

Chapter

**1****Overview Luxury Market Study****Who Was Studied & Research Methodology****Overview Luxury Industry**

For 2004 and 2005 the leading companies marketing luxury goods and services have experienced a dynamic growth environment. The average rate of growth among the leading luxury goods and services marketers was 13.2 percent from 2004 to 2005, following 14.5 percent average growth from 2003 to 2004 (See Figure 4.)

Prospects for continued growth in sales by luxury marketers are expected to be strong through 2010. A recent study by The Conference Board called “Road to Affluence” predicted: “The growing number of affluent, graying of the population and the increase in empty-nesting households combine to produce a favorable outlook for the luxury, travel, entertainment, household furnishings and housing industries.”

**New Luxury Market Paradigm — From Things to Experiences**

The growth in the luxury market has greatly expanded the availability of luxury goods to a wider audience of consumers. Luxury goods have also become more affordable to a wider range of consumers than ever before, as personal incomes rise and luxury marketers offer up less luxurious product lines at more reasonable prices. Where once you had to travel to Paris, London, New York’s 5<sup>th</sup> Avenue or Rodeo Drive to shop the luxury leaders’ stores, today you can find the same luxury brands in malls across the country. And if you can’t find what you want at the local mall, you can go online and find an incredibly wide selection of the top luxury brands to shop to have delivered to your door.

Thus luxury ‘class’ today is going more ‘mass,’ as more and more people of moderate means reach up for their personal luxury indulgence. Luxury is no longer confined to just the rich — in America today, everyone feels entitled to luxury. Our escalating lifestyles mean that

what used to be luxury is now necessity. Further, consumers' personal values are predisposed to luxury indulgence due to the emergence of a younger, more affluent luxury consumer. The baby boom generation luxury consumer has a passion for self-indulgence while maintaining an iconoclastic world view, which is transforming the luxury market from its 'old' conspicuous consumption model to a totally new, individualistic type of luxury consumer one driven by new needs and desires for experiences.

### **Baby boomers are the new luxury generation**

The paradigm shift in the luxury market from the old conspicuous consumption model to a new experiential luxury sensibility is marked by a change in the way consumers define luxury. 'Old luxury' was about the attributes, qualities and features of the product and much of its appeal was derived from status and prestige. 'New luxury' defines the category from the point-of-view of the consumer. Today's new luxury consumers focus on the experience of luxury embodied in the goods and services they buy, not in ownership or possession itself. So 'new luxury' is about the experience of luxury from the consumers' perspective, while 'old luxury' remains focused on the traditional status and prestige ideal of luxury.

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What has brought about this paradigm shift toward the experience in luxury marketing? In a word, the baby boom generation, comprised of 76 million Americans born in the post-war boom years from 1946 to 1964. This generation has transformed consumer markets at every generational life stage through which they have progressed. From the counter-culture hippies in the '60s to the career-driven yuppies in the '80s to today's luxury generation, the baby boomers with their tradition-bending value system now express luxury by rejecting the traditional status symbols of wealth, while fully embracing the power and privileges that their tremendous affluence and spending ability give them. They want to experience the good life and all that goes along with it, but they simply do not care if anybody else notices. Rejecting status and prestige, today's new luxury consumer embraces a democratic ideal of luxury that it's for everybody and different for everybody.

Today luxury marketers face a new market reality. The cachet of their brands, the allure of their image and the temptation for consumers to spend far more than anyone should on a luxury item has passed. Today's luxury consumers are demanding more value along with their luxury. These consumers who can readily afford to pay full price are hesitant to do so as they actively shop for bargains and luxuries at a discount. Luxury marketers today must get serious about the science of marketing. And the knowledge and understanding of the consumers which this report provides is the first step toward building marketing strategies and tactics that work to get luxury consumers to buy.

But understanding the psychology and mind set of today's luxury consumers is of keen importance to all marketers and retailers, not just those that are specifically targeting the rich. The luxury market's impact on the national consumer market is not only the depth of their pockets and their contribution to the consumer economy. It's that the affluent, luxury consumer is a bellwether of trends coming to the mass market. The natural evolution of all luxury concepts is from the classes to the masses. In other words, all luxury concepts after first being introduced at the affluent level inevitably are translated down into the mass market. So today everyone is a member of the 'jet set,' while back in the '60s that term described only the most elite who had the means to fly. This luxury evolution is happening faster and faster today owing to the rapid adoption of technology and the explosion of mass media, particularly the internet. And that ultimately means that luxury marketers have to move faster and faster to stay out in front of the great mass market bell curve.

