

The Wealth Report

Leading Edge Insights into the World of the Wealthy

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Luxury Purchasing Decisions – The Online Influence

Advice from friends or family carries considerable weight in shaping spending decisions, but many wealthy consumers are turning to the Web for the bulk of their inspiration and education on potential high-end purchases. Nearly two-thirds (64 percent) of Americans with annual incomes of at least \$150,000 go directly to websites of known providers for information on luxury goods and services, slightly more than the 57 percent who say that they solicit input from friends and family. These sources of pre-purchase information are the two most frequently cited and deemed the 'best' sources by wealthy individuals taking part in the July 2008 Luxury Institute WealthSurvey on the key factors driving buying decisions in seven categories of luxury goods and services: fashion, handbags, jewelry, wealth advisors, automobiles, vacations and real estate. Survey households had average annual income of \$287,000 and average net worth of \$2.9 million.

Once obscure terms like 'search engine optimization' and 'click-through rates' should achieve piqued relevance for luxury executives, since a majority (53 percent) of wealthy consumers now include search engines as an essential stop on their quest for luxury goods and services. In fact, 17 percent of wealthy shoppers say that search engines provide access to the 'best luxury advice and expertise,' ranking search engines just behind company websites and advice from friends and family, which both earn 'best source' distinctions from 19 percent of the wealthy. Wealthy men say that search engines and provider websites yield the best information on would-be luxury purchases, while women rely most heavily on the opinions of friends and family, as do those with household net worth less than \$5 million and annual income less than \$300,000.

Beyond the inner circle of friends and family, the opinions of total strangers on ratings and reviews websites are also influential in the luxury purchase process, but to a lesser degree. Ratings and reviews sites attract the eyeballs of 38 percent of wealthy consumers as they seek to glean insights from the experiences of others, and 14 percent say that these sites are their primary sources for making informed luxury spending decisions. When asked about trust, however, wealthy consumers were nearly twice as likely to cite referrals from friends and family as their most trusted source of advice as they were to single out ratings and reviews sites (23 percent vs. 13 percent).

The second most trusted luxury purchase information, preferred by 16 percent of the wealthy, comes from professionals with relevant expertise in a particular field, such as travel agents, realtors or stylists, to name a few. Consumers with a net worth of at least \$5 million and those earning more than \$300,000 a year have a strong preference for consulting with professionals, viewing them as the best and most trusted sources of luxury purchase information. These wealthiest consumers are particularly skeptical of online ratings and reviews, with just six percent of penta-millionaires trusting content found on such sites.

Googling Luxury – Search Engine Brand Status

The company that vows to "do no evil" does a heavenly job providing wealthy consumers with what they want when they go online. Wealthy Web users find Google to be a useful tool on several fronts and the cumulative effect is tremendous brand prestige and top honors in the Luxury Institute's 2008 Luxury Brand Status Index (LBSI) survey for the search engine category. Google finished comfortably ahead of Yahoo! and MSN, which rank second and third, respectively. Web users with average income of \$348,000 and average net worth of \$3.5 million evaluated ten search engines across four criteria: innovative stature; helpful and relevant content; appropriate advertising, and ease of use.

Google has also carved out a dominant position within the luxury niche. The Web giant is a favorite 'first-stop' website for gathering information on luxury goods and services, named specifically by 13 percent of wealthy consumers. The closest but still distant competition comes from Consumer Reports, mentioned as a favorite site by three percent of respondents, followed by two percent each who favor Amazon.com and the official sites of Lexus and Coach. Google also finishes just slightly ahead of Consumer Reports as the most frequently mentioned site (7 percent vs. 6 percent) that wealthy consumers visit to read or write reviews of luxury offerings. Tripadvisor.com and American Express also make strong secondary showings (3 percent) as popular sites for online reviews. Farther behind, but still earning mention from two percent of the wealthy: Amazon.com, Yahoo! and Robb Report. If not already "Google-savvy" in terms of choosing appropriate keywords and other search optimization strategies, luxury firms need to get up to speed quickly to tap into Google's tremendous power as an information and commerce gateway.

