

## Some 35 million Households Rank among the Nation's Top 25 percent

Who are the luxury consumers and how do we define it? Is the luxury market just the top 2 percent of households by income, or the top 5 percent or 10 percent of income? Or is it defined by wealth, say \$1 million in investible assets? Or is the luxury market defined by purchase behavior (i.e., the luxury consumers buy a luxury product; therefore they are part of the luxury market)? And if you take the behavioral approach, that leads to a whole other set of questions. What is a luxury product? Is it defined by a brand? Is it defined by price? Or is it something else entirely?

In 2006, the latest year statistics are available from the U.S. Census Bureau, the average household income in the United States was \$66,570, up from about \$59,000 in 2003. If \$66,570 is the middle, then any income above that is a candidate to be considered part of the luxury market. But a family of four making \$100,000 and living in the suburbs of New York City hardly qualifies as a member of the luxury class, whereas a single woman making the same income and living in Des Moines, Iowa, may well be a card-carrying member of the luxury market.

<i>Households by Income in thousands</i>	2004	SOM	2005	SOM	% Chg	2006	SOM	% Chg
\$24,999 or under	31,995	28.3%	30,872	27.0%	-3.5%	29,306	25.3%	-5.1%
\$25,000 to \$49,999	30,211	26.7%	30,034	26.3%	-0.6%	30,279	26.1%	0.8%
\$50,000 to \$74,999	20,698	18.3%	21,031	18.4%	1.6%	21,150	18.2%	0.6%
\$75,000 to \$99,999 (near-affluent)	12,428	11.0%	12,734	11.1%	2.5%	13,124	11.3%	3.1%
\$100,000 to \$149,999 (affluent)	11,194	9.9%	12,132	10.6%	8.4%	13,385	11.5%	10.3%
\$150,000 to \$199,999 (super-affluent)	3,595	3.2%	4,031	3.5%	12.1%	4,751	4.1%	17.9%
\$200,000 to \$249,999 (super-affluent)	1,325	1.2%	1,529	1.3%	15.4%	1,776	1.5%	16.2%
\$250,000 and above (super-affluent & rich)	1,699	1.5%	2,023	1.8%	19.1%	2,240	1.9%	10.7%
<b>Total</b>	<b>113,145</b>		<b>114,386</b>		<b>1.10%</b>	<b>116,011</b>		<b>1.4%</b>

• *Figure 2: Number of Households by Income, 2004 -2006*

The simple fact is the definition of what qualifies a household as part of the 'luxury market' is completely subjective. Likewise, while Cartier jewelers and Bailey Banks & Biddle both target the luxury consumer market, each of these companies defines its segment of the luxury market

very differently. Cartier goes after the \$200,000 and above income tier of the luxury market, while Bailey Banks & Biddle with its 69 locations nationwide defines its target market as mall shoppers with more moderate, though still affluent incomes.

For purposes of this market research study, we utilize both objective and subjective criteria to define the constituents of the luxury market included in this study. Objectively, using the U.S. Census as our guide, we define the affluent households as those that fall into the top 25 percent of households based upon income, roughly households with incomes of \$75,000 and above.

(Note: The number of households with incomes of \$75,000 income households actually totals 35.3 million and so actually represent the top 30 percent of total U.S. households).

### Fastest Growing Affluent Households

In 2006 the number of affluent households grew 8.7 percent, rising from 32.5 million to 35.3 million. Within the affluent segments, households with incomes between \$150,000-\$199,999 grew the fastest overall, up 17.9 percent from 2005 levels, and those \$200,000-\$249,999 rose at the second fastest rate or 16.2 percent. From 2004 to 2005 households with incomes of \$200,000 and above were the fastest growing.

Unity Marketing further subdivides the affluent market into four segments:

<i>Affluent Households by Income in thousands</i>	2004	SOM	2005	SOM	% Chg	2006	SOM	% Chg
\$75,000 to \$99,999 (near-affluent)	12,428	41.1%	12,734	39.2%	2.5%	13,124	37.2%	3.1%
\$100,000 to \$149,999 (affluent)	11,194	37.0%	12,132	37.4%	8.4%	13,385	37.9%	10.3%
\$150,000 to \$199,999 (super-affluent)	3,595	11.9%	4,031	12.4%	12.1%	4,751	13.5%	<u>17.9%</u>
\$200,000 to \$249,999 (super-affluent)	1,325	4.4%	1,529	4.7%	<u>15.4%</u>	1,776	5.0%	<u>16.2%</u>
\$250,000 and above (super-affluent & rich)	1,699	5.6%	2,023	6.2%	<u>19.1%</u>	2,240	6.3%	10.7%
<b>Total</b>	30,241	100%	32,449	100%	7.3%	35,276	100%	8.7%

• Figure 3: Total number of affluent households

A more precise segmentation is based upon these broad parameters:

- **Trading Up or Near-affluents** — Households at the lowest income (HHI from \$75,000 to \$99,999) are an important segment for the future of the luxury market, as these trading up consumers are likely to see their incomes rise in the coming years. Also this segment will reach up to buy luxury in specific product and experiential categories. Based upon the 2006 census, a total of 13.1 million

households fall in this range. This segment represents 37 percent of the total affluent market. The total number of households in this segment grew only 3.1 percent from 2005 to 2006.

- **Affluents** — Affluents are those households with incomes of \$100,000 to \$149,999, or 13.4 million households representing 38 percent of the total affluent market. The average income of all households in the top 30 percent of U.S. households falls into this income range. This segment grew by 10.3 percent from 2005 to 2006.
- **Super-affluents** — Households with incomes from \$150,000 to \$249,999 are defined as ‘super-affluent.’ These households represent 18.5 percent of luxury households totaling 6.5 million family units. In 2006 this was the fastest growing segment in the entire population, rising 17.4 percent over the 5.5 million households classified as super-affluent in 2006.
- **Rich** — The top tier of the income range is the 2.2 million households that have incomes of \$250,000 or more. This segment represents less than 2 percent of total U.S. households. In 2006 the number of households at this range grew 10.7 percent, significantly slower than the 19.1 percent that this segment grew in 2005. (Note: In Unity's luxury surveys the number of respondents at the \$250,000 and above range represent too small a segment to measure independently; therefore, in this report, this segment is analyzed and reported with the super-affluent segment from \$150,000 to \$249,999.)

But a second totally subjective criterion was also used to qualify people in this survey. All of the survey respondents included in this report for the survey years of 2005 through 2007 reported that they had purchased at least one ‘luxury’ home product, personal luxury product and/or an experiential luxury in the past year. What the respondent determined as a ‘luxury’ version of the above was strictly up to the individual. For example, the average price paid by these luxury consumers (i.e., incomes of \$75,000 and above) for a luxury automobile (i.e., luxury consumers who purchased a car they consider a luxury in the past year) was \$42,551 in 2007. One could argue that a particular car model priced under \$50,000 or \$60,000 or whatever number is

suggested is not really a "luxury" car. But that would hardly be productive. What is critically important is that the consumer perceives his or her purchase of a \$43,000 car as a luxury.

As Michael Silverstein and Neil Fiske argue in their book, *Trading Up: The New American Luxury*, today's consumers will 'trade up' to buy the luxuries that really matter to them, while shopping at Wal-Mart or Target for just about everything else. The decision to go luxury is strictly a personal one and consumers continually make trade offs between the ordinary and extraordinary depending upon their mood, feeling, value system or 'just because.'