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Courting The Wealthy Woman

She's educated, employed, and she controls the lion's share of spending in wealthy households. Nine out of ten times she is married, or living with a life partner. Her responsibilities often include working at a high-paying job or running her own business while also caring for a child or a parent—and managing the household and its finances. This is the portrait of today's frenetic and financially powerful wealthy woman that emerges from a recent Luxury Institute survey of women from households with $150,000 or more in annual income ($262,000 average income, $2.2 million average net worth).

Among the key findings is how profound the female influence is on spending and money management – something that companies from financial firms to home improvement retailers simply cannot afford to ignore. Married wealthy women, on average, make almost two-thirds (64 percent) of a family's purchase decisions; 73 percent report making a majority of the household spending decisions. Almost one in four married wealthy women (22 percent) say that they make all of the investment decisions on their own; another two-thirds report making financial decisions jointly with a spouse or partner. Nearly half (48 percent) say that they call the shots on home improvement projects and related purchases.

Women hold particular sway at home when it comes to spending money on travel and home appliances. In more than two-thirds (68 percent) of wealthy households, the matriarch holds ultimate 'veto' authority on home appliance purchases, making it extremely difficult to sell ovens, refrigerators or dishwashers to the wealthy without the consent of the lady of the house. Similarly in travel, 61 percent of wealthy women make the family's vacation decisions, a powerful swath of authority that includes choice of destination, airline, hotel, cruise line, car rental, and restaurants. In 48 percent of wealthy households, women choose the family's health care providers—both the insurance plan and specific doctors. Bank account selection is the domain of women in 46 percent of wealthy households; in 40 percent, the woman decides which automobiles and consumer electronics to buy. Almost one-third of wealthy women (31 percent) say that they control their family's real estate purchase decisions.

It's often her own money that she's spending and investing. Highly paid females are flexing financial muscle and turning traditional assumptions about gender and income roles upside down. On average, women earn 39 percent of the total income in wealthy households; 24 percent of wealthy women report that they are their family's primary breadwinner, bringing home at least half of the family's income. Thirteen percent of wealthy women with a spouse or partner say that they earn at least 70 percent of their household's total income. These are not women who need to ask permission before buying something big.

Wealthy Women At Work

Wealthy women are certainly no idlers: 72 percent work on at least a part-time basis and 54 percent work full-time. Most are well compensated for their efforts: 60 percent of wealthy women who work earn at least $100,000 a year; 20 percent earn at least $200,000 and the median annual income of working wealthy women is $124,000. One-third of these women (and 45 percent from households with income greater than $300,000) support another family member through their work; 28 percent support two family members, and 18 percent support three or more dependents. The average amount spent on supporting additional family members: $22,400.

The financial influence of affluent females is powerful and growing in the business world, with women increasingly holding positions of executive authority. One-third of working wealthy women hold jobs at the vice-president level or higher and another 22 percent hold some type of managerial position. Twelve percent of wealthy women serve on a company's board of directors; eight percent are partners in a firm; and two percent hold C-level corporate positions.

Fifteen percent of wealthy women own their own businesses, and lifestyle is a primary consideration in doing so. One-third say that they launched a business to have a more flexible schedule, and nine percent did so to be able to spend more time with family and friends. One in six wealthy women who started a business did so to pursue financial independence or to take advantage of a better opportunity than they had in their previous work. Women 55 and older, as well as those with household income greater than $300,000, are 50 percent more likely to be business owners. Just four percent of women from high-income households with a net worth less than $1 million, and 10 percent who are younger than 45 years of age, are entrepreneurs.

Educational attainment helps to explain the financial success of wealthy women. This is an overwhelmingly college-educated group, with 88 percent of wealthy women holding at least a bachelor's degree. Overall in the U.S. population, just 26 percent of women (and 29 percent of men) have earned a bachelor's degree. Twenty-eight percent of wealthy women have earned a master's degree; another seven percent have an M.B.A., and 10 percent have received more advanced degrees. The rate of women with a college degree rises to 92 percent in households with a net worth of at least $1 million, and to 95 percent for women from households with income between $200,000 and $300,000. For two decades, women have been outpacing men in earning college degrees—women took 58 percent of all bachelor's degrees awarded in the United States in 2004—so the accompanying financial achievements of women should continue to grow both on an absolute level and relative to the earnings of men.

