

# Addressing The Muslim Market

Can You Afford Not To?





**T**hroughout the world, Muslims are becoming increasingly active as investors and manufacturers, bankers and traders, competitors and suppliers, and becoming real partners in a global economic system. Muslims comprise one of the fastest growing consumer markets in the world and, hence, represent a major growth opportunity for businesses around the world.

At a time when many other large consumer segments are reaching a saturation point, Muslims are a new outlet from which to build a base for future growth. The market for sharia-compliant products or services—that is, products or services that conform to Islamic law—totals \$2 trillion annually and is growing rapidly.<sup>1</sup> As more companies grapple with the decision whether or not to focus on the Muslim consumer, assessing the return on investment, the risks involved in addressing these new consumers, and the ease of implementation will aid in making that determination.

Among the first questions to answer: How drastically will your company have to change to serve this market segment? Will it require reconfiguring products or services? Altering the organizational structure? At what cost? What will be the impact on the supply chain? Should the company pursue halal certification and, if so, how will it affect the supply chain? How does the company build brand awareness? Which portion of the consumer segment is the most attractive, now and in the future? What are the risks? How strictly observant are the majority of Muslims in a particular market?

This paper seeks to answer these questions while also addressing many of the other issues

companies can expect to encounter when selling to the Muslim consumer. We begin with a brief look at the diversity of today's Muslims.

### Who Is the Muslim Consumer?

Islam is a religion and a culture, lived differently in various areas of the world. Hence the concept of a Muslim market is in many ways nebulous, and efforts to target these consumers are necessarily contingent on geographical location and context. Despite growing wealth in the United Arab Emirates (UAE) and Arabian Gulf states, most Islamic countries continue to exist in a third-world economy, with low literacy rates. Muslim immigrants and their children in Europe often feel estranged when returning to their homelands or lands of origin, even as they identify themselves as Muslims and may even maintain citizenship there.

It is important to note that despite some common misunderstandings, an Islamic lifestyle is neither intrinsically anti-Western nor anti-American. The urban landscape of modern cities in Malaysia, Brunei, Indonesia, Turkey and the Arabian Gulf states all demonstrate that a growing proportion of Muslim consumers aspire to emulate an international (Western) suburban

<sup>1</sup> Reuters, 2006.

lifestyle, which includes an air-conditioned home, a private lawn, satellite TV, two cars, access to fast food and children who go to university and indulge in popular sports.

While many Muslim consumers' lives are defined by the dietary, lifestyle and financial rules of the Islamic faith, they are far from homogeneous. Pakistani and Bangladeshi Muslims, for instance, speak different languages, wear different styles of clothing and eat different foods. The Turkish and Kurdish Muslims in Germany have little in common save their faith. They have less in common with the predominantly Algerian and Moroccan Muslims of France, and still less with the predominantly South Asian Muslims of Britain. The Muslims of Malaysia, Indonesia and Bosnia differ yet again.

In each of these cases, it is vital to understand an oft-overlooked distinction between Arabs (or Arab world) and Muslims (or Muslim world). As with all religions, Islam has no geographic boundary. There are Muslims in North Africa, in India, in the United States, Spain, China and France. Similarly, Christian and other religious populations can be found throughout the Middle East and parts of Africa. Some Muslim regions—such as the Arabian Gulf—reflect Western ideas and tremendous wealth. Others, such as Somalia and Afghanistan, do not. In dealing with the concept of a Muslim market, companies must take pains to recognize these distinctions and take care, when addressing members of the world Muslim population, not to confuse them (*see sidebar: Defining the Muslim World*).

Despite these distinctions, one striking paradox seems to embrace a growing number of Muslims. On one hand, they are becoming more integrated into the global economy as consumers, employees, travelers, investors, manufactur-

ers, retailers and traders. On the other hand, polls show that Muslims increasingly see themselves as a distinct group, the ummah (global Islamic community). Even those in the West are far more likely to identify themselves as Muslims than they are as, say, French or British, and to identify with other Muslims in political disputes.

### The Economics of Contemporary Muslim Life

While dealing with this paradox, Muslims in many parts of the world are also experiencing an economic, social and cultural transformation. Consider an analogy that is familiar in the West: The Renaissance (which evolved out of what medieval Europe learned from the Arab world) changed the way that Europeans related to the physical world. The Reformation changed the way they related to their religion, and the Enlightenment changed the way they related to government. But these changes took place over centuries.

Much of the Muslim world is now experiencing similar tumultuous movements—all at the same time. Muslims in many countries now engage in great debates over their forms of government, over the interpretation of religious doctrine, over the nature of education and the role of women. The United Nations' *Arab Human Development Report 2002* described a "freedom deficit," a "crisis in education" and limitations on women as three critical constraints on the Arab world. In addition, the report cited Arab isolation from the world's cultural and intellectual mainstream—pointing to the striking fact that in the 1,000 years since the time of Caliph Mamoun, as many books had been translated into Arabic as are translated in Spain each year.<sup>2</sup>

All this is changing, fast. Revolutionary openings in the media and the coming of the Internet now provide unprecedented access to informa-

<sup>2</sup> *United Nations Development Programme, Arab Human Development Report 2002.*

tion, while the bracing winds of globalization transform their economic risks and prospects.

Not only is the economic muscle underlying today's sweeping changes in Islamic cultures relatively new, but also in many ways it is still limited largely to OPEC nations. While the first rise in oil prices in the 1970s set the stage for Arab countries to become significant investors, the latest surge in oil prices now provides the OPEC nations with more than \$500 billion annually in current account surpluses. Unlike in the past, however, governments are channeling less of this money into Western banks and financial institutions, and more into Islamic financial institutions that are asserting their own strengths and traditions. As a result, Dubai has become a significant financial center in its own right, and even Western governments are beginning to explore ways to accommodate these demands competitively. Britain, for instance, is now preparing to

sell treasury bonds compatible with Islamic rules against interest payments.

This new economic presence also extends beyond the financial markets. Saudi Arabia is investing in industrial enterprises such as petrochemical manufacturer Saudi Basic Industries Corporation (SABIC), in desalination plants, new ports and infrastructure. The largely Islamic country of Malaysia has become an "Asian Tiger" alongside Hong Kong, Taiwan and Singapore. The economy of Pakistan, a Muslim country with almost no oil or gas fields, is growing at 7 percent per year. In Britain, Muslims of Indian origin have emerged as the best educated and highest earning group in the country, far more likely to attend university than the native-born British.