Limits to Luxury Purchases on the Web

Despite its ease of use and the instant availability of vast amounts of information, the Internet is much more useful as a research tool than a retail channel for several categories of luxury goods and services—most notably in autos. Nearly three out of four wealthy shoppers (73 percent) say that they are only comfortable closing automobile transactions at a showroom, while 61 percent would only buy real estate or luxury jewelry in person. These are certainly among the bigger ticket luxury items, and they have tactile qualities that are perhaps better experienced than merely seen. They are also among the most highly customizable products. More than one-third of the wealthy insist on choosing fashion apparel (38 percent) and wealth advisors (35 percent) in person. Men are more likely than women (38 percent vs. 31 percent) to insist on meeting wealth advisors face-to-face before choosing one, and comfort with choosing a wealth advisor over on the Web decreases at higher levels of income and wealth. Women are more likely than men to need to touch and feel a handbag before buying it (35 percent vs. 22 percent).

Travel is far and away the category in which wealthy shoppers, especially women, have the highest comfort level for making online purchases. Just 11 percent of the wealthy say that are only comfortable booking travel with a human agent. Men cite the need to book through a live agent twice as frequently as women do (14 percent to 7 percent), and the very wealthy (net worth greater than \$5 million) insist on face-to-face interactions with a travel agent at double the rate of individuals with net worth under \$1 million (24 percent vs. 12 percent). Penta-millionaires are consistently less comfortable than their less

wealthy cohorts closing transactions online in all seven categories. Wealthy consumers older than 55 years of age report higher discomfort levels than younger shoppers with online luxury purchases in all categories except travel.

Asked for a dollar threshold up to which they would be comfortable spending online, half of wealthy consumers say they are happy spending up to \$1,000 on a Web transaction. One in three is willing to spend more than \$3,000 online, and 14 percent have no qualms spending more than \$10,000 on a single Web purchase. Almost half (46 percent) of wealthy consumers younger than 45 years of age are comfortable spending \$3,000 or more, but just slightly more than one-fourth of those 45 and older are comfort with online transactions of that size. Men are more likely than women (37 percent vs. 24 percent) to be comfortable spending in excess of \$3,000 online, and comfort with larger transactions rises sharply with income and net worth. The average comfort threshold for online purchases by wealthy consumers is \$3,294.

Key Drivers of Luxury Purchases

The relative importance of factors that influence buying decisions of wealthy consumers varies by type of luxury good or service and by specific demographic characteristics of the well-to-do shopper. Below is a summary of key purchase drivers across all seven luxury categories under consideration.

Fashion: Referrals from friends and family and direct visits to provider websites are the two best sources of advice, both earning mentions as such from one in five wealthy individuals. Women are almost 50 percent more likely than men (24 percent vs. 16 percent) to identify these sources as the best to consult when shopping for luxury fashion items. Younger, wealthier, and higher-income respondents are especially likely to consult a professional on fashion matters, such as a personal shopper. With the popularity of fashion magazines like *Vogue* and *W*, 14 percent of wealthy shoppers mention "reading publications" as the best way to gather purchase information and inspiration for fashion items. Five percent of both the youngest and highest income individuals cite blogs as the best sources of luxury fashion information. These groups were consistently the ones most likely to indicate that blogs offer the best sources of information across all categories of luxury spending.

Handbags: Friends and family and company websites provide the best information on handbags, according to wealthy women, but as income rises, the primacy of referrals from friends and family recedes from 27 percent for women earning less than \$200,000 a year down to 17 percent for high earners with \$300,000 or more in annual income. The influence of friends and family is replaced by greater emphasis on publications and the advice of professionals. Enthusiasm for ratings and reviews websites falls off as women become wealthier, as does the influence of colleagues on handbag purchases.

