Luxury consumption in tourism: The case of Dubai

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Over the past 30 years, Dubai has quickly developed into what can no doubt be described as one of the pinnacle tourist and business destinations of the world. Fuelled by the vision and generosity of H.H. Sheikh Mohammad bin Rashid Al Maktoum, Dubai’s renowned reputation for its vast supply and thus consumption of luxury products and services has continued to grow parallel to the city’s expansion. Within the luxury hotel segment, Dubai can now be considered to be saturated with the supply of luxury hotels, which consequently is beginning to show negative financial effects (STR, 2016). It is possible to suggest that Dubai’s over-exposure and the so called “mega-dream” are in fact denting Dubai’s luxury reputation. This small discussion paper casts a critical narrative over Dubai’s developments, its negative effects on the city’s luxury hotel segment and questions the long-term sustainability of the city’s advancements. Finally, a call for research is made, looking at a number of possible research opportunities recommended to explore and evaluate the line of discussion in more detail.

Keywords: destination brand, hotel pipeline, reputation, sustainability

Introduction

Dubai is one of the seven Emirates situated on the eastern coast of the United Arab Emirates and is a name which most people will likely recognise. With its golden beaches, all-year-round sunshine and a wave of international investment from Western and Eastern multi-national companies, some could hypothetically and geographically say that Dubai currently sits at the centre of the world map for business and leisure. It is hard to believe that 30 years ago, on the ground on which Dubai now stands, there lay nothing but open desert, with a handful of small fishing boats being the closest you would come to finding civilisation.

Today, however, there is a complete contrast. With oil having been struck in the deserts of Dubai in the 1960s, the previously small, sleepy fishing village has gone through tremendous developments into now becoming arguably one of the most luxurious and lavish tourist destinations in the world, attracting guests from all four corners of the globe. While some people may contemplate the somewhat “lucky” nature of a country striking oil “in the middle of nowhere” and the power of wealth which comes from such luck, it is fair to say, however, that Dubai’s continuous growth in visitor attractiveness is far from coincidental but a long-term strategic plan made up of much thought and precise planning.

Dubai’s rise to fame

With reports in 2007 speculating that Dubai’s oil reserves would quickly run dry and predicted to be depleted by 2020 at the rate of extraction at the time (Oxford Business Group, 2007), a government-funded strategy against “putting all eggs in one basket” has seen Dubai complement its revenues from the oil industry by hedging on the service sector as a key growth driver of its economy. In comparison to its other co-prosperous GCC peers, Dubai’s economy is far more diversified, with the service sector contributing 38.3% to the GDP. Hospitality’s share of the GDP as of 2015 stood at 5.6 %. (Emirates NBD Bank, 2016).

The increasing emphasis on tourism as an engine of Dubai’s economic growth is a logical consequence of the iconic brand that Emirates Airlines has evolved into since its inception in 1985 with two leased aircraft, scaling up rapidly to an all wide-bodied fleet of 236 aircraft in service with over 250 on the order book as of June 2016 (Emirates, 2016). This transportation, some would say, is driving Dubai forward in attracting and delivering high numbers of visitors, year after year. From 14.2 million international visitors (DSC, 2016) in 2015, the Dubai Government’s Department of Tourism and Commerce Marketing (DTCM, 2015) aims to take this figure to over 20 million by 2020 per its Tourism Vision for 2020 master plan, defying industry benchmark forecasts (STR, 2016) that peg the figure at a little over 16 million.

But questions which have circulated in academia about Dubai’s successful bid to host the Expo 2020 have provided a stimulus to the non-oil economy as a whole, in particular to the tourism and hospitality industry, against the backdrop of rapid economic growth the Emirate has achieved in recent years (Nadkarni & Jauncey, 2014), making the illustrious target by 2020 achievable. The optimism for achieving the set target despite the economic and political headwinds in its extended geography is fuelled by scalable developments in the domains of logistics, infrastructure, connectivity and knowledge economy (LICK). Academics have historically used Dubai as a focal point for their case study research. While many are likely to be impressed by the growth in numbers, most notably...
those businesses looking to capitalise on future investment
dealings within the city, others have looked to question the 
sustainability of the city’s growth patterns (Bagaeen, 2007).

For this paper, it is imperative to scrutinise and delineate the 
reasons driving such impressive visitor numbers, growth rates 
and related metrics. While a MasterCard study by Hendrick-
Wong & Choong (2015, 5) study infers that Dubai has the 
highest overnight visitor arrival expenditure per city resident 
among 20 peer destinations, as illustrated in Figure 1, not all 
overnight visitors are hotel patrons. According to DTCM (2015, 
8), a staggering 26% of overnight visitors fell into the staying 
with friends and relatives (SFR) category.