Hand in hand with this economic transformation has come a social and cultural revolution with dramatic political implications. Women now vote in Kuwait and in Qatar. They run ministries and

## Defining the Muslim World

Defining the term Muslim world can be tricky. Some 10 to 15 million Muslims live in Western Europe, while the entire population of the United Arab Emirates stands at 4.1 million—smaller than the Muslim population of France, which is closer to 6 million. The Balkans, largely Muslim, are generally not included in discussions of the Muslim world, while Malaysia, which is barely more than 50 percent Islamic, is. Many people forget that there are Christians living in Arab countries as well, and make the mistake of using the word "Arab" as a synonym for "Muslim"—even as Turkey, also

largely Muslim, is technically not a part of the Arab region, but of Europe and Asia.

It is therefore not always possible to be accurate or consistent in identifying or discussing matters pertaining to the Muslim world. Is it the 57 states of the Organization of the Islamic Conference? Is it the inhabitants of the Middle East? Is it all Muslims, wherever they may live? In planning business strategy for the Muslim market, it is important that executives and corporations understand the complications around these terms, and consider their activities accordingly.

### Figure

#### Where are Muslim Consumers?

- **Average growth of Muslim population: 1.8% p.a.\***
- **Worldwide Muslim population: 1.56 billion**
  - Asia (870 million)
  - Middle East (190 million)
  - Africa (443 million)
  - Europe (51 million)\*\*
    - Northern Europe (2 million)\*\*\*
    - Western Europe (10 million)
    - Southern Europe (9 million)
    - Eastern Europe (29 million)
  - North America (7 million)
  - South America (3 million)

*Notes: \*Compared to 1.12% growth in rest of the population; \*\*Includes Russia; \*\*\*Includes United Kingdom  
Source: www.islamicpopulation.com*

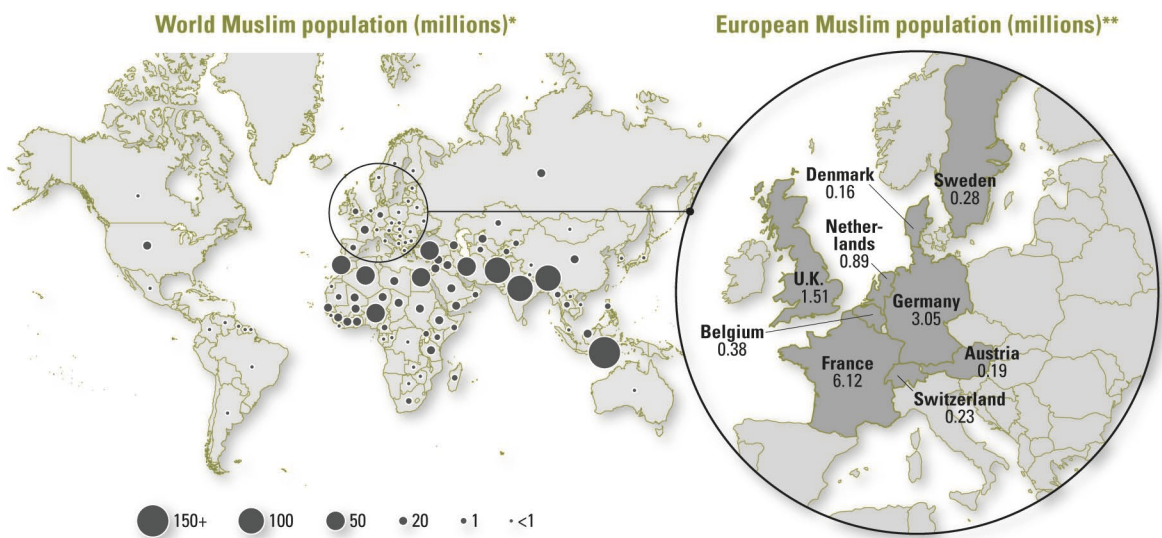
serve as ambassadors in the Emirates and Bahrain, and have served as prime ministers in Pakistan and Bangladesh. Freed from religious orthodoxy and its constraints on the arts, new galleries of modern art are emerging in Istanbul and Abu Dhabi, experimental theaters are springing up in Cairo and Jakarta, and women novelists in Jordan and the Arabian Gulf states write about once-mentionable themes, evoking impassioned and mass responses on the Internet—though it should be noted that many states still seek to limit or control these cultural transformations. Simultaneously, the arrival of pan-Arab satellite TV networks, such as Al Jazeera and Al Arabiya, has fostered transnational political debates and helped shape Arab (and Muslim) public opinion worldwide (see sidebar: *Muslim Media: Speaking to the Market*). The Internet, popular throughout the region, further spreads these themes,

some of them highly controversial and inflammatory, to Muslim communities throughout the world. Often, they reflect the intensity of a cultural revolution now underway.

At the same time, despite many advances, unfulfilled hopes remain. A 2004 report issued by the United Nations' Programme on Governance in the Arab Region shows estimated earned income for men at \$25,847 in Kuwait and \$29,107 in Bahrain, but only \$9,011 in Lebanon, \$7,038 in Jordan, and \$6,907 in Morocco. While 100 percent of those in the UAE have access to improved sanitation facilities, this applies to only 76 percent of the population of Palestine, and a shocking 25 percent in Somalia.

These combined factors make the Muslims a fascinating, complex and important group that Western businesses cannot afford to ignore. But how best to address them?

**Figure 1**  
Muslims constitute 20% of the world population



\*Source: Global Mapping International

\*\*Source: www.islamicpopulation.com

## Diverse Worldwide Market, Single Religious Framework

Appealing to the Islamic consumer goes well beyond traditional Islamic strongholds. Muslims constitute slightly more than 20 percent of the world’s population, with most living in Asia. About 18 percent live in the Arab countries, and an estimated 10 to 15 million now live in Western Europe, part of a wave of immigration that began in the 1960s (see figure 1). (Figures are significantly higher if one includes the Balkan region.) Over the past 10 years, populations have surged. Asia’s 1 billion Muslims increased by 12 percent, and a quarter of them are in the high growth areas of India and China. The European Muslim population has grown 140 percent in a decade and is continuing to outpace that of non-Muslims. Approximately 30 million Muslims make their

homes in the Russian Federation. Muslim communities in North and South America and Africa are also large and growing.

This rise in the Muslim population points to a subsequent rise in purchasing power and questions about Muslim preferences in products and services. Which countries have the most purchasing power today? In the future? Figure 2 highlights Muslim purchasing power and the countries with today’s largest Muslim populations.