## **Research Objectives**

This research attempts to study the luxury market in even greater depth to understand why consumers buy luxury, what they believe luxury is and how their emotions and feelings related to luxury impact their buying behavior. This is the fourth year Unity Marketing has published the Luxury Report. For the 2002 and 2003 annual studies a single quantitative survey was conducted among 1,000 luxury consumers (incomes of \$75,000 and above who purchased luxury). However, for the 2004 and 2005 years Unity Marketing has conducted a quarterly Luxury Tracking study which provides detail purchase and spending data among 1,000+ luxury consumers on a quarterly basis. Thus the research data from the 2004 and 2005 calendar years included in this report provide significantly more detailed data about luxury consumers' spending because the surveys were conducted more frequently among a much larger population.

This report summarizes key findings and luxury spending and purchase incidence derived from Unity Marketing's Luxury Tracking study fielded quarterly during the 2004 and 2005 sales years. Unity Marketing's premier survey of the luxury market was conducted in 2002 in association with *House & Garden* magazine, followed by Unity's continued annual study of the luxury market in 2003 and quarterly tracking for 2004 and 2005. By understanding the "why" that drives luxury purchases, luxury marketers will gain new understandings about how to build their brands, pinpoint the emotional needs of their target market and sell more products. Today as the consumers' approach to buying luxury goods has changed, it is critically important for luxury marketers to understand the new, emerging dynamic of the luxury market.

Specific objectives of this research study:

- **Luxury buying behavior:** To conduct a national survey of affluent consumers to discover what luxuries they buy, including luxury home products bought specifically for the home; personal luxuries, such as automobiles, apparel and jewelry; and experiential luxuries, or luxury services that provide experiential pleasures. To track changes in luxury purchases from year to year.
- **Spending on luxury:** To benchmark their spending on luxuries (e.g., luxury home, personal luxuries and experiential luxuries) and track changes over time.
- **Demographics of the luxury market:** To determine the primary demographics of the luxury households, what types of luxuries they buy, how much they spend, where they shop for luxuries and key demographic segments within the luxury market (e.g., HHI, size, composition, ethnicity/race, education, etc.)
- **Luxury market psychographics (e.g., why people buy luxuries):** To understand the influences on their luxury purchasing, what they look for in luxuries they buy, and how they shop for luxuries. To understand how the luxury consumers' attitudes about luxury impact their purchases and spending on luxuries. To discover why they buy luxuries and the key motivators and drivers for luxury consumption.
- **Actionable marketing recommendations:** To put insights, understandings and discoveries about the luxury market to work in actionable marketing recommendations and insights for luxury marketers.

- **Trends in luxury:** To identify the key trends that are transforming the luxury market now and into the future.

## Research Methodology

Unity Marketing's research methodology for this luxury study entails two different types of research with different methodologies. First is a qualitative research phase, conducted using focus groups, that helps to develop hypotheses and concepts about the luxury market. These hypotheses are then tested and validated in the second phase of the research project encompassing quantitative research. Three consecutive years of quantitative consumer survey research among luxury consumers has been conducted for this study, described below.

### Phase 1: Qualitative Focus Groups

A total of 7 focus groups were held in four major markets (Philadelphia, Chicago, Atlanta and New York City Metro) in the second and third quarters of 2002. Respondents were recruited based upon subscribing to one of the leading home/shelter magazines; income levels of \$100,000 or higher; and housing values that reflected the top 20 percent of the local housing market.

After the first two groups were conducted in Philadelphia with the recruitment of a male/female gender mix, the focus group screening criteria were tightened and only women were recruited for future focus groups. Based upon the dynamics of the groups, we felt female-only groups would be more relaxed and open in discussions about luxury. We also believed that women represent a significant direct purchaser or influencer in luxury purchases.