Wealthy Women At Home

Despite their significant financial and professional accomplishments in the workplace, wealthy women are still far more likely than men to do most of the domestic chores. Working wealthy women with a husband or partner report that they spend an average of 2.7 hours per day taking care of their household. Almost one in four (22 percent) wealthy women who work say that they spend at least four hours daily on household duties.

Meanwhile, nine percent of these working wealthy women report that their spouse has no household duties, and another 35 percent say that the spouse spends less than an hour a day on domestic work.

Motherhood may be a big reason for the focus on domestic duties. Seventy-five percent of wealthy women are mothers—66 percent of those younger than 45 years of age and 81 percent of those who are 55 and older. Just 34 percent, however, have children younger than 18 living at home. The average number of children is 1.8, with 36 percent of wealthy women the mother of two children, 12 percent with three, and 12 percent with a brood of four or more.

Wealthy Women In The Marketplace

Among the businesses with the most to gain from a sharper female focus are brokers and banks. Women cite their financial situation more frequently—39 percent of the time—than anything else when asked for one area of their lives that they would most like to improve. Credit card companies are apparently meeting this need, with 33 percent of wealthy women saying that credit card providers do the best job of any industry marketing to women. Only hotels (48 percent) ranked higher. Brokers, however, have some ground to cover: just six percent of wealthy women say that brokerages are doing the best job marketing their services to them. Just one in ten mention private banks or commercial banks as being supreme in their marketing to wealthy women; 13 percent mention insurance companies.

Home improvement chains, realtors, and car companies get the message from wealthy women—and in turn they're getting their messages across effectively. Nearly one in four wealthy women say that these industries do a superb job of marketing to women. Marketing by private jet companies (three percent), liquor brands and electronics brands (both eight percent) fails to resonate in large numbers with wealthy women. One idea may be to "go green": 60 percent of wealthy women say that they prefer using a company's products or services if they operate by socially or environmentally sound business practices.

Marriott, Hilton, Visa and Home Depot stand out for their skill in marketing to wealthy women. Each of these companies earned an unaided mention from seven percent of respondents. American Express (five percent) and Remax (four percent) each received frequent mention, as did Cadillac, Capital One, Lowe's and Westin (each with three percent). Honing the proper message for wealthy female consumers starts with understanding their needs and tastes, followed by creating relevant products and services that are delivered with impeccable service—just good fundamentals of business.

Luxury Lust: A Biological Link?

Higher social status has long been known to correlate with better health, but it now appears that even *perceived* changes in status are enough to trigger physiological reactions. Researchers at the National Institute of Mental Health identified specific changes in brain activity in students competing in a computer game for money when told how their performance stacked up against inferior and superior players. Outperforming the better player—even though there was none—activated areas in the brain controlling action planning; underperforming an inferior "player" activated areas associated with emotional pain and frustration. The results of the research in the April 24, 2008, issue of the journal *Neuron* may also provide some physiological basis for the human desire to buy luxury goods and services to elevate or reinforce their social status.

Luxury Automobiles –Brand Status

Porsche races ahead of Lexus and Mercedes to take the top spot for status among luxury nameplates. In a recent Luxury Institute Luxury Brand Status Index (LBSI) survey of luxury automobile brands, wealthy consumers ranked Porsche highest for overall brand status. Respondents cite the German carmaker's "reputation for performance" and call Porsche automobiles "world-class sports cars for the true connoisseur." Those surveyed have an average household income of $349,000 and average net worth of $3.7 million.