Regardless of location, Muslims follow a faith built on five pillars: the testimony of faith, prayer, supporting the needy, fasting during the month of Ramadan, and the pilgrimage to Mecca once in a lifetime for those who are able (see figure 3). Strict followers of Islam also share the concept of sharia, which means, literally, “way” or “path.” It is a framework that extends from

**Figure 2**  
Where is Muslim purchasing power?

Largest Muslim population	Largest Muslim % of total population	Highest purchasing power of Muslim population*
Indonesia	Bahrain	Saudi Arabia
Pakistan	Kuwait	Turkey
India	Saudi Arabia	Iran
Bangladesh	Algeria	Malaysia
Turkey	Iran	Qatar
Egypt	Oman	Russia
Iran	Turkey	France
Nigeria	Yemen	Libya
China	Tunisia	UAE
Ethiopia	Iraq	United States
Algeria	Libya	Algeria
Morocco	Pakistan	Singapore
Sudan	UAE	Indonesia
Afghanistan	Qatar	Egypt
Iraq	Egypt	The Netherlands

Source: Economist Intelligence Unit

\* Calculated in purchasing power parity terms, which equalizes the purchasing power of different currencies in their home countries

**Figure 3**  
The five pillars of Islam

<b>Shahada</b>	Testimony of faith. The basic creed or tenet of Islam.
<b>Salat</b>	Prayer facing toward the Kaaba in Mecca is performed five times a day at dawn, noon, mid-afternoon, sunset and night.
<b>Zakat</b>	Giving zakat means giving a specified percentage (2.5%) on certain properties to certain classes of needy people.
<b>Sawm</b>	Every year in the month of Ramadan all Muslims fast from dawn until sundown, abstaining from food, drink and sexual relations.
<b>Hajj</b>	Pilgrimage to Mecca is a once in a lifetime obligation for those who are physically and financially able to perform it.

Source: www.islam-guide.com

religious to political, social, private and domestic life. Sharia is based on the Qur'an, Hadith (sayings and acts of Muhammad and early followers), debate, interpretation and precedent. Though elements of sharia are common throughout the Muslim world, in practice followers may or may not adhere to them strictly.

The concepts of halal and haram, meaning lawful and forbidden, respectively, illustrate the daily application of Islamic law. Halal is applied, among other things, to food, drink, apparel, hygiene products, nutritional supplements, financial instruments and literature. Business ethics, management styles, human resource policies, and

manufacturing and production methods can also be considered halal.

As noted, the Muslim market represents significant sums—an estimated \$2 trillion potential in various sectors, particularly halal foods and finance. According to Reuters, the halal food market is estimated at \$560 billion. A.T. Kearney estimates that for 2007 the Muslim halal food market is worth roughly \$30 billion to the top five food retailers worldwide, and \$15 billion to the top 10 food processing companies. Correspondingly, Standard & Poor's estimates the world market for Islamic financial products (banking, mortgages and insurance, among others) at \$400 billion and

## Muslim Media: Speaking to the Market

You have identified your target consumer, tailored the product and your organization, assessed the financial costs and risks, and now wish to get your message out. What are your options? Although many Muslims around the world have access to global media, the mother tongue remains a strong draw for those who live in the Arab heartland. A recent study in Saudi Arabia reveals that 90 percent of the households surveyed prefer watching programs in Arabic or with Arabic subtitles. Taking the Arab world as a whole, close to two-thirds of homes have access to satellite TV channels, according to Dubai's Pan Arab Research Center. It notes that these now include the U.S.-financed Alhurra TV, BBC World, EuroNews, many U.S. and European news and entertainment channels, and British, U.S., French, German, Danish,

Dutch, Swedish, Russian and Spanish news channels all in Arabic.<sup>1</sup>

Still, media that caters to Muslims is full of contradictions: It comprises both Rotana (the Arab version of MTV) and Iqraa, which is religious programming. There are now more than 230 stations, with at least 20 of these being purely religious. In a survey in Jordan and Egypt by Arab Advisors Group, an Amman-based media and telecommunications consulting company, a religious channel always ranks in the top three.

And even though more households are tuning in, there has not been a consequent rise in advertising rates. Gordon Robinson of the Annenberg School for Communication says the rack rate for a 30-second ad is about \$5,000, and even the region's most popular show, *Superstar*—an Arab version of *American Idol* that airs

on Beirut-based Future Television—commands a mere \$11,000 per spot.

Ian Ritchie, the former CEO of Middle East Broadcasting Centre (MBC), told a recent media conference in Istanbul, "I believe Arab media offers an excellent opportunity economically, but for a variety of reasons it has been unable to operate successfully." He claims that half of the total advertising expenditure goes to television, and 87 percent of television advertising goes to the pan-Arab satellite television stations. Print takes 45 percent of the advertising revenue. "But these are entirely misleading figures—rate card numbers are discounted by about 75 percent," he notes. Ad spending per capita in the Arab world as a whole is only \$6, compared with \$369 in North America, \$117 in Europe, \$23 in Asia Pacific and \$7 in Africa.<sup>2</sup>

<sup>1</sup> Janet Fine, "The Expanding Reach of Middle Eastern Satellite TV," Video Age International, January 2006.

<sup>2</sup> Ritchie did not make a distinction between Arab media and media catering to Muslims.



growing at 15 percent a year. S&P also estimates that assets in the Islamic banking sector have already topped \$500 billion. A new report by Hedge Fund Research suggests that the potential total of Middle Eastern capital available for investment, in both public and private sectors, is now roughly \$4 trillion. That is more than three times the size of China's foreign exchange reserves.

Generally, as noted earlier, even as they lean toward Western-style products and lifestyles, many Muslims increasingly make choices that reassert their identity as Muslims and respect their ummah, the Qur'an, and sharia principles. Many consciously seek out consumer products with an

Islamic brand. They choose foods that have been certified halal, financial services products that are in compliance with the Qur'an, and fashions that combine the latest trends in Western-style clothing with Islamic principles of modesty. Against this backdrop, how are companies to interpret what Muslim consumers want?

### Sharia and the Muslim Market

In particular, sharia principles affect companies in the food and beverage, banking, fashion and apparel, cosmetics and body care, and pharmaceutical industries. The following offers a detailed look at Muslim consumers in relation to these industries.

Reliable figures are elusive, but the total Arab TV market (local and pan-Arab stations combined) is currently around \$2.6 billion per year. A significant proportion of this revenue comes not from advertising but from fees for phone calls, instant messages and ring tones. According to Brand Republic, Arab TV revenues have increased threefold since 2001, with 90 percent of that sum going to just 10 stations.

This, of course, means that few stations make money. Dubai-based MBC, the most watched of the pan-Arab channels, started with \$300 million in private investment, mostly Saudi (the main investor was the king's brother-in-law), and now claims to be breaking even. It has four channels, including the news channel Al Arabiya, which challenges Al Jazeera. Another of its more successful channels features U.S. programming such as *The Oprah Winfrey Show*, Western movies, and

ABC and CBS newscasts. All are in English with Arab subtitles.