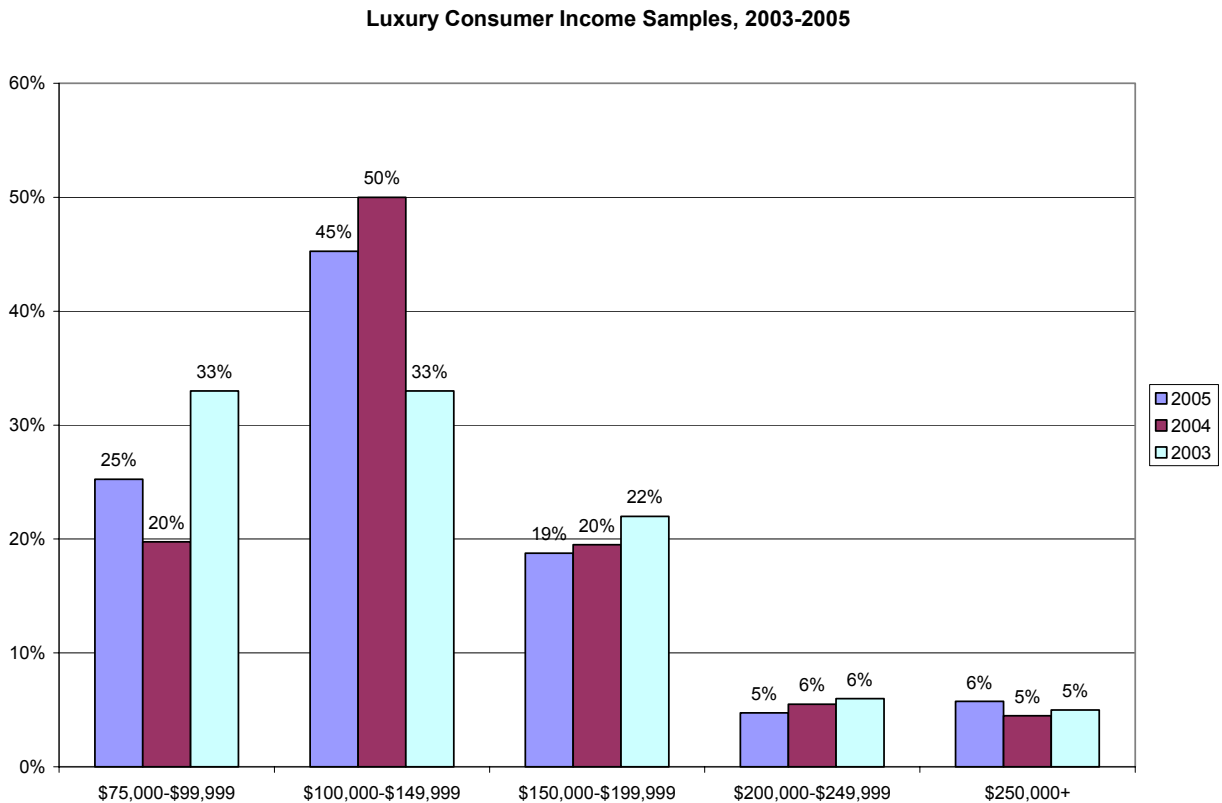
### Phase 2: Quantitative Online Survey Research

**2005 Survey:** Four surveys of luxury consumers, ranging from 600 to 700 luxury consumers for 1Q2005 to 1,100 to 1,300 luxury consumers for 2Q through 4Q2005, were conducted quarterly through 2005 with the results published in the Unity Marketing Luxury Tracking Report. The quarterly luxury tracking surveys were conducted online using a panel of high income respondents (\$75,000 and above household incomes) which roughly equates with the top 25 percent of U.S. households based upon income.

**2004 Survey:** Four surveys of luxury consumers, ranging from 600 to 900 luxury respondents in each survey wave, were conducted quarterly throughout 2004 with the results published in Unity

Marketing's Luxury Tracking study ([www.unitymarketingonline.com/reports2/luxury/luxury3.html](http://www.unitymarketingonline.com/reports2/luxury/luxury3.html)). The quarterly luxury tracking surveys were conducted online using a panel of high income respondents (\$75,000 and above household incomes). The survey results of a representative sample of 600 luxury respondents from the firm's quarterly Luxury Tracking reporting were combined to provide a comparative annual sample for this year end 2004 report.

