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The Global Superyacht Market

Finally, some good data on the rapidly growing market for the largest and most luxurious yachts to cruise the seas – the first "superyacht" index. Too often, the yachting business is viewed as opaque, offering outsiders little in the way of visibility into how the industry works – from shipyards to brokers, buyers, charter managers, and all of the ancillary service providers – but the first annual installment of the Superyachting Index should help the yachting community (and especially new entrants) get a handle on what's happening in the market. Luxury yachting company Camper & Nicholsons International (CNI), a U.K.-based global leader in yacht sales brokerage, new construction, crew placement and charter management, compiled primary (proprietary sales data) and secondary (publicly available industry data) research to assess market size, market growth, and characteristics of owners of superyachts and their vessels. Camper has shipbuilding roots going back to 1782 and built the first diesel-powered yacht in 1913. The Luxury Institute assisted in the index's conceptualization, verified research data to ensure objectivity, and reviewed findings to ensure that the index meets the educational needs of a growing number of wealthy consumers worldwide.

Size does matter when defining what makes a yacht a "superyacht." Over the past 30 years, the global wealth boom raised the boundary for what could be considered "super" from 70 feet (20 meters) to 80 feet (24 meters). The 80-foot threshold currently distinguishes a superyacht from smaller craft, primarily because vessels of this length and longer are typically crewed and managed professionally. In the 1980s, a 100-foot yacht was considered very large, but today yachts of such length are merely middle of the road, with the average length over all (LOA) for new superyachts of 111-feet. Even at such great lengths, attention is shifting to yachts more than four times as large, such as Oracle founder Larry Ellison's 452-foot *Rising Sun* or Microsoft co-founder Paul Allen's 420-foot *Octopus*. According to *Boat International* magazine, *Rising Sun* is the world's sixth largest yacht; *Octopus* is the ninth biggest. The largest yacht? That honor belongs to Mohammed bin Rashid Al Maktoum, ruler of Dubai, and owner of the 525-foot yacht, also named *Dubai*.

Superyacht Market Segmentation

The superyacht market has grown nearly fourfold in the past decade by selling more vessels into developed markets and expanding into emerging ones. In 1997, only 241 yachts of 80-feet in length or greater were on order. By the end of 2007, there were 916 such yachts scheduled for delivery in 2008 and beyond. That's a 10-year increase of 380 percent. Growth is continuing, with this year's production book 18 percent bigger than it was in 2007. An estimated 45 percent of all 3,800 superyachts were built in 2000 or later; 25 percent were built since 2005.

Selling superyachts is similar to selling real estate, while sales of smaller craft more closely resemble the automotive model. For yachts less than 80-feet, manufacturing plants churn out production to a network of dealers. Above the 80-foot threshold, production is generally bespoke, although, like homebuilders, many shipyards fill gaps with speculative building and allow eventual buyers to customize the finished product. More than 100 shipyards worldwide build yachts of 80-feet in length or longer. Italian shipbuilders enjoy a 50-percent share of the global market for superyacht construction, followed by builders in the U.S. (12.5 percent), the Netherlands (9 percent) and Germany (8 percent). Italy's Azimut-Benetti and Ferretti are market leaders in that country's luxury yacht-building industry.

Motor yachts outnumber sailing yachts by a 4-to-1 margin among boats bigger than 80-feet, although new sailing yachts continue to enter the pipeline. Reinvigorated by interest in designers and builders like Perini Navi, Royal Huisman and Alloy Yachts, the current worldwide fleet of sailing yachts longer than 80-feet now numbers close to 750 (with about 3,000 existing motor yachts crossing the 80-foot threshold). In 2007, the number of sailing yachts under construction scheduled to come in at 100-feet or longer increased from to 52 from 45 in 2006. For both motor and sail, the sweet spot of the market has been the 40-percent of the fleet in the 100-130-foot range. The biggest 100 yachts are all greater than 215 feet (65 meters) in length.

The production capacity of shipyards and the average size of superyachts continue to power higher. Between 1990 and 2000, the size of the global superyacht fleet doubled, and production has accelerated in recent years. Since 2000, the industry averaged production of 260 superyachts a year; since 2005 the pace has gone up to 400 a year. Nearly two-thirds of recent orders have been for yachts longer than 100-feet, with builders of smaller yachts moving into the market, like Sunseeker launching a 121-foot tri-deck yacht in 2007, and a 111-foot two-deck this year. Since 2005, orders for superyachts greater than 130-feet in length have increased nearly 200 percent from 134 to 254 units at year-end 2007.