Even Al Jazeera, which was founded with a \$150 million grant from the emir of Qatar in 1996 (and was supposed to be profitable by 2001), requires an annual subsidy of \$30 million. It claims 40 million regular Arab viewers. Al Jazeera has suffered in Saudi Arabia, where the government discourages companies from advertising on the network—a heavy blow when Saudi Arabia accounts for more than 70 percent of the Arabian Gulf market. The station's growing political prestige, however, persuaded the emir to continue his support and finance an English-language version. In a poll last year by the BBC and Reuters of more than 10,000 adults in 10 countries, 59 percent of Egyptians ranked Al Jazeera as their most trusted news source.

Although the path to profitability is uncertain, business efforts and

investment are growing. In January, Showtime Arabia, the Middle Eastern and North African pay-per-view operator, announced a \$100 million finance package with Commerzbank and BNP Paribas. It is now in the midst of an aggressive new programming and services rollout that includes rights to the 2007 to 2010 English Premier League soccer games, and has added Al Jazeera Sports +1 and +2 to its direct-to-home platform. Showtime Arabia now offers a total of six premium sports networks, including Sportsnet World, Sportsnet America, Extreme Sports Channel and Eurosport News. Subscribers pay to watch key football league matches, including Italy's Serie A, Spain's La Liga and Portugal's SuperLiga. Also included is coverage of England's Football Association Challenge Cup, the Carling Cup and Qatari football league games.

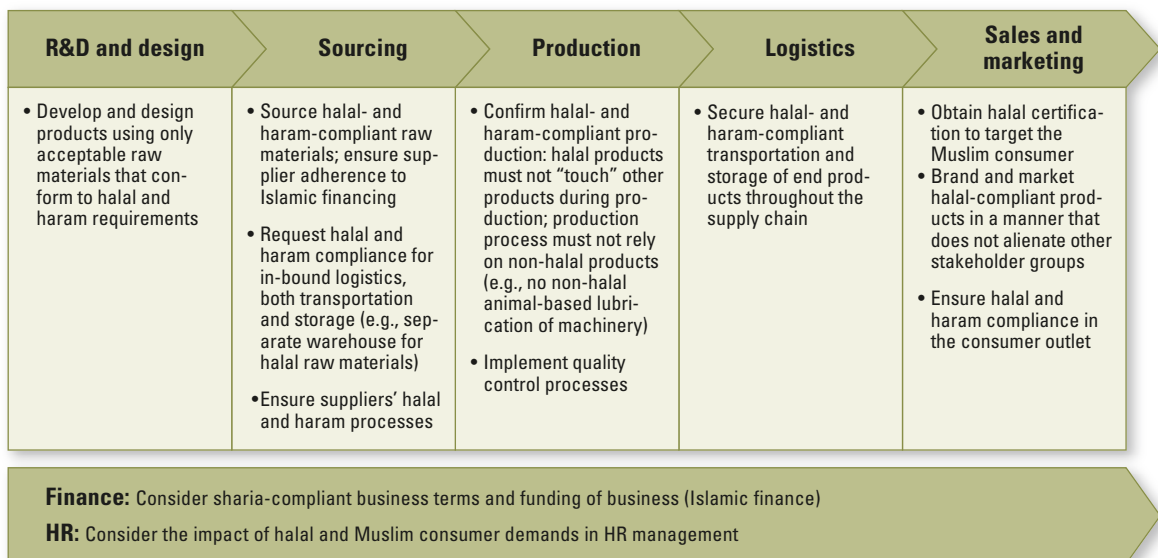
**Halal food and beverages: defining a moving target.** To be considered halal, meats must come from animals slaughtered according to Islamic law. This includes all animal products, not just pork. Chicken or lamb that have not been properly slaughtered according to sharia law will be deemed haram, or unclean. In addition, no food products should contain additives that have not been demonstrated to be “clean” or untainted during processing, packaging, storage, transportation or transaction. Observant Muslims may not drink alcohol or use other intoxicants. They may not use pork products, or use any products whose value chain involved pork or alcohol.

In addition, full sharia compliance means ensuring that production and logistics are also compliant, that the business is financed with permissible funds, and that safety and hygiene meet religious standards. The potential impact

on the value chain of applying Muslim principles strictly is immense. Figure 4 shows the extent of this impact, from formulating products that use only acceptable raw materials to maintaining separate warehouses and production lines.

It is worth noting that interpretations of what constitutes halal meat vary; some Muslims will eat anything except pig meat (a McDonald’s hamburger is fine) while others only eat meat that is certified halal, from animals that are not stunned, have been treated humanely, and were fed on natural ingredients—what is becoming known as “halal and organic” food. Both are acceptable religious viewpoints with sound scholarly foundation. For example, in Indonesia, the world’s largest Muslim state, many restaurants and hotels serve pork, and some Muslims will eat in these restaurants as long as what they order has no pork. However, in Malaysia, where less

**Figure 4**  
Sharia compliance applies to the entire value chain



Source: A.T. Kearney

than 60 percent of the population is Muslim, restaurants must be completely free of pork before Muslims will eat there.<sup>3</sup>

The rules are more relaxed in sub-Saharan Africa. In West and Central Africa, for example, the concept of halal foods is limited to meat products (proper slaughter and absence of pork). From a cultural standpoint, the consumption of alcohol there is fairly common and, in many cases, local and multinationals sell alcohol. Therefore, the restaurant that serves alcohol may be viewed differently from the restaurant that has pork or bacon on the menu.

Consequently, in weighing the choice to expand to Muslim markets, top management must decide how extensively to align their supply chains with Muslim values, which may be a moving target as interpretations of value evolve over time and place. By developing appropriate strategies, companies in both the food production and retail sectors are reaping benefits from appealing to this fast-growing market. Let's look at both sectors:

**Food production.** Many of the companies that have been most successful in reaching Muslim consumers have performed best in the food and beverage industry. (It is worth noting that, generally, food companies that advertise and market their products anywhere in the world around Muslim festivals such as Eid, which marks the end of Ramadan, have been especially successful in securing brand recognition.)

