The Wealth Report
Leading Edge Insights into the World of the Wealthy
Vol. 104, No. 3

NEW YORK – March 15, 2008

Slowdown Grinds Into Luxury

Recession is all but official as luxury retailers' sales go soft in 2008 along with consumer confidence, jobs, and the housing outlook. Real estate foreclosures are up, prices are down. The U.S. economy lost jobs in both January and February, and GDP limped along at a 0.6 percent annual pace in the fourth quarter of 2007—barely above contraction. But with the Federal Reserve aggressively slashing interest rates and the federal government pumping billions of dollars into the economy via fiscal stimulus, it is possible that we may now be enduring the worst gusts of the economic storm, as fierce as they may be.

Stiff headwinds continue to buffet luxury firms. Neiman Marcus says that comparable sales in February tumbled 7.3 percent from a year ago – the first monthly decline in five years. At Nordstrom, sales at stores open at least a year dropped 5.8 percent. Saks managed a 3.4 percent gain, but warned that sales of high-margin items like handbags are slowing. Meanwhile, discounters like Wal-Mart posted sales higher than forecasts.

The "aspirational" luxury consumer is clearly under some stress, making it imperative for top-tier luxury firms to distinguish themselves by deepening bonds with their core of truly wealthy customers. As we noted in last month's "Guide To Luxury Brand Success In Economic Downturns," luxury executives must decide whether to pursue a mass-market strategy or instead to focus on making their brands more unique and exclusive. The middle ground is no option, since it can be quicksand for brand equity.

The danger of going-mass market now, as always, is that the middle-market is crowded, largely undifferentiated, and extremely price competitive. Elevating luxury brand status requires a rededication to processes that ensure impeccable service and product quality, as well as limiting distribution channels to prevent brand dilution through ubiquity and inconsistent selling environments. As we also mentioned last month, refining and upgrading the online customer experience, especially during a downturn, is a smart investment decision that can pay big dividends in the form of higher sales and a better brand image. Using technology creatively to get closer to the customer is what's needed.

Effective online sales and marketing strategies go beyond the Web's obvious utility as a conduit for presenting products and taking orders from around the globe. As you'll see from new research in this issue, most wealthy consumers view the Web as a place to socialize with friends, sharing information and opinions—not to mention photos and videos. It's also becoming the preferred medium for interacting with luxury brands in areas from apparel to travel and wealth management. In the modern world of Web 2.0 and "viral" marketing, a brand could, in fact, see a better return from posting a popular video on YouTube than it might from running a national print campaign. Also, web-savvy communities of consumers are becoming more influential than "experts" in shaping brand perceptions as they share experiences in blogs, vlogs, podcasts, and MySpace pages. Firms must understand how customers use the Web to serve them best.

The Wealthy And Web 2.0

It's the intersection of the high-net worth with HTML: 60 percent of wealthy Web users belong to a social networking site, more than double last year's 27% rate. More than three-fourths between 21-44 years of age belong to at least one site; 38 percent belong to three or more. Almost 10 percent of the wealthy earning at least $300,000 a year publish their own blogs. These are among the findings from the Luxury Institute's "The Wealthy and Web 2.0" survey of Web users earning at least $150,000 a year. Respondents, with an average income of $287,000 and average net worth of $2.1 million, answered detailed questions on use of community and networking sites; blogs and vlogs (video blogs); photo and video sharing sites; podcasts; RSS feeds, and bookmark sharing.

In general, usage of these Web 2.0 applications rises sharply at higher levels of wealth and income, shattering any notion that wealth and tech skills are somehow mutually exclusive. Predictably, younger wealthy consumers are the most avid users of Web 2.0 services, but adoption rates even among those older than 55 years of age are surprisingly high, having quintupled vs. a year ago. The bottom line for luxury firms is that their customers learn a lot about them on the Web, so it pays to know something about where they go to get their information and to share their stories. The following is what we learned directly from wealthy consumers about how they use Web 2.0.

Social Networking Sites

Maybe it's a case of parents adopting the ways of their offspring, but profile pages are not just for kids anymore as the wealthiest Web users flock to social networking sites. Whether it's YouTube, MySpace, Facebook or other sites geared toward content sharing and user interaction, nearly two-thirds of individuals worth more than $5 million or earning more than $300,000 belong to at least one. Above this income threshold, Web users are members, on average, of 3.4 sites, compared to 2.8 sites, on average, for the wealthy overall. Men are slightly more likely than women (62 percent vs. 57 percent) to be members of at least one site. Even wealthy Web users 55+ are climbing aboard the social networking bandwagon, with nearly half (49 percent) joining one site and the average wealthy senior a member of two sites.