Luxury Yacht Brokers

Yacht brokers tend to focus on yacht charters, mostly because there is more turnover in that market than in the ones for new orders and pre-owned sales. A buying broker defends the buyer's interests in a project so large and complex that specialized expertise is required to make informed decisions. About 80 brokerage houses worldwide deal in yachts above 70-feet, but beyond the 80-foot threshold, only about 40 are active participants. Nearly 40 percent of the 253 yachts longer than 100-feet sold ordered in 20007 were sold with the help of a broker. In this market for such valuable assets, there is a fair amount of concentration, with 150 sales brokers in 12 brokerage houses splitting about two-thirds of the sale and purchase market between them. Commissions on sales typically range up to 10 percent of the sales price for a pre-owned yacht, and new orders from shipyards generally reward the broker with a fee closer to five percent. (For buyers contemplating a purchase, as a rule of thumb, it is generally advised to avoid purchasing a yacht if it represents more than 10 percent of liquid assets).

More than 20 percent of all superyachts—about 830—are available for charter service. The ongoing cost of upkeep for yacht owners runs about 10 percent of a yacht's value, taking into account crew, fuel, insurance, mooring, and other necessities. Chartering your yacht can defray some of these costs. Owners should shoot for 10-12 weeks of charter per year to completely offset operating costs. Most major brokerages operate retail charter departments that also perform all necessary yacht management services, including finding crews and experts to address legal, tax, financial and insurance issues—a cottage industry of service providers to ensure the smooth operation of substantial investments in marine enjoyment.

About 60 percent of the worldwide charter market is made up of yachts between 100-feet and 165-feet in length. The average size of a chartered yacht is approximately 130-feet. Rates depend on age and size of the yacht, but the average rate in 2007 for a yacht greater than 80 feet was $125,000 per week. For yachts 165-feet and up, rates average close to $300,000 per week. Seasonality and location are also critical, with peak season in summer for the Mediterranean and winter for the Caribbean.

Yacht owners can expect to receive about 80 percent of charter receipts after paying commissions and other costs. The brokers earn their keep by matching clients looking for charters with the ideal yacht. They may also be developing future sales: about 30 percent of repeat charter clients have gone on to buy their own yachts. For the owner, however, the benefits of yacht management go far beyond the cost savings through charter rates, since Atlantic crossings from the Caribbean to the Mediterranean can be quite arduous without a professional crew. In addition to gaining some possible revenue, they gain far greater in the way of peace of mind.

Yacht Market Outlook

The global market for superyacht sales is estimated to be about $10 billion in size. At the end of 2007, the average asking price for a yacht at least 80-feet in length was $11.5 million at then prevailing dollar/euro exchange rates, which have come down since January. Sailing yachts averaged $9 million per sale in 2007, while motor yachts changed hands for an average of $10.3 million. Yachts in the range of 130-165 feet fetched a much higher average price: $18.75 million per yacht sold. For yachts 165-feet long and bigger, the average selling price last year was $38.5 million.

One constraint that threatens the robust growth of the superyacht niche is the availability of enough qualified crew. Crew placement firms – typically working alongside yacht managers – hire captains, chefs, engineers, first mates, deckhands, stewards and stewardesses. Currently, it is estimated that a minimum of 25,000 crewmembers are necessary for today's fleet of superyachts, assuming one team per yacht and no seasonal rotation. About 15,000 crewmembers currently work aboard yachts, with shortages of captains and engineers especially acute.

Despite current economic conditions in the U.S., strong global demand for superyachts suggests that shipyards will be busy producing these trophies for the next several years. With millionaire growth still on an uptrend in the U.S., and new wealth created in Eastern Europe, the Middle East, China and Latin America, the pool of potential buyers continues to deepen.