This seemingly high proportion is explained by the high 
percentage of expatriates among Dubai’s resident population, 
and in ways, casts somewhat darker shadows over the vast 
efforts Dubai has made over the past decades to distance itself 
from other highly visited locations.

Dubai’s strategic plan, as discussed earlier, has sought to 
differentiate itself from many of its global peers by a sustained 
focus on grandeur. A queer combination of large and luxurious 
in superlatives is what has now come to define Dubai’s growth 
DNA. Dubai has prided itself in being the home to the world’s 
tallest building (the Burj Khalifa), the largest artificial island (the 
Palm Islands), the tallest hotel (the JW Marriott Marquis), the 
world’s most luxurious hotel (Jumeirah’s Burj al Arab) and is 
on track to developing the world’s largest airport (the Dubai 
World Central). Scherle and Jonasson (2014, 153) describe 
these projects as being the “icon of decadence and luxury”.

From a hospitality and tourism perspective, as stated by 
Jauncey and Nadkarni (2014, 382), Dubai’s status as a “global 
beacon” for travel destinations is validated in part by the rapid 
growth in hotel capacity witnessed since it won the bid to host 
Expo 2020 in 2013. STR (2016) data on the supply of hotel 
properties and rooms since the Expo 2020 bid was won by 
Dubai are summarised in Table 1.

Figures 2a and 2b illustrate the year-on-year growth trend in 
Dubai’s hotel supply, showing a significant uptick in capacity in 
the luxury segment following on Dubai’s successful bid in 2013 
for the Dubai Expo in 2020, with the rate in growth decelerating 
sharply in subsequent years as a consequence of the global 
economic climate in general and falling oil prices in particular.

In order to gain further insights on the basis of the three key 
metrics used in the hospitality industry (Queenan, Ferguson 
& Stratman, 2011), namely average daily rate (ADR), revenue 
per available room (RevPAR) and occupancy, luxury properties 
were retained, with the rest being filtered out from the STR 
data set for the population of Dubai hotel properties from 
2013 to 2015. A visual exploration of the longitudinal trend of 
these metrics is presented in Figure 3.

The cumulative average values for 2016 H1 up to which STR 
data are available for Occupancy, ADR and RevPAR are 73%, 
$351 and $261 respectively. The longitudinal trends from 2013

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**Table 1: Hotel capacity timeline in Dubai (Source: STR, 2016)**

| Class           | June 2013 | June 2014 | June 2015 | June 2016 |
|-----------------|-----------|-----------|-----------|-----------|
|                 | Properties | Rooms     | Properties | Rooms     |
| Luxury          | 51        | 15 148    | 58        | 18 038    |
| Upper upscale   | 70        | 16 613    | 73        | 17 961    |
| Upscale         | 87        | 15 397    | 93        | 16 814    |
| Upper midscale  | 59        | 8 824     | 59        | 8 831     |
| Midscale        | 56        | 8 569     | 58        | 8 971     |
| Economy         | 28        | 3 904     | 30        | 4 172     |
| Total           | 351       | 68 455    | 371       | 74 787    |

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**Figure 1:** Visitor expenditure per city resident (Source: MasterCard, 2015)
to 2015 show a declining slope in all three metrics. However, the extent of the decline in ADR (slope = $-0.054$) and RevPAR (slope = $-0.061$) is an order of magnitude higher than that for Occupancy (slope = $-0.005$), which seems to suggest a downward spiral of the revenue metrics in order to arrest the decline in occupancy. From a causation perspective, there are two drivers contributing to this phenomenon: (a) subdued oil prices and the extended macro-economic environment in Russia and the UK in particular, visitors from which constitute a perceptible proportion of luxury consumers, and (b) growing over-capacity in the luxury segment.

The corresponding occupancy figures for Dubai’s hotel population ex-luxury in 2016 H1 is 77.7% which further indicates that the demand for the luxury segment tends to be more subdued than for the non-luxury segments taken cumulatively, despite growing capacity. A possible inference emanating from this analysis is that growing number of visitors are gawking and “gazing” at, rather than actually “consuming” (Thurlow & Jaworski, 2012; Urry, 2002) the luxury assets in Dubai.

It is therefore appropriate to surmise that these “icons” coupled with a series of year round events facilitated by the
Government such as the Dubai Shopping Festival, Dubai Summer Surprises and aptly designated with the homophone “Do buy” (Scherle and Jonasson, 2014, 154) have an impact on driving this growth in visitor numbers and spend. Whether the trend in the profile of the growing visitor numbers in terms of their purchasing power for “consuming luxury” is in line with the trend in the capacity addition of “luxury consumables” is moot.