Where do the wealthy do their networking on the Web? Yahoo! is a good start, with 23 percent of the wealthy saying that they are members of Yahoo! Groups. Reconnecting with old high school chums is also popular: 21 percent are members of Classmates.com. And, of course, YouTube is widely visited by the 20 percent of the wealthy who say they are members of the video site now owned by Google. Other sites claiming a decent share of the wealthy as members: MySpace (16 percent), LinkedIn (13 percent), and Facebook (11 percent). Wikipedia (10 percent) and MSN Groups (9 percent) and photo sharing site flickr (6 percent) also stand out from a long tail of sites with a narrower focus.

Just as important as where the wealthy go on the Web is how frequently they visit. The true standout here: Yahoo! 360, with 54 percent of its wealthy members visiting at least daily—though just five percent of wealthy respondents are Yahoo! 360 members. More than one-third (38 percent) of Facebook members visit the site at least daily. MSN Groups, flickr, Yahoo! Groups, MySpace, Wikipedia and YouTube each receive visits at least daily from about 33 percent of their members. Unless they're expecting a response to an important invitation, wealthy members of LinkedIn are not likely to log in compulsively, with only nine percent visiting daily. Classmates.com, with just seven percent of its wealthy members visiting daily, sees action heat up around school reunions. It also shares the top spot with YouTube on the list of sites that wealthy Web users say they plan to join. Other sites with strong membership interest from the wealthy: Facebook, MySpace, MSN Groups, and Wikipedia. These sites will become all the more important for luxury firms to monitor for what is being said about so they can respond in ways that are tasteful and appropriate for the audience.

What are the wealthy doing on social networking sites? With an average of 110 connections or friends online, most (69 percent) have sent email to other site members and many send instant messages (41 percent). Bookmarking pages (55 percent), creating personal profiles (50 percent), and checking out other members' profiles (49 percent) are other common activities. Forty percent of wealthy users of Web 2.0 join a club and upload their own content; 30 percent log on to send and receive comments.

Membership in social networking sites by wealthy consumers follows a predictable pattern of overlap. Based on survey data, members of one site are likely to be members of certain others, too. For example, 72 percent of Wikipedia members are also members of YouTube, as are about two-thirds of the members of both Yahoo! 360 and flickr. MySpace and Facebook may be competitors, but 63 percent of Facebook members also belong to MySpace. MSN Groups also sees a lot of membership overlap with Yahoo!

Sites appeal to the wealthy for their respective strengths. For example, 78 percent of LinkedIn members use that site to maintain professional relationships, and 77 percent of YouTube visitors come there to watch other people's videos. Also, 75 percent of Classmates.com users view the site as the best way to reacquaint with old friends. Thirty-seven percent of MySpace and Facebook members like those sites for finding old friends; 40 percent of Facebook users say it is the ideal site for maintaining personal relationships, while 38 percent of MySpace users say the same about their site. Better than half (56 percent) of flickr users view it as dominant in photo sharing, but 40 percent say that they consider photo-sharing to be the chief benefit of MySpace. For information on hobbies and products, almost half of the wealthy turn to Wikipedia—a site worth watching by luxury firms since users create the content that has come to carry some weight of legitimacy because it is so easily accessible and digestible. Yahoo! and MSN are also strong with hobbyists and members with specific interests.

40% of the wealthy are not fans of social networking. The most commonly cited reason from 82 percent of the non-participant wealthy for not joining a site is that they have other ways to communicate. Almost three-fourths cite reasons of privacy, and 45 percent say it is a lack of familiarity with the sites that has prevented them from joining. Two thirds of wealthy users of Web 2.0 say that they would quit a site if their personal data were given to an outside party without their permission. Converting a free site into a pay site would lose 54 percent of wealthy members; forcing unnecessary data collection could cause 49 percent to flee. Increased advertising, difficult opt-out procedures, and adding too many applications that sap the site's speed would turn off more than one-third of users to the point of quitting.

Blogs & Vlogs

While not yet a mainstream way to get news, the impact of blogs as sources of information – and their value as soapboxes for their authors – cannot be overlooked by luxury firms. Almost one-third (32 percent) of wealthy consumers read a blog or vlog, and 30 percent do so on at least a daily basis. The top categories of blogs read by the wealthy: politics, technology, business, and personal blogs written by friends and family. Travel, cooking, investing, and celebrity blogs are also popular with the wealthy.