Wealth Management – Brand Status

The poor risk management practices on display at many large financial firms over the past year have not gone unnoticed by these same banks' existing and potential wealth management clients. Recognizing that wealth management firms faced a likely crisis of credibility with clients in the wake of the subprime meltdown and the ensuing credit crunch, the Luxury Institute surveyed an elite panel of ultra-wealthy American investors ($751,000 average income, $13.9 million average net worth) to gauge the impact of risk mismanagement on brand status. No large financial firm will emerge from the crisis without some scars, but those that have done a better job than others in managing their exposure can boost their image in the eyes of wealthy clients. Now is the time for firms to assess any damage to their brand reputations and to take action to earn back the damaged trust and confidence of wealthy investors. Here are the Wealth Management LBSI standouts, ranked by wealthy investors and grouped by type of institution:

Private Banks: Northern Trust maintains its reputation and earns the highest LBSI ranking in the private banking category. Goldman Sachs, a firm that actually profited for a time from the mortgage meltdown, earns a number two ranking, and J.P. Morgan Private Bank ranks third. Pleased clients say that Northern Trust is "well-established" and that it has "been focused on wealth management for a long time." In contrast, Bear Stearns, the troubled firm that JP Morgan agreed to buy in March, scored a record low 3.49 out of 10—a clear reflection of Bear Stearns' seemingly reckless financial practices that sent the firm into insolvency and to the brink of bankruptcy before the Federal Reserve's rescue plan that included a fire-sale to JP Morgan.

Commercial Banks: JP Morgan Private Client Services takes top honors for brand status. Ranking behind JP Morgan in second and third places, respectively: Wachovia Wealth Management and Deutsche Bank Private Wealth Management.

Regional Banks: Based in Winston-Salem, N.C., BB&T Wealth Management earns the highest LBSI among regional bank wealth managers. Pittsburgh-based PNC Wealth Management (formerly PNC Advisors) earns second place in the regional bank rankings, and Chicago's LaSalle Bank Wealth Management comes in third. The category overall, has taken a substantial hit in status. In 2007, the average LBSI score for a firm was 6.56, but that slipped nearly a full index point to 5.60.

Accounting Firms – Brand Status

Wealthy consumers rank the PricewaterhouseCoopers brand tops for prestige in the accounting profession. Because high net worth consumers are likely to employ accounting firms for both business and personal affairs, it logically follows that wealthy individuals will have some familiarity with firms in this field. PricewaterhouseCoopers clients call the firm "thorough, professional and capable" with "high quality and integrity." Tied for second place: Deloitte & Touche and Ernst & Young.

Individual Excellence in Luxury Leadership – Financial Services

Charles E. Williamson is president of AIG Private Client Group, a provider of high-end property and liability insurance to wealthy individuals and families. He assumed his current duties in January of 2006, but has been with American International Group, Inc., since 1988, serving in several leadership capacities. He was senior vice president of sales and marketing for the domestic brokerage group, executive vice president of the excess casualty unit of AIG's American Home Assurance Company, and senior vice president of casualty for AIG Risk Management. Williamson is a graduate of Marshall University and holds a J.D. from St. John's University.

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

Charles E. Williamson: Over the years I served in a variety of managerial roles. Despite the different areas of focus, the corporate culture has remained consistent. AIG really embraces ingenuity and ambition, and I've been fortunate to learn from some of the best and brightest in the field. It wasn't until I transitioned to an executive role that I realized how valuable this diversity was. AIG Private Client Group is only in its eighth year of business, but drawing on my prior experience has helped us go from being the new kid on the block to the thought leader in our space.

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

AIG Private Client Group’s business model focuses on the needs of our customers — not on the products we sell. So for us, the concept of "luxury" has remained consistent. What has evolved is our understanding of the end customer. Learning more about them helps us continue to serve them successfully. For example, research has shown that the vast majority of wealthy individuals in the U.S. have become wealthy through career success. The "entrepreneur" has essentially replaced the "heir" as the client. Today’s millionaires, or even billionaires, often retain their middle-class values. In fact, they don't necessarily think of themselves as "rich." That attitudinal shift impacts our overall marketing efforts.

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

It's critical to anticipate the needs of your customers based on their evolving lifestyles. Identifying unaddressed problems—and devising solutions—not only keeps you in a leadership position, but also it can create shifts in the market as a whole. AIG Private Client Group has created quite a few products and services that simply did not exist before we entered the market. For example, we offer a suite of services to help policyholders dramatically reduce the likelihood of property damage due to natural disasters such as wildfires and hurricanes. Our competitors have followed our lead in some instances, but that only helps consumers in the long run.

