The Wealth Report
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Retail Gets Rocky

The holiday shopping season turns out to be a dismal one for most retailers, but those courting the wealthiest luxury consumers manage to fare slightly better. According to the International Council of Shopping Centers, December sales at stores open at least a year rose just 0.9 percent from December 2006, with two-thirds of the nation's largest retailers falling short of already scaled-back expectations.

The picture is ugliest in the middle of the market. Mass market department store chains Macy's and J.C. Penney posted December same-store sales drops of -7.9 percent and -7.5 percent, respectively. In the luxury arena, Nordstrom posted a year-over-year decline in same-store sales, but at -4.0 percent not as severe as the slip at the mass merchants and slightly better than forecasts of a -4.2 percent drop. Saks, with its sharpened focus on luxury, defied expectations for a -2.5 percent decline, managing to post a 0.8 percent gain. Getting even more exclusive, Neiman Marcus (combined with Bergdorf Goodman) reported comparable sales rising 2.9 percent from December 2006. Generally for retailers, the more exclusive their clientele, the happier was their holiday shopping season, since the truly rich are truly different and do not need to throttle back on spending during down times the way that the merely affluent and borderline rich do.

During boom times, luxury retailers can tap into a widening pool of potential customers and enjoy spectacular sales growth. But these new and often less wealthy customers can leave as quickly as they arrived when the macroeconomic environment turns less hospitable. However, a deep bond with the wealthiest consumers strengthens brands and buffers against economic weakness. Lingering weakness in the housing market, massive asset write-downs at financial firms, and a spike in the December unemployment rate to 5.0 percent all suggest that the economy is softening. Whether the U.S. actually enters a recession is more of an academic question now, as the holiday shopping season shows that the economy has -- at least in the short term -- become much more of a headwind than a tailwind for retailers. The need to maintain or acquire bona fide luxury brand status should take on a new urgency in this environment.

Rules of Customer Engagement

Wealthier consumers will continue to be more resilient in their spending on brands that connect with them on an emotional level for their quality, associated prestige, and outstanding customer service. Particularly during challenging times, luxury firms need to reinforce their message of providing customers with a premium product with flawless service and consistently delivering the luxury "experience." Failure to do so could begin a sometimes irreversible decline in brand image if firms give in to the temptation to try to make up in volume what they lose in the way of price premium and go down-market.

Understanding and delivering what these wealthy consumers expect when they interact with a firm is essential in keeping them. Breaking down the customer experience into four areas (sales; contact and data management; returns and refunds; problem resolution) the Luxury Institute recently surveyed 832 wealthy Americans (average household income $316,000, average net worth $3.1 million), asking their opinions on what matters most in their business dealings with luxury firms, and getting them to name names on who does it right and who needs to improve their customer experience.

Discretion and security with customer data and a consistent experience across all sales channels go a long way toward building trust and loyalty with wealthy consumers. Making refunds and returns speedy and easy is also helpful; so is quickly resolving customer problems to their complete satisfaction. In fact, 91 percent of wealthy consumers say that a positive problem resolution experience will increase their loyalty to the company, and 82 percent say they would be more inclined to recommend the brand to people they care about. Botch the resolution and 90 percent of wealthy consumers would vote with their feet and take their business elsewhere; 84 percent say they would make a point of telling their friends, families, and work colleagues about their lousy experience.

Customer Data Best Practices

Data collection and management practices may seem rather pedestrian considerations for companies selling nuanced concepts like image and experience, but this is where wealthy consumers voice their strongest concerns and where great damage can be done. On a 0-10 scale ("10" = most important, "0" = least important), the wealthy assign an average importance level of 9.12 to companies not sharing customer data with outside parties without the customer's permission. This is even more important (9.36) for women, who also are more demanding (8.93 vs. 8.65 for men) that luxury firms protect all of their information with the best data security.

Wealthy customers do not mind that firms collect their data; in fact, they encourage it if it is used to improve their experience. Ranking high in importance (8.07): companies must clearly tell customers how personal data will be used to improve their experience, regardless of how the information is captured. Equally important (8.07): luxury firms must allow customers to do business via any channel (stores, Internet, telephone) and to receive the same quality of experience through each channel. Consumers earning more than $300,000 annually (7.24), and those younger than 55 (7.09) are especially keen on having luxury firms use their data to customize offers.

So what types of personal data are considered legitimate to collect? Eighty percent of wealthy consumers say that companies should store product and service preferences to provide better service, a preference more pronounced (83 percent) among those with annual incomes less than $200,000 a year. Two-thirds of the wealthy encourage companies to record their purchase history; 73 percent of those who earn more than $300,000 encourage it. More than half (54 percent) of younger wealthy consumers (under 45) want companies to maintain a problem issue and resolution history, an eagerness shared by 47 percent of the wealthy overall. Reaching these consumers may be tough: just 31 percent want companies to collect telephone and address information.