Luxury Retail – Brand Status

Private equity firms prove to be capable of maintaining—even building—brand prestige among wealthy shoppers. Private investment groups own all of the top three brands in the 2008 Luxury Institute Luxury Brand Status Index (LBSI) survey for luxury retailers. Bergdorf Goodman earns the highest overall score from wealthy consumers, who gush about the "level of personalization in service and the quality of merchandise." Bergdorf is the boutique division of Neiman Marcus Group, which was taken private in 2005 by Texas Pacific Group and Warburg Pincus. Neiman Marcus' flagship brand ranks third, while a resurgent Barneys, owned by Dubai-based private equity group Istithmar, earns a second-place ranking from wealthy consumers earning an average income of $348,000 and with an average net worth of $3.6 million.

Women's Luxury Fashion – Brand Status

Fine leather accessories and understated elegance in classic womenswear earn Bottega Veneta highest honors in women's fashion. The Milan-based design house, a subsidiary of Gucci since 2001, leaps to the top of the rankings in the 2008 LBSI for women's fashion. Fans of Bottega Veneta, best known for its hand-woven leather bags, belts and shoes, call its designs "very upscale and sleek looking" and "timeless," in addition to being "very well made." Paris' Hermès ranks second, and Valentino, the brand made famous by Jacqueline Kennedy, finishes third in overall brand status. Falling out of the top-three: Vera Wang, a brand that moved downscale by selling at discounter Kohl's, and took a predictable hit to its prestige.

Men's Luxury Fashion – Brand Status

Italian brands are the apex of prestige for wealthy men when they dress up. In a market where suits sell for $2,000-$3,000 and shirts and ties routinely retail for $250 and up, the 98-year-old Italian house Ermenegildo Zegna scores highest for overall brand status in the 2008 Men's Fashion LBSI, followed by fellow Italian brands Armani and Brioni, which rank second and third, respectively. Brioni scores particularly well among wealthy men 55 and older, while Tom Ford, a brand worn prominently by George Clooney, earns high marks from younger wealthy consumers for being the "hippest" brand. Zegna, which specializes in wool, earns high praise from wealthy consumers who say it has "the best knits in the world" and "great suits and dress clothes."

Luxury Hotels – Brand Status

A network of eclectic boutique hotels proves that bricks and mortar are not necessary to build a top brand. In the 2008 LBSI luxury hotel survey, wealthy guests for the second straight year rank U.K.-based Small Luxury Hotels of the World as the most prestigious brand. Small Luxury Hotels operates via agreements with 440 independent hotels in more than 70 countries, chosen for "location, exceptional service or the vast array of experiences." Guests say the brand "takes special care of you," going "above and beyond a normal resort." Two months ago, Small Hotels won top honors from wealthy consumers in the 2008 Luxury Consumer Experience Index (LCEI) for hotels. "They strive for excellence," says one respondent. Runner-up RockResorts, a subsidiary Vail Resorts' operates a similar model, with casually elegant affiliated resorts in Colorado, Wyoming, Florida, and the Bahamas. Tied for third in prestige are Peninsula and Ritz-Carlton.

Casinos – Brand Status

Steve Wynn's number comes up twice with wealthy casino patrons. The billionaire's eponymous Wynn Las Vegas and the across-the-strip Bellagio, which Wynn conceived and built as head of the former Mirage Resorts, rank first and second, respectively, in the 2008 LBSI for casinos. Rounding out the top three is another billion-dollar neighbor: The Venetian. The Wynn is the only casino with its own in-house luxury car dealership: Penske-Wynn Ferrari-Maserati. Wealthy guests praise Wynn's golf course and call the casino "very luxurious and comfortable," as well as "plush and sophisticated."

Luxury E-Tailers – Brand Status

Opportunity abounds for consolidation and growth as online luxury destinations grapple with brand building and competition from established retailers. Some firms, however, do stand out with wealthy consumers. In particular, Net-a-Porter earns the highest ranking in the 2008 LBSI survey for online luxury retailers. "Truly unique merchandise" and "fashion forward items pulled together in new and current ways" are what wealthy consumers say they like about Net-a-Porter. Ranking second and third, respectively, are Vivre.com and Yoox.com. Essential to compete in this emerging category are top-flight product offerings, backed up by flawless execution and delivery. Competing against retailers with a physical presence, accommodative return policies are also critical.

