shrinkage in construction market in Europe diverted the attention companies from there to the Middle East, where there is high demand for European products. The collapse of the Spanish construction market, which was estimated to have shrunk by more than 50 per cent in the last 10 years, is one of the noteworthy incidents in this regard. Similarly, consumption in Italy dropped significantly during the same period, having a detrimental impact on suppliers. However, as a recovery strategy, companies started focusing on the Middle East and renewed their pricing and distribution strategies to suit the market conditions. This has led to successful establishment of European suppliers in the market.

The surge in demand for Chinese supplies in the KSA is another trend to be noted in the region. The KSA is continuing to show increasing appetite for economical products to cater to its rapidly growing residential construction market.

Public sector procurement capacity is yet another unique character of the Middle East market. Internationally, the public sector procurement capacity is very low, especially for construction materials. But in this region, the governments are increasing their investments into construction and infrastructure expansion. This is expected to bring about a dynamic shift in the market, especially in the distribution of these products. As the government-funded projects take shape, there is an increased investment into residential projects and public transportation infrastructure.

Industry Outlook

The Tiles market in the Middle East is currently in the growth stage of the life cycle and is not expected to saturate in the near future. But as the market progresses, a continuous shift is expected in marketing and distribution activities. As the market witnesses increasing competition alongside the rise of the substitutes, the suppliers will be forced to look for innovative ways to sustain the market conditions.

Significant growth across all the countries in the region means vast opportunities for growth for the regional market. It is, however, important to identify fast growth markets, which offer abundance of potential over the short term. The KSA, the UAE, and Qatar offer vast opportunities in the near future. The KSA's housing shortage and the Government's initiatives to mitigate the shortage would be the key driving force. The UAE and Qatar have both relooked into their tourism development strategies and are gearing up to host international events. These events have opened significant market opportunities in the new areas.

Conclusion

Abundant market opportunities are available but challenges prevail, as well. Understanding the market dynamics and changing customer preferences would be the key to success in this industry. Competition and price volatility could be challenging the growth prospects of the industry participants. Traditional market leaders like the KSA and the UAE would continue to open newer opportunities while the high growth markets like Qatar will offer significant growth potential in the near future. Markets like Kuwait and Oman are conservative and may take few years to open up new potential. Market participants are looking at long-term growth prospects by considering a cut down in cost, adopting economies of scale, and providing consumers with high-end customised products at a competitive price. Product customisation, increasing product availability through prudent sales channels, and applying innovation in manufacturing to cut down cost should be the focus in the short term.

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Frost & Sullivan

210, EIB-4, BT Building
Dubai Internet City
PO Box: 502395, U.A.E.
Tel: +971 4 4331 893

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For more information on this White Paper, please write to

Sasidhar Chidanamarri, Associate Director - Energy & Environment

Email: sasidharc@frost.com | P: +91 44 61606666

Paroma Bhattacharya, Executive, Corporate Communications

Email: paromab@frost.com | P: +91 22 66607 2047