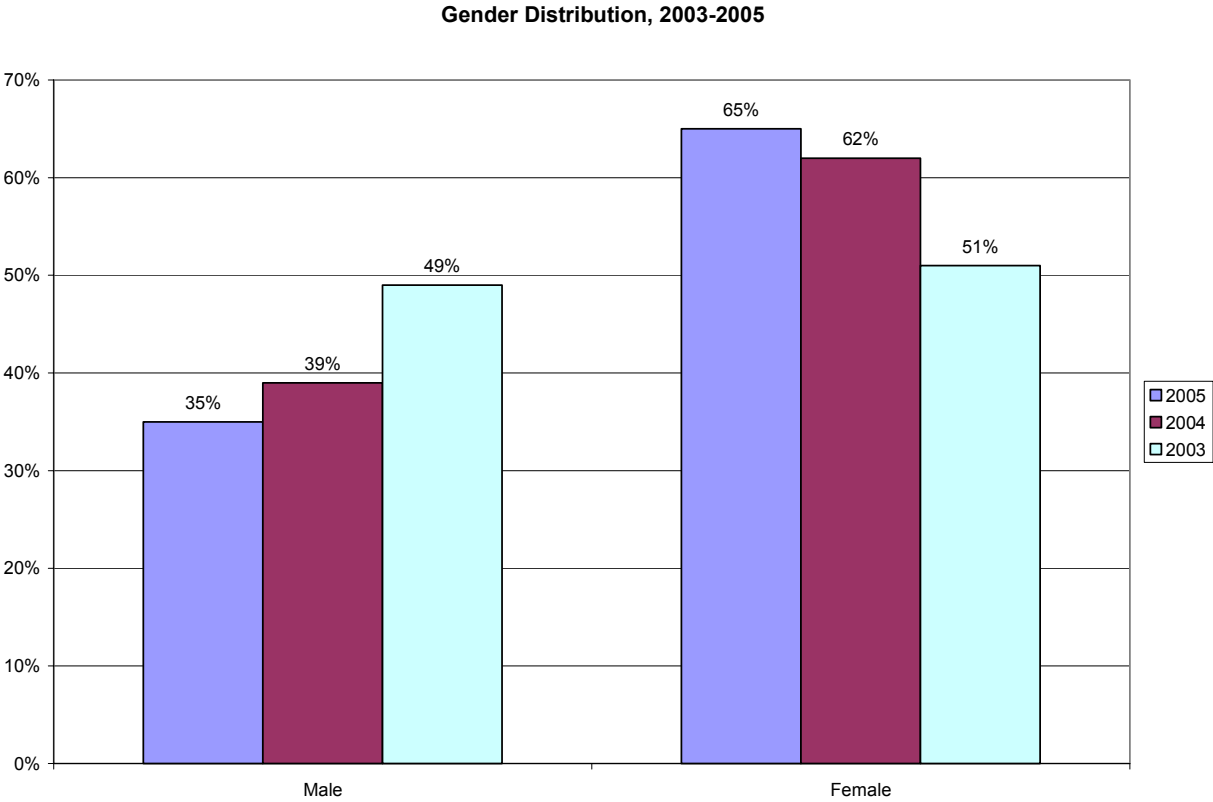
**Income Distribution**



• Figure 1: Luxury Consumers' Income Samples 2003-2005

The average income of the 2005 sample was \$139,075, approximately 2.3 percent higher than the average income of \$136,000 in the 2004 sample. In 2005 the percentage of the sample representing near-affluents (\$75,000-\$99,999) was 25 percent; affluents (\$100,000-\$149,999), 45 percent; and super-affluents (\$150,000+), 30 percent. This represents a fairly even distribution across all affluent income levels.