Luxury Web Strategies

The drive to connect with wealthy consumers online is creating a boom in Web-based marketing and advertising. Luxury goods and services companies are demanding access to upscale users via individual ad placement with publishers, but also through companies like Alexandria, Va., based Adcision Luxury Media. The advertising agency and publisher representation, founded by former Five Star Alliance chairman Cal Simmons, acts as an online ad network focused on the luxury market. Premium brands like Tiffany & Co., Exclusive Resorts, Johnnie Walker, and Diane Von Furstenberg call on Adcision to gain entrée to a network of upscale web publishers catering to wealthy consumers, including Luxury-Insider.com, HedgeCo.net, HintMag.com, and LuxuryLifestyle.com. Firms that successfully deliver these high-end demographics to advertisers—online or offline—will grow in importance with the use of the Web as a conduit of commerce.

Individual Excellence in Luxury Leadership – Financial Services

Gayle Bock is group head, premium products at MasterCard Worldwide, where she leads product management and awareness of MasterCard’s premium products, World and World Elite, targeting the affluent marketplace. Before joining MasterCard, Gayle was most recently director of card payments at Merrill Lynch, where she led the debit and credit card business targeting high net worth clients. She managed premium card portfolios and was responsible for product development, portfolio management, product strategy, and oversaw affluent client loyalty and client experience programs.

Ms. Bock has extensive global experience in developed and emerging markets. Prior to Merrill Lynch, she spent time in the airline industry, beginning her career with Northwest Airlines in Tokyo where she was responsible for all marketing in 16 Asian countries.

Returning stateside, she joined United Airlines and was responsible for United's Mileage Plus program, and launched 22 co-branded credit cards worldwide. After United, Gayle joined Delta Air Lines as vice president of consumer marketing worldwide, overseeing Delta's worldwide marketing strategy including market research, advertising, card partnerships and the SkyMiles rewards program.

WR: *How has the concept of luxury evolved during your career, and how does its definition affect your clients?*

Gayle Bock: Luxury is associated with high quality goods, exclusivity, innovation and premium pricing. Premium luxury products are not strongly impacted by market trends and are less price-sensitive. It is the affluent consumers' definition of luxury that sets the benchmark as MasterCard works to develop products and solutions that meet the diverse needs of our customers. We have done extensive research to best understand what really matters to the affluent consumer. Several years ago this research and consumer feedback revealed that the affluent luxury cardholder was interested simply in purchasing "stuff." It was all about having the latest and the greatest available – and the more, the better. We now know that the affluent consumer mindset has shifted. Although the affluent customer seeks to be rewarded and recognized for their loyalty and wants to be able to customize to their individual needs, they remain grounded by their inner directed values vs. external displays of materialism. Today's affluent consumers are looking for access to unique experiences and the opportunities to share these experiences with those who they know and love.

Based on our keen insight into the mindset of the affluent cardholder, we have worked with our issuing banks to develop benefits and services that are flexible and meet these individual needs, not just creating blanket offerings of promotions and gimmicks. With our MasterCard World Elite and World cards, we are able to work with our customers to generate valuable and desirable offerings for products and services that meet the specialized needs of affluent cardholders.

Based on your experiences, what are the critical factors that luxury brands need to know to create great customer experiences for high net worth consumers?

Understanding that among affluent consumers luxury is highly personal and allows individuals to pursue one's personal passions and interests is crucial to generating great customer experiences. Our customers' customers (cardholders) expect high levels of personal service. These cardholders do not want to be thought of as a number, but viewed as a person with individual interests. This should be integrated with a solid understanding of product needs, aspiration and excellence. In the past, creating these great customer experiences was about simply enhancing the cardholders' experiences with our brand and our customers' brands; but now we think of it as enhancing the overall experience with the product itself.

People working with luxury brands need to understand the importance of aspiration and that customer loyalty is paramount. It is about delivering flawless and consistency at all touch points. At MasterCard, we understand this and are bring our expertise to our customers by delivering high customer service at a personalized level.

What have you found to be the critical skills and attributes that luxury executives need to develop to lead their companies?

Luxury executives need to understand the importance of delivering outstanding service by meeting or exceeding their customer's expectations. Executives must be passionate about delighting their customers – they must listen to their customers and breathe exceptional service. They need to create a customer experience that is synonymous with the brand and fits with the corporate strategy. A luxury executive needs to understand the brand from A-to-Z on every touch point with great consistency. At MasterCard, we strive to show that we offer excellent service and that we're not just developing a piece of plastic, but providing a product that will fit with cardholders' unique lifestyles.