There is one other factor I'd like to mention. Unlike retail products, insurance is intangible. Superior customer service, therefore, is paramount—particularly at claim time. Our claims professionals get personally involved to ensure that a policyholder's individual preferences are considered every step of the way. Our creativity and hands-on support receives constant praise from our customers, which is extremely gratifying. In addition, AIG Private Client Group can only be accessed through independent insurance brokers. They serve as the "face" of our business, so we only work with a small percentage of the broker community. We want to make sure those who represent us espouse our same values.

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

I have a relentless drive to innovate, and I've tried to impress that upon our staff. As I mentioned earlier, we always need to consider the changing needs of our customers. Equally important, however, is to surround yourself with the best people and to give them the freedom to thrive. We have a great example within AIG Private Client Group. A few years ago, one of our risk managers recognized the efficacy of the fire retardant used by the U.S. Forest Service and thought, "Wouldn't it be great to protect individual homes with that same technology?" His inventive idea led us to create our Wildfire Protection Unit, a complimentary service for our policyholders in high-risk parts of California and Colorado. And incidentally, that risk manager is now the service director.

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

At first, it was challenging to make the transition from commercial insurance to personal insurance. I generally went from serving *Fortune 500* companies to *Forbes 400* individuals, and I needed quickly to understand new issues and opportunities for growth. I was able to overcome the challenge by realizing a common thread: the need to devise customized solutions for powerful buyers. With that in mind, I could navigate a new business by drawing upon everything I'd learned throughout my career.

Luxury Retail Outlook

<u>Retail sales continue to come in weak at the high-end of the market</u>. Retailers overall posted a deceptively decent gain of 3.6 percent in April sales at stores open at least a year, according to the UBS-International Council of Shopping Centers retail sales tally. The timing of Easter, however, makes year-over-year comparisons difficult. Luxury retail continued to take its lumps. Nordstrom, for example, reported a 3.8 percent same-store sales decline.

<u>Retailers can take little comfort in the attitudes the wealthiest 10 percent—11.2 million—of U.S. households</u>. This group—with a minimum net worth of $828,000—has a much more favorable view of the economy 12 months from now than it does of the present situation, but plans for spending are muted. According to the American Affluence Research Center's *Affluent Market Tracking Survey #13*, the index of future business

conditions is 99, and while not optimistic, is almost double the current index reading of 52. Also, there is more optimism than pessimism within this ultra-wealthy group on the outlook for the stock market and for their own income 12 months from now. Optimism, as a rule, rises with income and wealth. Vacation travel, however, is the only luxury spending category projected by AARC to experience growth in the next 12 months, and 55 percent of the ultra-wealthy report making a conscious effort to defer or reduce expenditures. The tendency to cut back recedes predictably as wealth escalates: just one-third of individuals worth $6 million or more are making any efforts to slow down their spending.

Luxury firms are turning to sales outside of the United States and Western Europe to fuel their growth, resulting in a potentially enduring sea change in luxury consumption. Russia, Brazil, India and especially China are becoming important areas for sustained future growth for luxury goods firms, and their value is also apparent more immediately as they take up slack for slumping U.S. and European economies. China, the third largest consumer of luxury goods globally with a 12-percent market share, could jump ahead of the U.S. this year and be second only to Japan in consumption of luxury gods. The latest call for the surge in Chinese luxury sales comes from Wang Depei, vice chairman of the China Economic System Reform Research Association at the First Luxury Brands Forum in Shanghai. Depei forecasts that China will overtake Japan in luxury consumption by 2015.

The Globalization of Talent

As luxury firms expand into new markets and as new firms are created to tap into opportunities around the world, the need to find executive talent to manage the business in multiple countries is often an impediment to expansion. Smart executive search firms understand the need for talent on-demand and they're capitalizing on the boom in global trade. New York-based Martens & Heads! fulfills domestic, global and online needs of image-driven brands in fashion, luxury, and beauty industries. Through representatives in Paris and Hong Kong, the search firm casts a global net for talent to ensure chemistry and cultural fit for executives who bring expertise in strategy, branding and the global marketplace. Visit www.maxinemartens.com for details on their global network of talent.

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