The credibility of the blog depends on the blogger. While 80 percent of wealthy readers agree that blogs are effective for communicating different thoughts and ideas and 63 percent say that they are informative and educational, 62 percent say that they read them purely for entertainment. But a good blog can be much better than a biased newspaper or magazine: 33 percent of the wealthy trust blogs more than the mainstream media to provide credible product research and reviews.

Five percent of the wealthy even publish at least one blog of their own. Double that percentage if you're talking about Web users younger than 45 years who earn more than $300,000 a year. Half of the wealthy who write a blog maintain more than one, and two-thirds of wealthy bloggers spend at least one hour a week posting. The most popular sites for blogging by the wealthy are Blogger.com and MySpace. FrontPage, Blogspot, and LiveJournal are also popular blogging tools used by the wealthy.

Web Video

YouTube is the most popular site for video, and comedy and news are the most popular types of content, watched regularly by nearly half of the wealthy on the Web. Overall, 69 percent of the wealthy watch videos on the Web, but viewership is heaviest among younger users: (77 percent of those under 44 years of age, 59 percent of those older than 55). Men are also more likely than women (72 percent vs. 63 percent) to watch videos online. One-third of wealthy Web video watchers say that they go to a site to check out movie trailers, TV show clips, sports, or entertainment news. Fourteen percent are daily viewers at their site of choice, while 38 percent watch weekly or more frequently.

Despite the wide acceptance of watching video, 83 percent of wealthy consumers do not post their own. But the wealthiest of the wealthy seem to enjoy it: 23 percent of individuals earnings more than $300,000 and those with a net worth of more than $5 million say they shoot and post videos regularly—compared to only 12 percent of the wealthy overall. When they do post video, the most likely place to find it is on YouTube, where 54 percent of the wealthy go to upload movies and clips. About 28 percent use either Google Video or Yahoo! Fifteen percent post video to their own personal websites; 14 percent upload to Facebook or MySpace.

Podcasts

Similar to blogs and vlogs, podcasts are becoming an increasingly popular alternative source of news and entertainment for the wealthy. One out of five wealthy consumers say that they download audio and/or video podcasts. The most frequently downloaded type of programming is news (36 percent), followed by education, speeches, and music (28 percent each); and travel, television, and research (20 percent).

A vast majority (88 percent) of wealthy consumers do not pay for their podcasts. However, more than half (52 percent) would be willing to pay for quality content. A perceived lack of quality content is the reason that 37 percent of the wealthy give for not downloading podcasts. Among wealthy fans of podcasting, 41 percent download and listen to content at least once a week. Luxury firms need to be aware of blogs, vlogs, and podcasts that have the potential to reach and influence their wealthy clients.

RSS Feeds

An excellent way for a luxury firm to stay informed about what is being said about it on the Web is to subscribe to real simple syndication (RSS) feeds. About 20 percent of wealthy consumers use RSS feeds to receive syndication of Web-based content in news, business, entertainment, sports and specialized headline searches. Popular ways to receive feeds are directly to personal email (32 percent), My Yahoo! (32 percent), Google (26 percent), and My MSN (22 percent). Use of RSS feeds spikes sharply at the highest levels of wealth and income and drops off from 14 percent to seven percent when going from the middle to the oldest age demographic. Wealthy men are far more likely than women are (14 percent vs. 9 percent) to use RSS feeds.

Social Bookmarking & Tagging

A sophisticated way for sharing information and ideas on the Web is to share bookmarked pages. Sixty-five percent of wealthy Web users have shared their bookmarks, but only nine percent do so "frequently." A small sliver (4 percent) of the wealthy has used "social bookmarking" sites. The most popular of these sites among wealthy users: Del.icio.us (65 percent), Digg (49 percent), and Redditt (29 percent). Ten percent of those earning more than $300,000 and 11 percent with a net worth greater than $5 million are members of social bookmarking sites, compared to just four percent of the overall wealthy population. Social bookmarking is also popular among younger wealthy consumers 21-44 years of age.

Photo Sharing

Storing and sharing photos online has become a killer application of Web 2.0, and one that the wealthy eagerly use. Nearly half of the wealthy (48 percent) are a member of at least one photo site, with the most popular Kodak (15 percent), Snapfish (13 percent), and Shutterfly (8 percent).

