

GENERATIONS OF LUXURY

A CONSUMER INSIGHT STUDY OF THE 40 AND UNDER AND OVER 40
YEAR OLD LUXURY CONSUMERS

Chapter 1: Study Overview

Research Objectives

This objective of this study is to examine the emerging 40 year old and under luxury consumer — called the young affluents — who will make up the primary market for luxury goods and services marketers in the coming years. As the Baby Boomer generation ages — in 2007 they will range between 43 and 61 years old — their pursuit of a luxury lifestyle will diminish as other considerations take priority. The fact is consumer spending habits change dramatically at 65 years of age, the typical age associated with retirement. While it is not expected that Baby Boomers en masse will follow this pattern, it is likely that previous levels of extravagant luxury spending will drop as they mature, making today's younger luxury consumers the primary target market for luxury marketers in the future.

This study is intended to help luxury marketers understand the distinctive differences and notable similarities of the young affluents as compared with the more mature luxury consumers.

Today's affluent market is dominated by different generations at different life stages

This study examines two different luxury consumer segments defined by age:

- The young affluents, the 40 and under luxury consumers who represent the one sample in this study, correspond generally to members of the GenXer and Millennial generations, born from 1965 and after. These younger luxury consumer generations who make up about 25 percent of

today's affluent market are in the family-formation and young children at home life stage.

- The over 40 luxury consumers are largely members of the Baby Boomer generation, born from 1946 to 1964, or Swing generation, born before 1945. The over 40 year old consumer segment makes up over half of the affluent market. These consumers are approaching or already in their empty-nesting life stage.

Throughout this study the consumer segments of affluence have been strictly defined by age, that is those who are 40 years and under and those over 40 years. While these age ranges generally correspond to the generational segments above, this study examines affluent consumers based upon age and not upon identification with a particular generation.

A generational shift in the luxury market is coming

The coming generational shift will be as profound as the shift seen in the 1990's when the Baby Boomers became the 'New Luxury' generation

Out of the nation's 114.4 million households, approximately 32.5 million are considered affluent. Some 19.7 million households have incomes at the \$100,000 and above range, while 12.7 million fall into the near-affluent segment with incomes of \$75,000 to \$99,999. Based upon the distribution of household income by age, just under 30 percent of the affluent households or 8.7 million are headed by a person 40 years of age and under, while 73 percent of the affluent households are headed by a person over 40 years of age, according to estimates derived from the 2005 Census.

Generations of Luxury Report

<i>Ages of Affluence (2005 Census)</i>	<i>Number of Households</i>	<i>40 and under</i>	<i>Over 40</i>
\$75,000-\$99,999	12,734	3,903	8,830
\$100,000 to \$149,999	12,132	3,100	9,032
\$150,000 to \$199,999	4,031	891	3,136
\$200,000 to \$249,999	1,529	338	1,190
\$250,000 and above	2,023	447	1,583
Total	32,449	8,679	23,771
Percent of Total		27%	73%

Table HINC-06. Income Distribution to \$250,000 or More for Households: Census 2005

Figure 1: Ages of Affluence

Baby Boomers and older consumers represent three-fourths of today’s luxury market

GenXer and Millennial generation consumers account for about only one-fourth (27 percent) of the luxury market. But their influence in the luxury market will grow in the years ahead as the Baby Boomers move into retirement.

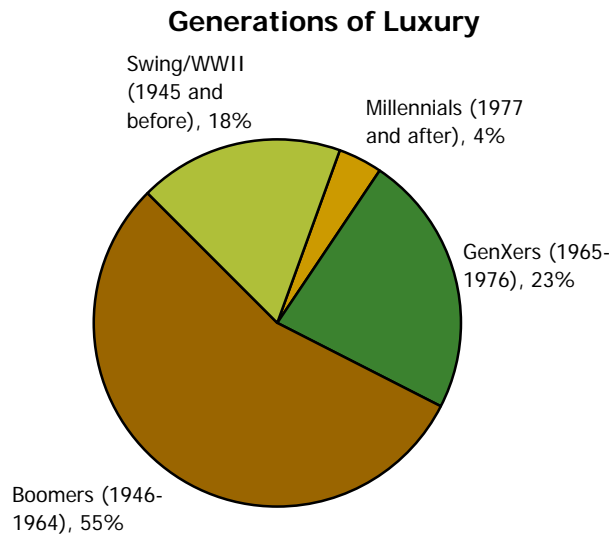


Figure 2: Generations of Luxury

In 2010 the leading edge of the Boomer generation will start to retire

The last generation shift that occurred in the luxury market happened in the 90s as the Baby Boomers reached middle-age. This shift brought about the ‘New Luxury’ Boom

when their rising incomes allowed them to indulge in luxury purchases. However in 2010 the Boomers will begin to reach retirement age and the GenXers will be progressing through middle age, from 33 to 45 years old. As a result, Boomers will become a less important target for luxury marketers when they retire and their spending slows. Affluent consumers of the younger generations, including Millennials who will be entering their late 20s and early 30s, will grow in importance to luxury marketers as the Boomers' influence declines.