Security concerns help explain why only 15 percent of wealthy consumers want companies to store their credit card numbers. Men are more likely than women not to mind if companies do keep credit card data (18 percent vs. 11 percent); also, 18 percent of those younger than 45, those earning more than $300,000, and those with a net worth of $5 million or more don't mind companies storing their account numbers.

The bottom line for companies is to gather relevant customer data that will help to improve their experience. Collecting these data forms the bedrock of any kind of customer relationship management program, and wealthy consumers are savvy enough to understand that. But betray their trust and sell their name to a list broker, or slip up in data security and do something that leads to identity theft? Your brand will certainly be unforgettable, but for the wrong reasons.

Problem Resolution Best Practices

Almost as important as not sharing personal information without permission is that companies take care of problems fast and free of charge. With an importance rating of 9.21 for women and 8.88 for men, resolving problems without asking the customer to dip back into his pocket is another standout quality for a luxury firm. Quick and easy resolution (9.00) rates almost as highly, and particularly so with women (9.22).

And forget rigid rules. Customers demand individual attention and are not interested in hearing how company policies and procedures get in the way of their satisfaction. Scoring highly for importance in this regard (8.74), wealthy consumers want front line employees to be empowered to make immediate decisions to resolve problems. Regardless of established procedures, the wealthy want solutions that make sense and are mutually beneficial (8.56). It is also important (8.71) that luxury firms fully acknowledge problems. As a true show of penance, it is fairly important that they compensate customers for problems and associated inconveniences, more so with women (8.37) than men (7.70). The importance of compensation tends to be more acute among younger wealthy consumers (8.28) and those with a net worth less than $1 million (8.26).

Problems present luxury firms with opportunities to develop closer relationships with their customers, and thus the human elements of problem resolution should not be overlooked. Wealthy consumers indicate that it is important that they feel special when the problem has been resolved (8.28). A simple apology is extremely important for wealthy women (8.64), a bit less so for men (7.78). Apologies resonate well with younger wealthy consumers who rate it 8.47 for importance.

Nordstrom stands out as a luxury firm that excels at solving problems. In an unaided mention, 34 of 832 respondents name the Seattle-based retailer as the business providing them with the best problem resolution experience in the luxury goods industry. Rolex earns 18 mentions, while Hilton, Neiman Marcus, and Ritz Carlton each receive nine; Coach is mentioned eight times, Lexus seven.

In luxury services, American Express receives top marks for deftly solving problems with 19 mentions. Citibank and its Smith Barney division earn a combined 14 mentions from respondents; Merrill Lynch had its name called 10 times, Bank of America and Fidelity six times each.

Returns and Refunds Best Practices

Related to speedy and free problem resolutions, and just behind it in importance, is a hassle-free return policy. Wealthy consumers say it is important (8.95) that returns be fast, easy and convenient, that products are taken back without question (8.70), and that companies allow product returns via all contact points, regardless of the channel through which the product was originally purchased (8.46). Return policies also need to be easy to understand (8.76) and should offer cash refunds instead of simply store credit (8.29). In each aspect of refunds and returns, wealthy women are consistently more adamant about firms having liberal return policies than men are.

Nordstrom stands head-and-shoulders above its rivals for having customer-friendly return policies. More than 8.1 percent of wealthy respondents (68 out of 832) name Nordstrom as the brand with the best return/refund experience in the luxury goods space. Macy's earns 10 mentions from wealthy consumers for a distant second-place finish, and Costco pulls down seven mentions as a luxury goods seller with great return experiences.

American Express and Bank of America are recognized leaders in refund and return experiences among luxury services providers. Fortunately, most financial firms recognize the benefit (and often necessity) of offering hassle-free refunds to compensate for credit card fraud or identity theft. Chase, Fidelity, and Merrill Lynch also receive multiple citations for handling refunds well.

Returns and refunds are another area where luxury firms have a chance to shine for their customers. Eighty-nine percent of wealthy consumers say that a positive return/refund experience will boost their loyalty to the brand; 83 percent say it will make them more likely to recommend the brand to people they care about. Those 55 and older are especially likely (91 percent) to become more loyal thanks to a good return experience, and they are also more inclined to let their friends know (88 percent).

Draconian return policies do more than turn off customers; they drive them away. A vast majority (91 percent) say that a negative experience returning merchandise will cause them to take their business elsewhere, and 82 percent will share the bad experience with their family and friends. But don't expect all of these customers who could be defecting over a bad return episode to tell a company about their displeasure; most just walk. Only 49 percent will file any kind of formal complaint about a refund incident.