Customer Experience Leadership – Luxury Retail

From the Web to the catalog or the salons of its flagship New York store, Bergdorf Goodman manages to provide a seamless and impeccable customer experience across all of its sales channels. In the Luxury Institute's 2008 Luxury Customer Experience Index retail survey, wealthy consumers with average net worth of $3.7 million, and average income of $349,000, rank Bergdorf Goodman the top brand for delivering the best customer experience in luxury retail. Says one devotee of the Neiman Marcus subsidiary: "The selection of products is unique and they provide a great shopping experience in person, over the phone and online," while others praise its "helpful staff, upscale environment and excellent merchandise." Nordstrom and Barneys rank second and third, respectively. Look for these retailers to retain their status as top-flight brands thanks to their consistent execution on all points of customer interaction – from the tangible quality of the products to the politeness of the sales staff and the ease of doing business wherever and whenever a customer chooses.

Customer Experience Leadership – Automobiles

By consistently delivering a superior customer experience—from the showroom to the service department and back again—Lexus turns its clientele of wealthy drivers into its strongest advocates. "I have been completely satisfied with my Lexus, it rides beautifully and we get excellent service," gushes one respondent in the Luxury Institute's 2008 Luxury Customer Experience Index automobile brand survey. Owners of Lexus among 1,600 wealthy consumers, with an average income of $349,000 and average net worth of $3.7 million, say that the Lexus brand delivers a better experience than 10 other high-end nameplates under consideration. Beyond its now well-known product quality, Lexus also gets high regard from wealthy owners as a brand that will "do anything to please its customers." Lexus scored exceptionally well among women younger than 50 who earn between $150,000 and $199,000 a year and have a net worth of at least $1 million. Making it a trifecta for Japanese carmakers, Infiniti and Acura finished second and third, respectively, in the overall rankings for customer experience.

Individual Excellence in Luxury Leadership - Design

Frank Zambrelli is interested in beauty, balance and intelligent design. A frequent globetrotter, he finds inspiration in the people and places that populate his world: What makes a curve in the road feminine? What makes a doorknocker add balance to a building? What makes leather so supple that you want to lie down and wrap yourself in it? What shapes make your pulse quicken? In essence, what makes a woman look and feel beautiful?

As creative director at legendary handbag design house Judith Leiber, Frank folds all of these thoughts and experiences into creating a world in which a woman can feel completely unique and special—in a sense, cherished. Frank's inspired collections create that special bond between a woman and those carefully selected items that surround her and, in some ways, define her: the accessories she'll always simply love.

Zambrelli abandoned his pursuits in medicine and embarked on a career in fashion after a trip to the European shows inspired him. He began his career at Chanel, working with the New York and Paris design and development teams in the cosmetics and fragrance division. Under the tutelage of design mavericks Karl Lagerfeld and Dominique Moncourtois, he developed a passion for well-crafted luxury, and perfect color. He moved on to Cole-Haan, where he held various positions in product design, development and marketing for both the U.S. and international divisions. Later, Lew Frankfort recruited Zambrelli to come to Coach, where he found great success creating and *launching their footwear collection. He has since designed and developed collections ranging from industrial oriented, technical performance product to runway accessories for Ralph Lauren. In 2004, Zambrelli joined Leiber. A native of the North Shore of Long Island and a graduate of the Fashion Institute of Technology, Zambrelli currently resides in New York City.*

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

It's perhaps more accurate to say it's "devolved" during the course of the last 15 years, but that's exactly what is redefining the now myriad new strata of luxury. With no intention of oversimplifying what's been a complex path, information kept pace with affluence in the burgeoning economies of the past 10 to 15 years. New and varied levels of wealth created opportunities for those already entrenched in service to the luxury consumer, and provided previously unheard of opportunities for new brands and consumers alike.

We now market instantly and constantly through multiple media, old and newly fashioned. We arrived at a point where luxury was nearly ubiquitous, which of course calls for the very notion of luxury to be redefined. That's what I love about this business beyond the creative process. People like me, and brands like Leiber, create desire though the products we design. As the original luxury consumer looks to differentiate herself from the new "pack" of luxury consumers, the strata begin to appear, and one is forced upwards (not without much pain, I'll admit) to create new levels and to redefine authenticity in a now crowded market. The Leiber customer and others looking for the new concept of luxury want a more rarified, "authentically luxurious" experience, and not an "it" bag, something she'll see carried by 10 other women at the same luncheon, regardless of it's price. Said another way, Bentley has Mercedes Benz and BMW to thank for the growth of its business.

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?

There are a number of factors, but I'll focus on three.

Number One: Make clear your raison d'être. If you're not razor sure of why you should be invited to the party (and all that it implies) she will lack the same confidence. Design is, in it's very nature, a fickle thing. Design within luxury actually allows for room to play, but clarity is the calling card of successful brands.