Key question for the study: What do the 40 and under luxury consumers want and how does it differ from the over 40 crowd?

Given their different life stages, these two age groups demonstrate different luxury shopping behavior, with the 40 year old and under affluent households led primarily by GenXer or Millennial generation consumers spending more money on average buying luxuries than the typical over 40 year old Baby Boomers.

To prepare for the future, luxury marketers must understand the unique desires of the 40 year old and under luxury consumers, how they express luxury in their lifestyles today and how they will do so into the future. Understanding the younger luxury consumers is critical for marketers to target their marketing communications, advertising and product development efforts effectively now and into the future.

This study by Unity Marketing represents an intensive investigation of the mindset and consumer psychology of these two distinctive age segments of luxury consumers. The research included both qualitative and quantitative research methodologies.

Luxury Marketers need insight to help them see ‘Over the Horizon’

The changes that will come as the younger generation matures and grows in affluence will have profound impacts on luxury marketers. They need to understand and plan for a future that will change as their target market shifts.

Luxury marketers need to learn how to sell more to younger consumers

Baby Boomers will still be an important segment of the luxury market through 2020

While the first of the Baby Boomer generation reaches retirement age in 2010, they are a big generation. They will continue to be a major segment of the affluent luxury market through 2020. As they age, however, their spending will change and they will continue to buy fewer and fewer luxuries.

Luxury marketers must bridge the generation gap to reach the GenXers and Millennials

From now through 2020 luxury marketers must increasingly turn their attention to serving a younger generation of luxury consumers. Younger consumers have different desires and preferences in the luxuries that they buy and different ways of spending their luxury budgets. This study provides insight to help luxury marketers plan for the inevitable future of their businesses – The Young Affluents.

Qualitative Research Methodology

The qualitative portion of this research study included a total of six focus groups conducted among super-affluent home-owning luxury consumers (i.e. household incomes of \$150,000 and above who owned homes with an estimated value of \$500,000 and above):

- Two groups among 40 year old and younger affluent women;
- Two groups among 40 year old and younger affluent men; and

- Two groups among over 40 year old affluent women to provide points of comparison.

Focus groups were conducted in November 2006 in Bethesda, MD (suburb of Washington, DC); Westchester, NY (suburb of New York City); and downtown Chicago, IL. Focus group respondents were also screened for active recent purchases of multiple categories of luxury goods and services; high levels of luxury spending (average of \$10,000 in the past year); and attitudes that make them predisposed to enjoying a luxury lifestyle.

Topics Discussed in Focus Groups

Among the topics discussed in the focus groups were how the respondents perceive luxury — what luxury means to them and how important it is in their lives as consumers. Specifically questions were addressed to respondents about:

What luxury means to them and how they interpret luxury for their lifestyles?

How important these specific values are to respondents when purchasing luxury, such as exclusivity, status, prestige, quality, uniqueness, value, brand recognition and awareness?

To what extent do specific influences impact them in purchasing luxury goods and services, including influences such as television advertising, magazine advertising, internet advertising or websites, brand name, celebrity endorsers or users, media coverage, peers, friends, family? For example, does it make one want to buy a luxury if a celebrity that one admires favors that brand?

When and how often they indulge in luxury in their lifestyles as opposed to buying the ordinary brand or service?

With so many marketers at all ranges of the pricing scale, from Target to Barney's New York targeting the 'luxury market,' has luxury lost its meaning to consumers? If luxury doesn't mean what it once did, what has replaced it?

What gives the respondents their greatest luxury satisfaction and happiness — luxuries they buy for their home; personal luxuries they buy for themselves, like fashion, jewelry and watches, cosmetics; luxuries they use such as appliances, electronics and automobiles; or luxuries they experience, such as travel, dining, spa and beauty services?

For each category of luxury above — home, personal, utilitarian, experiential — what makes one product or service more luxurious than another?

About the luxuries in their lives, what kinds of satisfactions do they derive from the luxuries that they own, including one's home; collections; hobbies; 'toys' like boats, cars, motorcycles, etc.; at home spas, pools; and other lifestyle luxuries?

Quantitative Research Methodology

Unity Marketing's exclusive Luxury Tracking study for the 2005 and 2006 years provided quantitative data about the age segments in the luxury consumer market. Every quarter Unity Marketing surveys between 1,000 and 1,200 luxury consumers (household incomes of 75,000 and above with the average income for all respondents in the 2006 sales year falling just under \$150,000) about their luxury purchases — what type of luxuries they bought in the study period; how much they spent; where they made their luxury purchases and the luxury brands which they purchased.