Food maker Nestlé leads the halal segment among Western companies, a position it has achieved through prudent research and implementation of measures specifically aimed at the Muslim market, instituting product certification and halal-compliant manufacturing processes across 75 factories and 100 lines. Furthermore,

the company has installed an Islamic Advisory Council to ensure that internal routines and products comply with Islamic law. The company has gone even further by establishing programs that transfer this knowledge among its international affiliates: Its Malaysian office, for instance, currently trains other parts of the company in halal compliance. The success of these measures speaks volumes: Nestlé has become the biggest food manufacturer in the halal sector, with more than \$3 billion in annual sales in Islamic countries and with 75 of its 481 factories worldwide producing halal food. The upshot: Halal food accounts for about 5 percent of Nestlé's sales.<sup>4</sup>

These figures suggest that the halal market can provide growth potential for all food manufacturers. In addition, some marketing experts in the field—notably Nordin Abdullah, director of KasehDia, a media firm—have pointed to growing opportunities in the European Muslim market. European Muslims, he told AP-Foodtechnology.com, “have huge purchasing power in comparison with those in the Middle East or North Africa.” Even so, while there is clearly room in this market for others, seven of the top 10 manufacturers, all U.S.-based firms, currently do not focus on the halal market as a source of growth.

**Food retailing.** Retail food distribution sales total an estimated \$3 trillion annually. The top five retailers represent about 20 percent of the market: Wal-Mart (\$312 billion), Carrefour (\$99 billion), Ahold (\$65 billion), Kroger (\$56 billion) and Metro (\$69 billion). A.T. Kearney estimates that Muslim halal food consumers could already be worth an estimated \$30 billion to these companies alone.

Several food retailers, including Tesco in the United Kingdom and Carrefour in France, now

<sup>3</sup> For population figures, see [www.factbook.net/muslim\\_pop.php](http://www.factbook.net/muslim_pop.php).

target Muslim consumers through halal sections in their stores. In 2005, Tesco introduced halal lines in 117 stores (6 percent of the total), and by the end of 2007 it estimates that 26 percent of its stores will have halal sections. The retailer offers special promotions during Ramadan and uses targeted marketing to speak specifically to the Muslim consumer. Additionally, through its Malaysian subsidiary, Tesco has contracted with Nestlé Malaysia to supply stores in the United Kingdom with halal-certified products and is actively teaming with halal food suppliers such as Ummah Foods Ltd. Tesco also works closely

through franchises in the UAE (10 stores), Saudi Arabia (2), Oman (1), Qatar (1), Egypt (3) and Tunisia (5). Carrefour comprises 5 percent of the retail market share in Malaysia and, in collaboration with the Ministry of Domestic Trade and Consumer Affairs and its agencies, is leveraging its network to help promote the products of small- and medium-size enterprises (ranging from foodstuffs to cosmetics) overseas. These products might also be introduced in Carrefour's home country of France but will first need approval from the French government and will undergo stringent testing of halal standards.

It should be noted that requirements for the sale of halal foods affect not only the business-to-consumer companies but also those further back in the supply chain. For example, Eurofrigo B.V., a specialist in temperature-controlled storage, has opened a halal-certified refrigerated food storage warehouse in the Port of Rotterdam with space for more than 1,000 pallets. Additionally, halal-regulated logistics protect a brand's claim to halal purity. Malaysia International Shipping Corporation (MISC), the national

shipping company, launched the Halal Express Service in 2006 to carry halal meats from Australia and New Zealand to the Middle East. The company also houses a halal logistics hub west of Kuala Lumpur that has cold-storage facilities, sterilization units and a lab to test products for compliance.

**Islamic banking: profit not prohibited.** Banking has attracted particular attention in efforts to appeal to the Muslim consumer. This sector is primarily influenced by the requirements

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with its Malaysian subsidiary and halal-certifying bodies to develop standards and secure its supply of certified products.

Simultaneously, Carrefour, the world's second largest retailer and Europe's largest, has quadrupled shelf space for halal products over the past four years in Western Europe. The company has a strong presence in Indonesia with 29 stores and other Muslim-dominated countries, including Turkey (13 stores) and Malaysia (10), and

<sup>4</sup> Carla Power and Ioannis Gatsiounis, "Meeting the Halal Test," *Forbes*, 16 April 2007.

of sharia, which maintains three major prohibitions: usury (the payment and collection of interest), trading in financial risk, and investing in businesses considered haram (for example, companies whose products include alcohol, pork or tobacco, and involve gambling or pornography). There are several acceptable structures for Islamic finance, including:

- Under a system known as *murabaha*, goods may be sold at a price that includes a profit margin agreed to by both parties. The purchase and selling price, other costs and the profit margin must be clearly stated at the time of the sale agreement. The bank is compensated for the time value of its money through the profit margin. This is a fixed-income loan for the purchase of a real asset (such as real estate or a vehicle), with a fixed rate of return determined by the profit margin.
- *Ijara* is the Islamic leasing mode and is defined as the sale of usufruct. Similar to its conventional counterpart, the Islamic lease is offered in two forms: an operational lease and a full-payout financial lease. Broadly speaking, *ijara* works along the same lines as a conventional lease, yet it differs in detail (for example, in the share of duties between lessor and lessee).
- *Mudaraba* is a financing scheme where one partner—the *rabb al-mal*—provides capital to a venture, while the other partner—the *mudarib*—contributes his or her time and effort to manage it. It is widely used by Islamic banks for gathering assets in the form of investment accounts.

However, as with the definition of halal, interpretations vary. Some products deemed acceptable in Malaysia, traditionally the center of Islamic finance, are now barred in stricter Saudi Arabia. Some products attract local taxes in Islamic countries, but some do not, and the wide variance of accounting rules in the Muslim

world adds further difficulties. Abdulkader Thomas, founder of the *American Journal of Islamic Finance*, says that in London and the Arabian Gulf region, returns on Islamic products are similar to, and thus can compete directly with, conventional banking instruments. In Malaysia, returns tend to be lower, but receive favorable tax treatment.

Despite these complications, the sums involved in this field have attracted not only compliant Islamic banks but also global banks. Islamic finance has grown to 15 percent of the total banking system in the Cooperation Council for the Arab States of the Gulf, which includes Saudi Arabia, UAE, Qatar, Kuwait, Bahrain and Oman. It is expected to be nearly 50 percent within the next few years. In Malaysia, more than 10 percent of the total banking system adheres to Islamic finance principles.

The City of London, in an effort to seek a common, universally acceptable standard of Islamic finance, developed the following three-fold strategy in 2006:

- Allow floating and trading of *sukuk*, a bond-like product that complies with sharia law. Indeed, the U.K. Treasury is planning to issue sharia-compliant bonds as part of a strategy to make London the world center for Islamic finance.
- Provide retail onshore sharia-compliant banking to serve the approximately 300,000 existing U.K. Muslim customers (1.6 million Muslims live in the United Kingdom).
- Build a sharia-compliant wholesale banking system, including U.K. government bonds and *takaful* (insurance).