Number Two: Whatever your level of accepted craft, maintain it. The consumer is a bit resistant to letting you alter, even to go upward, but they'll abandon you if you go down. That's not to say one can't build a profitable business model by designing and crafting a different level of product, but it will be a new and different customer.

Number Three: She has an enormous expectation of service—which I believe is reasonable considering the price of true luxury goods in today's market—and many options for receiving it. If your brand is sizzling hot for a moment, you can get away with temporary compromise. If want to be around for 45 years, as Leiber has, you had better understand how your customer lives, and how you can, beyond just your product, facilitate and entertain.

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

The most successful executives have come to understand that luxury is more like a language than mathematics. Yes, there are margins to be calculated, and formulas that can be applied, but to truly succeed, it's necessary to become fluent. One needs to learn the nuances that come from knowing, from truly understanding the consumer and how different the buying decisions are to knowing that the intangibles can swamp the ROI of a marketing decision. These are the colloquialisms of luxury that come easily to some, and never arrive for others, like any foreigner in any country who still has trouble communicating in the native tongue 10 years after arriving. There are no "widgets" in this business, at least not at this level. Competence in your particular skill may land you good work. Competence and fluency will help make you the boss.

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

How shall I describe this without creating an international tirade or coming off defiantly ethnocentric? The challenge (and I'd say I'm still mid-course in this one) is changing minds about America and Americans as a source of luxury, not just a cache of consumers. I don't even mean that from a manufacturing standpoint, but more from a branding and talent base. There is a built-in global paradigm (and we're just as guilty of it here) that America is the land that invented sportswear (which is probably true), and as such is generally not a standard font of luxury.

Now I'm the first to say that casual and luxurious are not mutually exclusive (Claire McCardell and Marc Jacobs are two stunningly successful examples), but there is a dearth of American luxury brands, especially those playing a large role in the global fashion and related industries. Of course they exist, but if I ask a luxury consumer to name eight or ten globally recognized, Italian names that are inarguably luxury brands, it would take them as many seconds to do so. Now try that with American firms, even outside of fashion. Walk down Avenue Montaigne and Via della Spiga and there is naturally a proliferation of French and Italian houses. However, walk down Madison, Rodeo and Michigan, and you'll see the same French and Italian brands.

There are both cultural glass ceilings to break through, and our own, self-deprecating sensibilities as consumers to shake. We have the right, the provenance and the resources to play successfully in the luxury arena. In design, credibility comes with talent, precedent and success, as in any occupation, and I've been fortunate to have several opportunities to break through, personally. But as America does, we have some work to do. That's yet another facet that makes Leiber so appealingly unique. After 45 years of doing something so meticulously well, it has earned an inarguable place in the pantheon of iconic American luxury brands, but also on the world stage, and it still continues to reinvent itself to a new generation who prefer something just as rare.

Private Jets By The Seat

The gap in price between first-class commercial fares and private jet service is getting even narrower. Gary Mansour, a 30-year veteran of the luxury travel industry, has launched Beverly Hills, Calif., based Avion Private Jet Club, offering access to private jets on a per-seat basis. For a $20,000 individual membership fee, you can hop a flight on a Gulfstream or Challenger aircraft from New York to Los Angeles for $7,200 one-way. That per-seat price is not dependent on the number of passengers reserved on each flight. Complimentary private town car service and in-flight cuisine from Wolfgang Puck are among the passenger perks. For details and information on upcoming destinations visit www.flyavion.com.

Affinity-Based Fractional Clubs

A smart new experiential club is catering to like-minded wealthy consumers who share similar interests and sensibilities—and making them *owners*. Everlands, a global club focused on an appreciation for conservation and the outdoor sporting life, with properties from Alaska to Europe, and even New Zealand. Members pay a fee and annual dues in exchange for use of all properties and, importantly, a pro-rata equity stake in the membership corporation, including all real property, furnishings, art work, boats, equipment, horses and livestock. Everlands says that its members share "a love of people and family, and a passion for nature defined by a desire to protect and preserve it." Everlands plans to grow ultimately to 45 properties, all of them unique, many historic, like The Point, the former Rockefeller estate in the Adirondack Mountains. Everlands curates properties as if they were art pieces to ensure that members can indulge passions for "vineyarding," hiking, antiquing, sailing, shopping, fishing, and more. Visit www.everlandslife.com for more details on properties and membership.

LUXURY INSTITUTE LLC

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.

Secondary Sources:

"Jobs: A Frosty February Points to Recession," BusinessWeek.com, March 7, 2008
"Saks, Neiman Profits Up, But February Sales Soften," Reuters, March 5, 2008