2016 – Dubai’s dilution of its luxury appeal

A look at the more sociological and philosophical nature of the luxury concept has raised interesting arguments about the positioning of Dubai’s desire for continuous luxurious expansion on a grandeur scale, raising doubts on whether the desire to continuously grow is in fact diluting the destinations luxury appeal.

While the concept of luxury can be said to correlate to Saad’s (2007) Costly Social Theory in that it can be perceived to be socially useful by assisting to showcase wealth, success or social status (Denzinger, 2005; Wang & Griskevicius, 2014). That said, it may be questioned whether the notion of greed and continuous growth is in fact a positive thing for continuation of a brand luxury categorisation.

While the concept of luxury may bear connotations to adjectives such as quality, sophistication and decadence, a more vital attribute is needed for luxury to maintain its strong relationship with inner desirment (Berry, 1994). The attribute in question is exclusivity.

According to Nwankwo, Hamelin and Khaled (2014, 738), it is “rareness and exclusivity [which] are the abiding characteristics that often define and make luxury more desirable”. In recent years, however, it has been well documented that the challenge which many companies have is maintaining their exclusive appeal (Yeoman, 2011), trying to resist the temptation of mass selling and mass exposure. As observed by Hennig et al. (2015, 932), an organisation can be said to be in need of constructing “a balancing act between brand growth and brand over-exposure, with the main challenge being to reassure the true value of the luxury concept and maintain the perception of excellence, exclusivity and uniqueness”.

Statistics and the narrative line of enquiry stated earlier in this paper bring into focus the long term sustainability of Dubai’s exclusive and thus luxury appeal. Whether the Emirate’s ongoing expansion plans coupled with the meticulous efforts to increase visitor arrivals in the run-up to the Expo 2020 event would put at risk Dubai’s carefully cultivated image of an exclusive luxury destination is a question that merits further scrutiny.

While it may be perceived as logical for Dubai to grow its visitor numbers ahead of the Expo 2020, there are downside risks of “over-exposure” to the luxury aspect which embodies “brand Dubai”. The strong growth witnessed in the luxury hotel segment is a case in point as increasing capacity begins to weigh in negatively on performance metrics such as occupancy and average daily rates. More importantly, such concentration of “luxury” in a confined geography risks diluting the rarity and exclusivity elements from the consumer experience. With the ease of consumption therefore, one could argue whether the so called desired effect (Berry, 1994) is as strong within individuals to consume than other instances where the ease of consumption is a lot more difficult. The intangible value which can be added when offering something which is hard to come by and which only a few are able to experience is likely to result in increased economic value through consumers’ willingness to pay premium prices and encourages psychological responses which highly influences buying power (Tynan et al, 2010; Barone & Roy, 2010). The sheer mass, over-exposure and ease of accessing a luxury experience in Dubai therefore may well

Figure 3: Trends: Key metrics for luxury hotels
see the decrease in consumers’ willingness to pay premium prices, as is already starting to happen with the ADRs and RevPARs for the luxury hotels in Dubai (see Figure 4).

A review of literature reveals that consumers are now looking for a more authentic and traditional experience when it comes to luxury travel (Yeoman & McMahon-Beattie, 2006; Yeoman, 2011). The trajectory and timeline of Dubai’s growth which has witnessed large scale construction of buildings, tourist attractions and transportation infrastructure thus stands the risk of making it a challenge to categorically recognise and distinguish the true authentic DNA of the emirate. Already a host to residents from over two hundred countries, the growing influx and investments from global and regional businesses is poised to further contribute to Dubai’s cosmopolitanism as it is to the economy. Whether this comes at the price of reduced “authenticity” is moot.

Conclusions

While this discussion paper has sought to highlight the developments of a city which only a few decades ago was once just a small fishing village to what is now primarily positioned to be one of the major business and tourism hubs in the world, one cannot overlook the risk which the over capacity of luxury’s supply can have on a destination’s image.

While research about Dubai continues to stay focused on the developments of its hospitality industry, a deeper and more thorough evaluation examining Dubai’s long-term economic sustainability surrounding its luxury hotel segments is needed. Such analyses will contribute to informed decision making by industry practitioners and policy makers on the merits of deploying luxury as a destination-wide growth driver. It is therefore conjectured that a research agenda focused on the economic, socio-cultural and environmental sustainability of the destination will assist stakeholders to analyse and forecast future growth opportunities. With major events and developments in the GCC region such as the FIFA World Cup in Doha scheduled for 2022, the potential for repositioning “a new Dubai” seems high vis-à-vis its GCC peer completion set.

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