In November 2006, the U.K. Treasury reported that assets in the Islamic banking sector had grown to more than \$250 billion worldwide, while the number of Islamic financial institutions jumped to more than 300 from just one in

1975. More recently, Standard & Poor's reported that assets in the Islamic banking sector had reached \$500 billion, and estimated the market for Islamic financial products at about \$400 billion, and growing at more than 15 percent per year. These products include banking, mortgages, equity funds, fixed income, insurance, project finance and private equity.

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This wealth has been driven mainly by the surge in oil prices and the vast annual surpluses recorded by the Middle Eastern oil exporting states, which reached \$650 billion in 2007. According to a report by Capgemini and Merrill Lynch, the number of people in the Middle East with more than \$1 million in financial assets rose by nearly 10 percent to 300,000 in 2006 and is expected to jump to 1.8 million by 2010. These high net worth individuals and families, like the rest of the global rich, are becoming increasingly sophisticated and want to invest in alternative assets. Before the introduction of Islamic banking, some of these people held their savings in non-interest bearing checking accounts to comply with sharia requirements. This makes Islamic banking accounts especially appealing to

them. Since asset-based investments are preferred, and the infrastructure and energy needs of the world are so great, future projects could be funded with structured notes and equity participation from Islamic hedge funds. (Islamic scholars still, however, disagree about what is acceptable given the black box nature of many hedge funds and the uncertainty of the under-lying asset.)

Also, according to the International Monetary Fund, investment funds are popular with retail investors in the Arabian Gulf states and Malaysia. In these cases, equities selected must be unleveraged companies that do not participate in activities that are considered haram. Incidentally, Islamic investment indices have been outperforming all but one of the major indices (*see figure 5*).

Also, Western (non-Muslim) investors are becoming more interested in Islamic finance, accounting for up to 40 percent of buyers for some recent sharia offerings in London. Interest in the sector exploded in London during the 2006 takeover of Britain's P&O, a shipping and international ports group, by DP World of Dubai. The deal was financed with a sukuk. The initial \$2.8 billion issue was swiftly raised to \$3.5 billion, and ultimately drew \$11.4 billion in subscriptions, about half of them from international investors. Another major placement was the \$2.5 billion sukuk offered by Nakheel, a Dubai developer. Both deals involved Barclays Capital, whose head of Islamic banking, Arul Kandasamy, says, "As a global investor, you need exposure to this region of the world."<sup>5</sup>

<sup>5</sup> "Calling the Faithful," *The Economist*, 7 December 2006.

Among Western banks, HSBC Holdings PLC, Citibank N.A., Barclays PLC and American International Group, Inc., all offer Islamic financial products. HSBC leads the pack as the first High Street bank to target the Muslim segment. In 2004, it created a separate Islamic banking arm, HSBC Amanah, to provide sharia-compliant services that are fully differentiated from HSBC's conventional financial services. This co-brand targets the 25 percent of the world's Muslims who live where HSBC operates. In Malaysia, HSBC Amanah is the largest foreign provider of Islamic banking and in 2006 the division accounted for some 10 percent of HSBC's net income.<sup>6</sup>

**Fashion and apparel: style + sharia.** Modesty influences the Muslim fashion and apparel indus-

try, although its impact on the female dress code varies considerably across countries and by individual preference. Some Muslim women wear a full-length robe and veil, while others do not. However, by Western standards, typically, Muslim women—especially non-European Muslims—tend to dress modestly.

Not surprisingly, like food and beverage firms, apparel companies must also comply with sharia law to be considered halal. Companies must take into account the entire supply chain, from procurement contracting with halal suppliers to halal production, logistics, marketing and sales. But this extra care offers profit-making opportunities, as the market is sizeable. The global branded footwear and apparel

**Figure 5**

Sharia-compliant investing can also be lucrative (% annualized returns)

Index	YTD	12 months	3 years	5 years
S&P 500	6.96	20.59	11.69	10.70
MSCI All Countries World Index	7.85	23.48	17.41	15.94
MSCI Emerging Markets	22.70	51.44	38.89	30.85
Dow Jones Industrial Average	8.76	23.04	11.22	10.19
Dow Jones Islamic Market Index	11.84	23.03	14.13	11.52
DJ Islamic US Index	10.17	20.80	9.91	9.32
DJ Islamic Asia/Pacific Index	10.39	20.21	16.17	11.79
DJ Islamic Canadian Index	20.60	23.03	29.50	23.98
DJ Islamic Europe Index	13.77	26.85	20.30	14.50
DJ Islamic Japan Index	2.29	6.47	7.87	7.08
DJ Islamic Market Titans 100 Index	8.87	20.84	11.04	8.50
DJ Islamic Technology Index	8.96	24.71	7.99	9.16
DJ Islamic UK Index	13.64	21.86	18.78	14.1

Sources: Dow Jones, Standard & Poor's and MSCI Barra

<sup>6</sup> Sabry Tahir, "HSBC Launches One-Stop Window for its Islamic Banking Services," The Star Online, 19 June 2007.

industry alone is estimated at more than \$800 billion, with the highest spend per capita in the Middle East and Malaysia.<sup>7</sup>

In the Middle East, fashions are distributed through various homegrown groups, including the Chalhoub Group, Bin Hendi Enterprises and M.H. Alshaya. Chalhoub, founded in 1955 in Damascus, is one of the premier fashion and cosmetics groups specializing in the retailing, distribution and marketing of such prestigious brands as Baccarat, Chanel, Louis Vuitton and Sephora. Chalhoub is present only in the Middle East, while Bin Hendi distributes high-quality international products and services, including brand-name fashions, jewelry and accessories, and M.H. Alshaya, a major retailer of fashions and men's and women's accessories, operates in collaboration with the major international brands with stores throughout the Middle East, Turkey, Cyprus and Russia.

In addition, Muslim women in Europe frequently modify Western-style fashions, adapting them to suit Islamic principles of modesty. One frequently sees European Muslims combining short skirts and dresses with jeans, for instance, or wearing leggings under mid-calf length skirts. And fashion magazines targeting Muslim women are proliferating in Western countries, including Canada, the United States and the Netherlands.

**Cosmetics, personal hygiene and pharmaceuticals.** Closely related to the fashion industry is the global cosmetics, fragrances and toiletries market, which was estimated at \$500 billion in 2006.<sup>8</sup> Roughly \$8 billion of this market is in the Middle East. Cosmetics and body-care companies have not fully adopted halal practices for their products, even in predominantly Muslim countries.

There are reasons for this. In principle, wearing cosmetics is haram no matter how they're made, so the idea of halal cosmetics is essentially moot. However, Muslim women who do wear cosmetics may possibly prefer those that are prepared without pork fat (a common ingredient), if offered a comparable selection of color and quality options.