Average Income Survey Samples

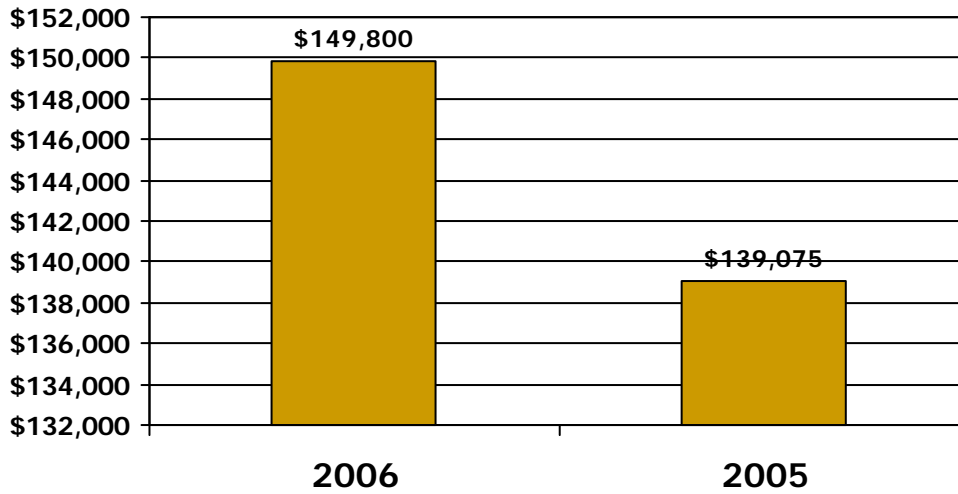


Figure 3: Average Income Luxury Survey Samples

In addition to luxury purchasing information, each of the quarterly tracking studies also includes questions about specific aspects of the respondent's luxury lifestyles. For example, the 3Q2006 study included detailed questions about luxury consumers' holiday gifting plans and the 2Q2005 study included a series of questions about the luxury consumers' luxury homes.

For purposes of this report, the results of the luxury tracking studies over the course of the past two years have been analyzed by age segment (i.e. 40 year old and under and over 40 year old luxury consumers).

Income of the Survey Sample

In 2005 a total of 4,182 luxury consumers (incomes of \$75,000 and above who made one or more luxury purchases during the survey period) were surveyed. In 2006 the total luxury consumer survey sample was 4,322 individuals.

Average income of the 2006 survey sample reached \$149,800, up from an average of \$139,075 in 2005. The distribution of the survey sample by income segment is shown in the chart below. In 2006 some 40 percent of the survey sample had a household income in the super-affluent range (\$150,000 and above), as compared with 30 percent in 2005.

The sample of near-affluent or trading-up consumers (household income \$75,000-\$99,999) was restricted to 20 percent of the total sample in 2006.

<i>Income Distribution</i>	<i>2006</i>	<i>2005</i>
\$75,000-\$99,999	20%	25%
\$100,000-\$149,999	41%	45%
\$150,000-\$199,999	23%	19%
\$200,000-\$249,999	9%	5%
\$250,000+	8%	6%

Figure 4: Income Distribution Survey Samples

Younger consumers come from more prosperous family backgrounds

While the younger and older luxury consumers have similar household income levels, the younger consumers tend to come from more prosperous backgrounds which may account for a greater propensity to indulge in a luxury lifestyle. Some 37 percent of 40 and under luxury consumers said their family of origin was upper-middle income, as compared to only 28 percent of the over 40 year olds. These over 40 consumers were more likely to be from middle-income (39 percent) or lower middle-income families (23 percent, as compared with 15 percent of 40 and under affluents).

<i>Financial Status of Family of Origin</i>	<i>Total</i>	<i>40 and Under</i>	<i>Over 40</i>
Upper Income/Affluent	6%	5%	6%
Upper Middle-Income	31%	37%	28%
Middle-Income	38%	38%	39%
Lower Middle-Income	20%	15%	23%
Low Income	4%	4%	4%
<i>Source: Luxury Tracking 2Q2004</i>			

Figure 5: Financial Status of Family of Origin

The way the generations were raised may account for some of the differences found in luxury consumer spending. Younger consumers, having come from more affluent family backgrounds, may expect more luxury in their lives and so devote a greater share of their budgets to the pursuit of a luxury lifestyle. Older luxury consumers, on the other

hand, are more likely to have ‘boot-strapped’ their way to luxury and so view luxury more as a treat than something they expect everyday.