Jewelry: Because of the uniqueness of the designs and the complexity of the materials involved in making them, jewelry is a category where professionals can flex their muscles of influence, especially with older, wealthier and higher income individuals. Nineteen percent overall say that professionals in the field provide the best sources of advice for luxury jewelry purchases, just ahead of family referrals and visiting provider websites, both named 'best source' for jewelry info by 17 percent of the wealthy overall—

and by 21 percent of wealthy women. Wealthy consumers younger than 45 are more likely than older consumers (8 percent vs. 4 percent) to welcome recommendations from colleagues on jewelry purchases, and they are more likely (14 percent vs. 8 percent) to say that ratings and reviews websites provide the best information for evaluating potential luxury jewelry purchases.

Automobiles: Wealthy car buyers rely most heavily on ratings and reviews sites for sizing up luxury autos, with 23 percent saying sites like Edmunds provide the best automobile data. Consumers earning less than \$200,000, those with a net worth less than \$1 million, and women, are especially keen on review sites. One in six wealthy car shoppers says the best information comes from magazines and newspapers, a sentiment shared particularly by men and older wealthy consumers.

Vacations: Online travel booking was one of the first examples of customer friendly ecommerce, but even after a decade and a half, 20 percent of wealthy travelers prefer booking their trips through professional travel agents, owing perhaps to the exotic and remote destinations and unique experiences they want to book. The tendency to prefer a travel agent rises steadily with age, while travelers of comparatively modest means prefer to go directly to a travel provider's website or to use a search engine for booking trips. Ratings and reviews sites provide the best travel purchase information for 14 percent of the wealthy overall, with special attraction from women, those younger than 45 and those earning less than \$200,000 a year. Millionaires and men tend to place greater importance on reading travel publications than other demographic groups. Also, 25 percent of wealthy women weigh the recommendations of friends and family most heavily when making travel plans, versus 19 percent of men who prefer such referrals.

Wealth Advisors: One-fourth of wealthy investors find a financial advisor through consultations with other financial professionals, such as CPAs, bankers, and attorneys, and 21 percent prefer referrals from friends and family members (25 percent of wealthy women). There is a tendency to place greater emphasis on referrals from colleagues as levels of wealth and income escalate, largely because of economic affinity. Men and younger investors are more likely than their counterparts to find financial publications to be the best sources of information. In wealth management, the emphasis is on word of mouth, trust, and personal attention, so most Web-based sources are not as potent.

Real Estate: One in three wealthy home buyers and sellers says that professional realtors are the best source for real estate advice and expertise. Women are a bit more emphatic about using a realtor than men are (37 percent vs. 31 percent). Individuals with less than \$1 million in net worth are the group most likely to say that family referrals are the best source of real estate information. About one in ten wealthy real estate buyers prefer using a search engine or visiting real estate websites.

Women's Luxury Shoes – Brand Status

The distinctive red-soled shoe again scores big with wealthy women. Luxury footwear designer Christian Louboutin takes top honors for the second year in a row in the 2008 Luxury Brand Status Index (LBSI) survey for the women's luxury shoe category. Louboutin's fans say that the shoes "catch the eye and the red soles are something

everyone recognizes." Others praise the Parisian brand for making wearers "feel feminine and sexy." Manolo Blahnik earned a second-place ranking, and fellow French luxury firm Hermès was ranked third among the 29 luxury women's shoe brands under consideration.

Men's Luxury Shoes – Brand Status

Italian shoemakers make a clean sweep of the top three most prestigious brands of men's luxury shoes. Ferragamo earns the highest overall score in the 2008 Luxury Brand Status Index survey for men's luxury shoe brands. Wealthy men praised Ferragamo's "quality, fit and finish, materials, assembly, comfort and style." Italian brands Tod's and Prada earn second and third place rankings, respectively, out of the 17 brands considered. In fact, Italian brands earned nine of the ten top rankings in the men's luxury shoe category.

Luxury Appliances – Brand Status

La Cornue builds on last year's top-three showing and earns the highest ranking from wealthy consumers in the 2008 Luxury Brand Status Index (LBSI) survey for luxury home appliances. Calling the French kitchen appliance brand the "Rolls-Royce of appliances" with "gorgeous" stoves, La Cornue's devotees give it high marks across all four pillars of brand stature: consistently superior quality; uniqueness and exclusivity; used by people who are admired and respected; and making the customer feel special across the entire customer experience. Italy's Bertazzoni and Mississippi-based Viking Range were rated second and third, respectively, out of ten luxury appliance brands.