A handful of companies are striving to appeal to the Muslim consumer. For example, the Body Shop, a major retailer in the Middle East, boasts products with natural ingredients, and its marketing efforts are in line with Muslim values. It also takes a popular stance against animal testing. Sunrider International's skin care and cosmetic products have achieved halal certification, and Colgate-Palmolive offers toothpaste products whose halal status varies among regions. For example, vegetarian toothpastes are considered halal even though they are not explicitly labeled as such, and in Malaysia, all Colgate toothpastes are halal certified.

Although Muslims are generally allowed to consume haram products in life-threatening situations, the demand for pharmaceuticals that adhere to Muslim rules is growing. Currently, halal certification is not widespread in the pharmaceutical market, which in majority Muslim countries totals an estimated \$555 billion. For example, only five of the 120 pharmaceutical and cosmetic companies operating in Indonesia have official halal certification.

The main concern is the use of animal derivatives and gelatins in pain killers, allergy medications and vaccines. This issue came to the forefront in 2003 when some British Muslims opposed the use of animal derivatives in baby vaccines, specifically the gelatin in Merck's vaccine derived from pork. In Glasgow, the National

<sup>7</sup> *Global Industry Analysts (GIA)*, [www.just-style.com](http://www.just-style.com).

<sup>8</sup> *Icon Group*, 2006.



Health Service tried to remedy the situation by asking doctors to offer all Muslim patients an alternative vaccine, called Priorix, which meets Muslim requirements.

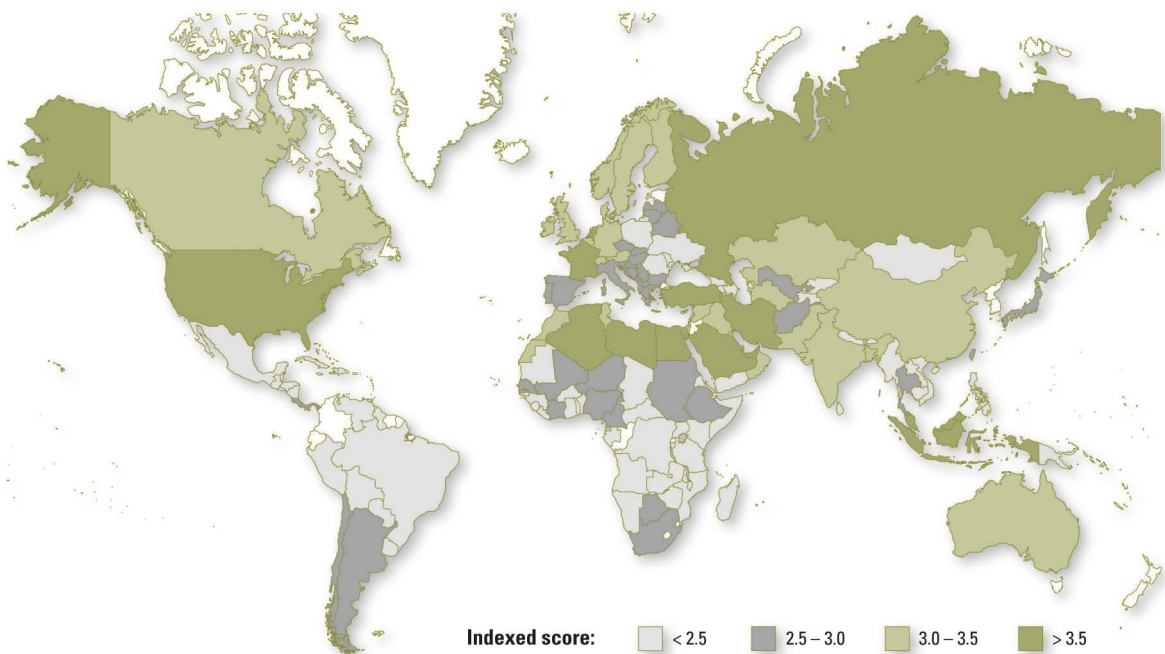
### Courting Muslims

Companies interested in the Muslim market will find that the pursuit is often no different from any other market. It requires identifying the most attractive countries, measuring the impact of their preferences on an existing product portfolio, and benchmarking to determine what competitors are doing to address these consumers, thus uncovering best practices for a given segment. Figure 6 illustrates our weighted index approach, which ranks

countries on a scale of 1 to 5 (where 5 is the highest) along three variables: absolute population, percentage of Muslims within the population, and the GDP per capita. However, the pursuit of Muslim consumers differs from other markets in terms of risks and organizational demands.

**Gauging the risks.** The risks involved in targeting Muslim consumers should not be underestimated, and need to be examined on two different levels: the product and brand level and the corporate level. A product and brand risk analysis will consider the impact that targeting Muslim consumers might have on a company's core global brand if the product is sold in multireligious markets such as in the United Kingdom, North

**Figure 6**  
Indexed approach to geographic focus



Note: Indexed on scale (1-5), where 15% index score = % Muslim, 35% index score = Muslim population gross, 50% index score = GDP per capita  
Sources: Population and purchasing power parity data source is [www.islamicpopulation.com](http://www.islamicpopulation.com); index source is A.T. Kearney

America and Europe. A corporate-level risk analysis will take into account a wider view of potential transnational consumer activism. Companies should be prepared to deal with at least three threats: social, political and financial.

*Social risk.* Muslim consumers are not only an important consumer group by virtue of what they buy, but also because of their power not to buy. Consumer boycotts are not new in Muslim

**Non-Muslim investors are becoming more interested in Islamic finance, accounting for up to 40 percent of buyers for some recent sharia offerings in London.**

countries. For example, products from companies that are deemed to be supporting Israel are frequently targeted by Muslim activist groups. In Egypt, for instance, when Procter & Gamble's detergent brand Ariel became associated with former Israeli Prime Minister Ariel Sharon, it was the target of a consumer boycott. Globalization strengthens international links and empowers transnational activist movements, which means such boycotts display more coordination and have a wider reach than in the past. Consider the row over the publication of cartoons of the Prophet

Muhammad in a Danish newspaper. The cartoons themselves, and the refusal of the Danish government to apologize for them, resulted in violent political protests across the Middle East and in some Muslim communities in Europe. Danish flags were burned, embassies attacked, and threats made against Danes everywhere. But there was also an important economic dimension to the conflict. Consumers in the Arabian Gulf states initiated a boycott of Danish products and retailers quickly removed all Danish products from their shelves. Even Western retailers, notably French supermarket chain Carrefour, removed Danish products from the shelves for fear of negative repercussions. At the same time, moves like Carrefour's can also backfire, turning Western clients away from companies that appear to be "selling out" or capitulating to the violence or unreasonable demands of radical Muslims.