Younger consumers come from more affluent backgrounds and so may expect more

Age distribution of survey sample

The average age of luxury consumers surveyed in 2006 was 43 years; roughly the same as the average age of 42.9 years in 2005. The survey sample is slightly skewed toward an older consumer, with just under 60 percent of the 2006 sample (58 percent) being a member of the Baby Boomer (born 1946 to 1964) or WWII/Swing (born 1945 or before) generations. As mentioned previously the GenXer and Millennial generations roughly align with the 40 year old and under segmentation in this study, while the Boomer and WWII/Swing generations align with the over 40 consumers. However there is some overlap since in 2006 the leading edge of the GenX generation was 41 years of age and the trailing edge of the Boomer generation was 42 years.

<i>Distribution by Age & Generation</i>	<i>2006</i>	<i>2005</i>
24-34 years	23%	26%
35-44	31%	29%
45-54	28%	26%
55-70	18%	18%
Millennial Generation (born 1977 or after)	8%	7%
GenXer (1965-1976)	36%	38%
Boomer (1946-1964)	50%	47%
WWII/Swing (1945 or before)	8%	8%

Figure 6: Distribution of Age & Generations

Income by age

In the 2006 survey year, the 40 and under luxury consumers had a slightly higher income than the over 40 year olds, \$152,575 which is 3.5 percent more than the over 40

year old's average income of \$147,425. In the 2005 survey year, the incomes of the two age groups were virtually identical, just above \$139,000.

Despite the small variation in income found between the age segments in 2006, these differences are minor and likely to have little impact on the subsequent findings in the report that follows.

<i>Income by Age</i>	<i>2006</i>	<i>2005</i>
40 and under	\$152,575	\$139,225
Over 40	\$147,425	\$139,450

Figure 7: Income by Age

Gender of survey sample

In 2006 there was a slightly higher male participation in the luxury survey than found in 2005. In 2005 one-third of the sample was male; in 2006 men represented 38 percent of the survey sample.

There was virtually no difference in male to female ratios based upon age. Both the 40 and under and over 40 segments had an equal share of men and women participating.

Marital status of survey sample

Over 80 percent of luxury consumer respondents in both survey years were married. However, the married percentage is slightly less among the young affluents, 78 percent in 2006, as compared with 85 percent for the over 40 year olds. Conversely the 40 and under consumers are more likely to be single as compared with the over 40 year olds. In 2006 some 11 percent of the luxury consumers 40 and under were single, as compared with only 3 percent of the over 40 year olds. Marital status for both age segments is detailed in the table below.

<i>Marital Status</i>	<i>2006</i>	<i>2005</i>
Single 40 and Under	11%	8%
Single Over 40	3%	4%
Married 40 and Under	78%	80%
Married Over 40	85%	85%

Figure 8: Marital Status by Age

Number of people living in the household

The typical luxury consumer household in both 2005 and 2006 had 3.2 people. The same number of people on average live in both the young affluent households as the over 40 in both years.

Home ownership

While home ownership, rental and condo ownership rates are virtually identical in 2005 and 2006 for the overall survey, young affluents have a higher incidence of rental and condo ownership in both years. The over 40 consumers have a higher incidence of home ownership, defined as ownership of a free-standing single family home, in both study years. Home ownership rates are shown in the table below.

<i>Home Ownership</i>	<i>2006</i>	<i>2005</i>
Rent 40 and Under	10%	10%
Rent Over 40	4%	5%
Condo 40 and Under	10%	6%
Condo Over 40	7%	7%
Home Owner 40 and Under	79%	82%
Home Owner Over 40	89%	87%

Figure 9: Home Ownership by Age

Where they live

In 2006 the majority of luxury consumers (63 percent) live in the suburbs of a major city, with 20 percent living in a small city/town and its environs, 9 percent living in the downtown of a major city and 9 percent living in a rural area. However, the 40 and under luxury consumers are more likely to live downtown in a major city (10 percent as compared with 8 percent of over 40 year olds) and in the suburbs of a major city (65 percent vs. 61 percent).

Older luxury consumers are more likely to live in a small city/town (22 percent as compared with 18 percent among 40 and under consumers) or in rural/country areas (10 percent vs. 7 percent).

Ethnic diversity

Young affluents are more ethnically diverse than the over 40 year old segment. In 2006 some 91 percent of the over 40 year olds surveyed were White/Caucasian, 7 percent Asian/Pacific Islander, 6 percent Spanish/Hispanic/Latino and 4 percent Black/African-American. (Does not add up to 100% due to multiple selections.). The ethnic distribution for over 40 year olds was virtually the same in 2005.

By contrast, 82 percent of the young affluents defined themselves as White/Caucasian, 10 percent Asian/Pacific Islander, 6 percent Spanish/Hispanic/Latino and 4 percent Black/African American. These percentages of ethnic identity for the 40 and under segment were mirrored in the 2005 survey year as well.