What has been one major challenge in your career and how did you overcome it?

When we started competing in the affluent marketplace, there was already a lot of noise and competition. We knew that there were other companies out there that had a stronghold in the affluent space, but these companies did not provide worldwide acceptance. Furthermore, we were hearing feedback from consumers that they wanted one card that would do it all – be accepted globally and provide the luxury benefits like 24-hour concierge, travel assistance, airport lounge access and unique experiences like restaurant access, tickets to concerts and shows and golf outings. We wanted to come out with a card that delivered worldwide acceptance and everyday utility but also a card that plays to the affluent consumers' wants and needs. We paced ourselves, utilized consumer feedback and the keen insights provided by market analytics, and we designed and launched our World Elite card just 18 months ago. It offers compelling benefits and services that meet our affluent cardholders' wants and needs.

Inflation Whips Wealthy

New "wealth inflation index" shows that British wealthy are paying 9.5 percent more this year than last year to live the good life. Using spending data from its 14,000 of its World Card holders, U.K. private bank Coutts & Co. reports that inflation for premium goods and services consumed by high net worth individuals in Great Britain is running at about four times the rate in overall consumer prices. Coutts adjusts the product "basket" and the weightings of particular items (e.g., entertainment, education, clothing) to calculate the rate for the wealthy. The highest jumps are in jewelry (25 percent) and club memberships (17 percent). Last fall, Forbes reported that its "Price of Living Well" index climbed 6 percent in 2007, more than double the change in the U.S. Consumer Price Index. Some of the bigger gainers: Maximilian sable coats at Bloomingdales were up 18 percent to $225,000; face lifts at $17,000 and sailing yachts (the Nautor's Swan 70 at $4.77 million) were both up by 17 percent.

In Vino Veritas

One connoisseur's passion for Bordeaux wines grows from the cellar into a global business. Many people love wine but turn to experts for help in picking one they like. At restaurants, there's the sommelier; at home there's The Wine Trust. Based in Ridgefield, Conn., The Wine Trust began 35 years ago as founder Richard Bakal's private collection of extraordinary growth Bordeaux, which he shared with family and friends, and later to a select network of restaurants and wine shops. Bakal purchases his wines *en primeur* and cellars the collection under ideal storage conditions for as long as 15 years. Bakal is now diversifying beyond Bordeaux with Wine Trust II, a new wine "membership" program that will include other great wines from around the world and a push into global distribution. That's "organic" growth. Visit www.thewinetrust.com for details.

The Engineered Café Society

It is very seldom by accident that a venue acquires its status as a place where successful and interesting people gather. At New York City's Core Club at 66 East 55th Street, atmosphere is certainly no accident. The private membership club seeded its clientele by bringing together an eclectic mix of artists, architects, performers, journalists, entrepreneurs, and other cultural and business leaders. The club has three levels with restaurant, terrace, bar, lounge, private dining, event spaces – and also unique features like a screening room, art gallery, library, sauna and steam room, spa, salon and barber shop. Travel and concierge services are among the perks, though the biggest benefit may be the coterie of charismatic personalities from a host of disciplines who all share similar views on achievement and creativity. Visit online: www.thecoreclub.com.

A similar display of eclecticism by design can be found in the pages of lifestyle and art magazine *Whitehall*. Published quarterly since March of 2006, *Whitehall* reaches out to readers interested in both luxury lifestyles and contemporary art. The theme of its upcoming summer issue is travel, with articles from a diverse roster of writers, including billionaire Eli Broad, industrial designer Ross Lovegrove, and sculptor Tom Sachs. Distribution of Whitehall is focused on affluent areas of New York, Connecticut, Florida, Texas, and California. Publisher Michael Klug plans next to launching an online hub for art collectors and luxury lifestyle enthusiasts. Check out www.whitewallmag.com.

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About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings and research institution that is the trusted and respected voice of the high net-worth consumer globally. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.LuxuryBoard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs. To reach the Luxury Institute, please call 646-792-2669 or go to www.LuxuryInstitute.com.

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