Sales Best Practices

In sales practices, consistency is what counts. Wealthy consumers assign high importance (8.29) to products, services, and policies being consistent *across all sales channels*. For example, they do not want to sacrifice the service or selection of a store when shopping online. This is especially important to women, wealthy baby boomers between 45 and 55, and those with lower income and net worth. Just behind consistency in importance (8.26 rating) is providing a full disclosure of relevant facts so customers can make informed purchase decisions. Product and service customization is less important (7.37), especially among younger wealthy consumers. Knowing customer channel preferences for doing business (7.26) – whether in-person, via phone, over the Web, or through the mail – is another key sales practice that resonates well with wealthy consumers.

<u>Wealthy consumers can do without attempts at up-selling</u>. The least important sales practice, with a 5.94 rating, is suggesting additional luxury goods for purchase based on a customer's preferences. Higher incomes and youth tend to make consumers more amenable to receiving personalized purchase recommendations.

Brand Status - Luxury Spirits

<u>Whether purchased for personal enjoyment or for gifts, wealthy consumers are extremely important for premium liquor brands</u>. Which brands enjoy the highest status? To find out, the Luxury Institute surveyed 1,760 wealthy American consumers with an average household income of $346,000 and average net worth of $3.8 million. Wealthy consumers evaluated brands on the four "pillars" of brand status: consistently superior quality, uniqueness and exclusivity, use by people who are admired and respected, and making the customer feel special during the entire customer experience. They also evaluated whether they would recommend a brand to others, and whether they intend to purchase the brand in the near future. Respondents considered brands from six categories of premium spirits:

-Whiskey, <u>Woodford Reserve</u>: Calling it "classy" and "an uncommon brand with great quality" and "excellent flavor," wealthy consumers rank this 196-year-old distillery from the heart of Kentucky horse country as the most prestigious of 12 whiskey brands evaluated. It earns highest scores for quality, exclusivity, and for the willingness of the wealthy to recommend it to people they care about. Small touches, like individually numbered bottles, help to burnish Woodford's cachet.

-Scotch, <u>The Macallan</u>: Saying it is "possibly the best blended scotch" and praising its smoothness, wealthy sippers give Macallan the highest Luxury Brand Status Index (LBSI) score among 11 premium scotch brands. Its "Fine Oak" series features scotch that has been mellowed in sherry as well as bourbon casks.

-Cognac/Liqueur, <u>Grand Marnier</u>: This 128-year-old famous French brand is a blend of cognacs with essence of orange and other fragrant ingredients. Among the dozen liqueurs considered, Grand Marnier earned the highest LBSI score by sweeping all four pillars and both outcome metrics: purchase intent and willingness to recommend.

-Vodka, <u>Grey Goose</u>: The French wheat-based vodka engineered for American palettes has only been around for a decade, but the brief history is long enough to earn it the highest LBSI score in the vodka category and a repeat of last year's top ranking. Women and individuals worth more than $5 million are especially big Grey Goose fans, which one respondent calls "perfect straight up in a martini or with any mixer." Jewel of Russia finishes high in the rankings, as does Ciroc, a grape based vodka, imported from France and promoted by hip-hop music producer and clothing executive Sean Combs.

-Gin, <u>Bombay Sapphire</u>: Wealthy gin drinkers give Bombay Sapphire a clean sweep of LBSI metrics and outcomes in the gin category. Called "unique and clean," Bombay ranks well ahead of Tanqueray 10 and Boodles, which finished second and third, respectively, among the handful of gin brands considered.

-Tequila, Patrón: Another repeat of an LBSI leader from last year, Patrón dominates the four pillars of luxury again in the tequila category, and wins highest scores for both purchase intent and recommendation. John Paul DeJoria, co-founder of John Paul Mitchell System hair products, formed the company in 1989. Patrón fans call the tequila "the best of the best" and commend its "smooth taste." 1800 Reposado and Herradura rank second and third, respectively, among the 11 tequila brands considered.

Brand Status - Business Publications

The Wall Street Journal, even after the acquisition of Dow Jones by Rupert Murdoch's News Corp., maintains its position atop all other business publications for brand prestige. Wealthy readers appreciate the Journal's great editorial content, financial markets coverage and accuracy of information. The newspaper earns the highest LBSI in the Luxury Institute's business publications category in 2008. Morningstar's suite of publications finishes in second place, while *The Economist* ranks third in brand status among the 19 business titles under consideration.

Brand Status - Business Websites

Thanks to its authoritative and timely information on mutual funds and other investments, Morningstar earns the highest regard from wealthy investors. The Morningstar.com website is ranked number-one for overall LBSI in the business website category. Like business publications, business websites were considered for subject matter expertise, relevance of content, appropriateness of advertising, production quality, and the willingness of a wealthy user to refer the site to friends, family, and colleagues. The online versions of the *Harvard Business Review* and The Wall Street Journal finish second and third, respectively. Wealthy readers considered 27 business sites in all.