Luxury Retail

June retail sales perk up for many stores, but high-end merchants are still slogging through what has become a severe slowdown. Wal-Mart got a boost from bargain shoppers and reported a 6.4 percent rise in comparable store sales, slightly better than the average 4.5 percent gain for 40 retail chains reporting sales to TNS Retail Forward. At Nordstrom, sales in June were down a whopping 18.6 percent from June of 2007, while Neiman Marcus' comparable sales slipped a more modest 2.4 percent. Saks managed to eke out a 1.9 percent rise in same-store sales.

More than just bad feedback for eBay. A French court has ordered the auction site to pay LVMH nearly 40 million euro for hosting auctions that sold counterfeit LVMH goods. Now, eBay is prohibited from selling fake—or real—LVMH perfume brands Kenzo, Guerlain, Christian Dior, and Givenchy. Just weeks before the July 1 ruling in the LVMH case, eBay had to pay 20,000 euro in a similar counterfeit case to Hermès. Although eBay says it polices its auctions for fakes, it clearly needs to do more. According to our past surveys, 80 percent of wealthy individuals say counterfeiting tarnishes a brand, so good for LVMH, Hermès, and others like Tiffany that have confronted eBay on fakes.

Individual Excellence in Luxury Leadership – Jewelry

Before the age of ten, Mimi So began working after school at her parents' jewelry atelier in New York City, dusting the jewelers' benches, filing gold castings or weighing and sorting through diamonds, rubies, emeralds and sapphires. Coming from the third generation of jewelers in her family, Mimi graduated from Parsons School of Design and opened her own boutique in the heart of the Diamond District on 47th Street and Fifth

Avenue, where it still stands today. Her collections, featuring precious stones, 24-carat gold and platinum, are also found in the precious jewelry departments at luxury jewelry and fashion retailers like Neiman Marcus, Holt Renfrew, Lane Crawford. Mimi's designs are also worn by celebrities including Reese Witherspoon, Cameron Diaz, Courtney Cox, Drew Barrymore, Diane Lane, and Anne Hathaway, to name a few.

In 2007, Mimi was invited into the Council of Fashion Designers of America (CFDA), joining 250 of the nation's most creative and prestigious fashion designers. Mimi attributes her artistic and business achievements to the sometimes "rigorous and lean" training in the So family business where "nothing less than perfection" was tolerated.

A CEO, creative director, wife and mother of two, Mimi and her team of artisans create "modern, feminine and sophisticated" jewelry in a spacious and elegant penthouse overlooking Fifth Avenue, where the modern efficiency of high-tech CAD Resin machines are married to timeless handcrafting of precious metals, stones and other beautiful materials. Visit www.mimiso.com.

WR: Share with us the evolution of your career and the critical steps to your role today.

Mimi So: The evolution of my career comes from a flexibility moving with time. It begins from a childhood growing up in a third generation of jewelers, a love and passion that stems from a little girl, age 5, playing with gemstones, sitting by my mother's side and watching her sketch beautiful jewelry designs. As time passed, I studied at Parsons School of Design and further developed an eye for design and how it actually communicates with the public.

Working for my family was the best experience because it was the toughest job to work for both parents. After a few years of fulfilling my duties to my family, I decided it was time for me to move on and pursue my dreams to be an entrepreneur. Yes, to be my own boss and to never again have a restful night's sleep! But I loved the challenge of learning to manage people, the business, capital and the public! Fourteen years later, I am still the CEO, the creative designer, and also the face of our brand. It has taken me many steps to reach where I am today and I believe there are many more I will be taking.

My experience is in building a brand through a wholesale and retail division that is both domestic and international. I am the sole creator, and balancing the financial business with the creative talent has its challenges, but it has allowed me to be a role model for others. Recently, I purchased back the minority share of my company from a prestigious luxury conglomerate I had partnered with. That experience was also an education that was valuable in furthering my growth in building my own or any other international luxury brand.