*Political risk.* On the regulation side, governments in Arab and other largely Muslim countries have responded to the increased awareness of their citizens about Islam. Malaysia uses its policy for promoting Islamic consumer goods to strengthen national competitiveness in an environment of increasing international competition. Squeezed in the middle between low-cost countries such as China and Vietnam and high-value-add producers such as Singapore, the Malaysian government has identified Islamic consumer products as an area where the country can develop a distinct competitive advantage. Promotion efforts have largely focused on three areas: halal foods, Islamic banking and tourism from other Muslim countries, mainly the Middle East. These policies are quietly reshaping the

business environment in Malaysia and have the potential to do so in other countries with similar policies.

In addition, products such as Mecca-Cola and Halal Cola (in Europe), ZamZam Cola (in Iran) and the al-Deen brand of blue jeans take advantage of the opportunity to provide non-American (non-Western) alternatives to Muslims who do not wish to patronize Western corporations.

There is also the risk of a backlash if the Western multinationals are seen to be “exploiting” the Muslim consumer. One way to minimize this risk is for multinationals to hire and source locally. This ensures that the community is benefiting socially from the company’s activities. Companies should take pains to emphasize a message of reaching out to provide Muslims with more options rather than give the impression that

they are attempting to “trick” people into buying Western-made products.

**Financial risk.** Two financial risks pose additional challenges: potential revenue loss from not correctly serving the Muslim consumer, and alienating part of the existing consumer base by focusing on Muslims. An example of revenue loss is found in the case of Nike in 1996. Nike was in trouble after introducing its Air line of basketball shoes with a flame-like logo of the word “air.” The Council on American-Islamic Relations declared that the logo could be interpreted as the Arabic script of “Allah.” Eventually, Nike had to recall 38,000 shoes and divert shipments to less-sensitive markets, discontinue the models with the offending logo, and take multiple steps to apologize to the Islamic community, including funding sports facilities for Islamic schools and donating Nike

**Figure 7**  
Organization design depends on influence of sharia law

	1	2	3	4	5
R&D	• Design function outside region	• Design function outside region	• Design function outside region	• Design function outside region	• Design function in Middle East
Sourcing	• Procurement outside region	• Procurement outside region	• Procurement outside region	• Procurement outside region	• Procurement in Middle East
Production	• Production outside region • No dedicated halal production lines	• Production outside region • No dedicated halal production lines	• Dedicated halal production lines outside region	• Dedicated halal production lines outside region	• Production in Middle East • Dedicated halal production lines
Marketing and sales	• Totally centralized brand • No dedicated sales or marketing functions	• International brand • Dedicated sales and marketing functions	• International brand or co-brand • Dedicated sales and marketing functions	• Co-brand or local brand • Dedicated sales and marketing functions	• Local brand • Dedicated sales and marketing functions

Source: A.T. Kearney

products to Islamic charitable groups. Nike has since implemented internal measures to raise awareness and understanding of Islamic issues and to tighten scrutiny of logo design.

Will serving the Muslim consumer alienate existing consumers? It's possible, according to an article in the *New York Times*. "U.S. companies don't want to risk alienating their domestic consumers," says Nasser Beydoun, chairman of the American Arab Chamber of Commerce.<sup>9</sup> Every company should analyze its customer base to assess the financial impact this might have on the base versus the growth expected from serving the Muslim consumer.

Finally, keep in mind that some consumers will construe catering to the Muslim community, especially the Muslim community in the West, as a political act. Do you also offer, or plan to offer, other food options? If not, be prepared to explain why, in a way that will not be judged harshly by consumers.

**Designing the organization.** If your company has operated in a strict halal manner before, little modification of your organization will be required. But for companies that have not, operations might require a total overhaul, with most of these changes reflected in the supply chain as alternate delivery methods become necessary. Figure 7 on page 17 outlines five options to consider along the entire value chain—from functions and processes not influenced by sharia law to those that will be heavily influenced. The choice of organizational structure will determine how easily a Muslim consumer strategy can be implemented.

There are three organizational options for targeting Muslim consumers, outlined in ascending order based on the restructuring that will

be necessary. The first option is to establish a separate group to handle a specific market. For example, when Nestlé entered the Malaysian market, it formed a transnational board whose members operate as a coordination council. The company shares best practices learned from its Malaysian operations with all other new operations. The second option is to create a separate business unit, as HSBC did when it co-branded HSBC Amanah. Finally, the third option is to create an entirely separate company; this is an especially attractive option when entering a market where the current brand might not be well received. When Heineken entered Egypt, for example, it did so by buying a local brand, the Al Ahram Beverages Company.

Of course, a company's return on its organizational investment will be determined by how well the structure is implemented, considering various aspects from product and service offerings to branding and pricing strategies.

### Capture the Opportunity

Since Muslims are the fastest growing consumer segment in the world, any company that is not considering how to serve them is missing a significant opportunity to affect both its top- and bottom-line growth. Deciding to serve the Muslim consumer will depend on the ease with which the company can address this market and the opportunity versus the costs of doing so. Although there are political and social pitfalls to consider, the opportunities are so vast and far reaching that they greatly outweigh the risks. With many of the world's largest consumer segments reaching a saturation point, the Muslim consumer is fast becoming a new outlet to build a base for future growth.

<sup>9</sup> Louise Story, "Rewriting the Ad Rules for Muslim Americans," *New York Times*, 28 April 2007.

## Authors

**Martin Walker** is senior director of the Global Business Policy Council. Based in the Washington, D.C., office, he can be reached at [martin.walker@atkearney.com](mailto:martin.walker@atkearney.com).

**Dirk Buchta** is managing director of A.T. Kearney Middle East. Based in the Dubai office, he can be reached at [dirk.buchta@atkearney.com](mailto:dirk.buchta@atkearney.com).

**Tracey Reuter** is a consultant in A.T. Kearney's consumer goods industries practice. Based in the Dubai office, she can be reached at [tracey.reuter@atkearney.com](mailto:tracey.reuter@atkearney.com).

**Johan Gott** is a consultant in the Washington, D.C., office and can be reached at [johan.gott@atkearney.com](mailto:johan.gott@atkearney.com).

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A.T. Kearney, Inc.  
Marketing & Communications  
222 West Adams Street  
Chicago, Illinois 60606 U.S.A.  
1 312 648 0111  
email: [insight@atkearney.com](mailto:insight@atkearney.com)  
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