Individual Excellence in Luxury Leadership: New Technology & New Media

Sometimes it takes a visionary to help established brands move their message into new media. Dee Salomon is senior vice president of sales and marketing for CondéNet, where she oversees all sales revenue functions for brands including Concierge.com, Epicurious.com, Flip, STYLE.COM and MEN.STYLE.COM. Before CondéNet, Salomon was a marketing and communications executive at Anne Klein, and also worked for six years at Donna Karan International (DKI) where she headed up creative services and advertising. Salomon also has prior experience at Condé Nast Publications, serving as fashion director for House & Garden and Condé Nast Traveler. She graduated from U.C. Berkeley.

Recently Salomon discussed with us some of the insights she's gleaned from her extensive background in luxury publishing and advertising.

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

I have a sales and marketing background in three different fields: banking, fashion and media. My current position working in the digital arena has certainly benefited from all three of these past careers. After six years in investment banking, I moved to Paris to study fashion design while most of my colleagues went to business school.

It was the 1980s. Christian Lacroix had revived the haute couture at Patou and luxury all of a sudden felt relevant but hardly prevalent. It was the beginning of the luxury boom.

After two years at the Ecole Chambre Syndicale de la Haute Couture, I returned to the U.S. humbled by the reality of my talent (my classmates were Lars Nilsson and Herve Pierre, so one understands the level of brilliance that I was up against!) and took a job at *Interview* magazine. It was the most colorful introduction to media and advertising sales imaginable. Both there and later at House and Garden I sold advertising to luxury and fashion companies with the now standard philosophy that a brand's customers can be found in places (in this case, magazines) that are not the most obvious. By pursuing that strategy, a brand stands to benefit in several important ways.

One of my clients who really understood this was Trey Laird and later I joined him at Donna Karan when he started her in-house advertising and marketing agency. Working with a brand that has such strong and appealing brand attributes gave us room to develop new ways of reaching customers, and of "touching the customer" -- Donna's notion of customer retention. We created a quarterly magazine, *Woman to Woman*, which allowed Donna a forum to get closer to her luxury customer. We pioneered forms of media that are now standard; for DKNY, we invented what is now called the "brand train" -- advertising on the entire side of a subway car.

My current role at CondéNet reflects the next chapter in media innovation, the move from push media to pull media, and I therefore feel perfectly positioned in my career trajectory. My commitment has been, and continues to be, innovating new and valuable ways for brands to reach their target markets.

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

The watering down of luxury is of course no longer a phenomenon. It just *is*. At Style.com, we see no disconnect whatsoever between the potential of technology and the highest, rarest forms of luxury. In fact, we are committed to showing haute couture, the most expensive jewelry and watches and one-of-a-kind items, and we do it with sophisticated forms of digital architecture. Marketers need to understand that the Web is only theoretically ubiquitous; in practice it is not, because people will only pursue that which interests them. This is what I mean by "pull" media. Information must be relevant to the individual or she will not seek it out. It spells great advantage for the luxury sector.

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?

High net worth consumers expect online experiences that allow them to access information in a way that has high utility. This can mean simply getting all the details about a product or service from their home or office or it can mean the ability to customize or design product online. They expect these experiences to be representative of the brand, simply another iteration of a product that is consistent with the brand, the corporate id, the store, the shop-in-shop. Our research shows that if the luxury consumer has a good experience online they are more likely to shop at the store, and if they have a good experience at the store they are more likely to shop online.

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 have an open mind toward marketing innovation along with a strong sense of brand heritage. These qualities, plus a willingness to really get to know their customer and the customers they are looking to cultivate, will go a long way in a market that is increasingly fractured, volatile and saturated.

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

I have spent the past four-and-a-half years working with luxury companies effecting change in their marketing approach. It has been very challenging indeed, but Style.com is tremendously successful, as are the other CondéNet websites in their respective markets. I am very excited for the next big challenge, which is the relaunch of Concierge.com. This will cement the concept of Web2.0 in the editorial arena and will be of immense utility for hotels, restaurants, and shopping destinations around the world.

Like Salomon, another prominent advertising and marketing guru has observed the "watering down" of luxury and he advises luxury firms to fight the dilution with "authenticity." Tim Girvin, principal and founder of GIRVIN | Creative Intelligence, with clients like Nordstrom, Gucci, and MGM MIRAGE, believes that luxury branding must be about capturing and articulating real stories, superlative design, and the legacy of heritage. Distinction, he says, grows hazier with lessened differentiation and consumer choice. "Sophisticated explorers of new luxury are less convinced that a mere logo and pretty product pictures are enough," says Girvin. "But what is the truth, the authentic value, the story that makes luxury what it is?" That, he says, is what makes a product or a service truly "luxurious."

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About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings, reviews 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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