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

Luxury, the word has been stretched so far that it has, in many ways, lost its definition. We are quite small in the spectrum of large luxury groups today, but we remain intimate, exclusive and creative. This allows us to be on the playing field with the top five-percent of the most selective clients. Our clients want the best and they feel they deserve the best; our job is to deliver it, and that involves extraordinary design, the highest quality of

materials, hand craftsmanship and my personal eye on all the tiny details. It's quite simple: We give them what they want.

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?

Listen to your customers, pay attention. Go back to basics and remember why your brand was special to begin with. Too many brands try to be like other brands and they lose what it was that initially earned the business of their customers.

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

You need to lead by example, to want to be a role model. Don't expect respect from colleagues or the team working underneath you. You need to earn it by walking the talk. Morale is one of the most important attributes I value. With it, you can get your team to do anything and you don't have to lead your company with an iron fist.

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

Buying back the minority share of my company I had sold took a lot of my attention away from my day-to-day business. It's extremely hard not to lose focus, and the world watches to see if your next collection will be great or a flop. This makes you incredibly nervous because there is so much at stake to prove to yourself, your partner, your family, your employees and your store buyers—plus the press, which can be brutal—and let's not forget your customers. All of us have very high-pressure positions, family obligations and financial commitments to someone. We all have to deliver and sometimes we get distracted and lost and frustrated and maybe even defeated at times.

All it takes is one bad collection after disengaging yourself and it can be over in a flash because you lose your confidence. The way I overcame it was I truly had to reach deep down inside myself and find my way. I call it "detox." For me, detox was designing my new collection called "Jackson" from a retreat I took with my family during holiday in the mountains of Wyoming.

After being invited into the Council of Fashion Designers of America, it really gave me the push to create something over-the-top and this June we had an overwhelming response to the collection. *Vogue* and *W* were fighting over the exclusive to cover it! All the major doors wrote orders and in a tough economic time, we needed something positive. That's a great feeling of achievement and a big win for the team.

Wealth Demographics

The number of millionaires in the world surges past the ten-million mark. According to the twelfth annual *World Wealth Report* from Merrill Lynch and Capgemini, the ranks of high net worth individuals (HNWI) grew six percent last year to total 10.1 million people worldwide. The number of ultra high net worth individuals (worth at least \$30 million) grew even faster, by 8.8 percent. Aided by a weakening dollar, millionaire growth in the 'BRIC' countries was especially robust, with India (+22.7 percent), China (+20.3 percent), Brazil (+19.1 percent), and Russia (+15.5 percent) leading the globe.

Wealth Marketing

The worldwide wealth boom, particularly over the past decade, has created substantial business opportunities for resourceful companies. New York-based HNW (www.hnw.com) is the only strategic marketing firm focused exclusively on the wealth market. Now in its eighth year, the firm was created to meet the unique needs of companies serving the high-net-worth market and they design and manage strategic and interactive marketing programs for luxury brands like Tiffany & Co. and Vail Resorts, and wealth management firms like Merrill Lynch and Morgan Stanley. Benefits for HNW's clients include a deeper knowledge of customers and the ability to use that knowledge to communicate with the right customer at the right time to attract, retain and monetize relationships. A bonus for the business is that wealth management firms need to market through good times and bad—and arguably it's even more important to reach out to clients during tough times. Combined with the hit to the collective credibility of financial firms, HNW should enjoy a prosperous future.

The Luxury Guru

Next time you visit the iTunes store, be sure to check out two new video podcasts focused on luxury. Host Lorre White brings her "enlightened approach to living" to all things luxury, from yoga to yachts, and private jets to perfumes. Found under the Society & Culture category, White has two shows: "Guru of Luxury" and "Luxury on a Budget." As we have discovered, wealthy consumers are incredibly curious about the world of luxury goods and services, and making available these on-demand morsels of information gives them an easy way to indulge that curiosity.



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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Secondary Sources

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