**Gender Distribution**

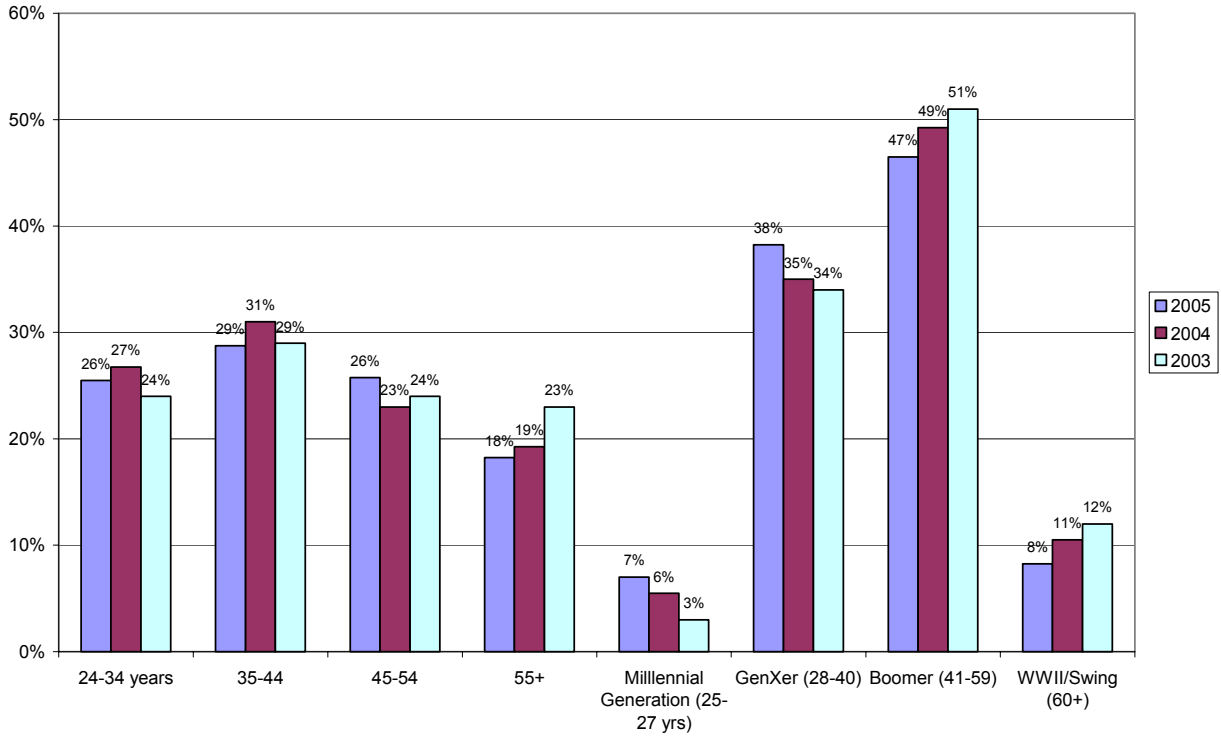


• *Figure 2: Gender distribution, 2003-2005 survey samples*

In 2005 women represented 65 percent of the total luxury survey sample, as compared with 35 percent being men. This gender distribution is roughly the same as found in 2004. The 2003 sample, however, was more evenly split by gender, with 51 percent female and 49 percent male.

**Age Distribution**

**Age & Generations Distribution, 2003-2005**



• *Figure 3: Age distribution, 2003-2005 luxury survey samples*

The average age of the survey respondents in 2005 was 42.9 years, virtually the same as the average age in the 2004 sample (43 years). Members of the baby boomer generation represented the largest share of respondents in 2005, or 47 percent, which is about the same as the 49 percent of boomers in the 2004 sample. GenXers represented 38 percent of the sample, up slightly from the 35 percent in 2004.

In addition to luxury purchase and spending data, each luxury tracking survey wave included additional questions on topics of special interest to luxury marketers, such as influence of brands on purchases, gifting of luxuries and whether luxuries were bought on sale or at a discount. Where appropriate the results of those areas of investigation are also presented in the report that follows, and source the quarterly wave in which the research was conducted.

**2002 and 2003 Comparative Luxury Surveys:** Hypotheses resulting from the original focus groups were tested in a quantitative telephone survey conducted August 2002 among a total of 866 home-

owning households. This original survey fielding in 2002 has been the foundation for all subsequent luxury surveys, with modifications and additions since that time. The 2002 survey was conducted via telephone. This survey was conducted in association with *House & Garden* magazine. The following sampling strategy was used:

- Higher income households with incomes more than \$50k but less than \$100k, total of 239 respondents. (Note: While upper middle-income consumers (\$50,000 to \$74,999) were included as a comparative sample in the 2002 survey, these consumers were not surveyed in either 2003 or 2004 years.); and
- Affluent, high income households with incomes of \$100k or more, total of 627 respondents.

By comparison the 2003 survey was conducted online using the same electronic polling firm which provides research support for Unity Marketing's Luxury Tracking study. There were no corporate sponsors for the 2003 annual survey. The 2003 survey instrument was designed to record the most volatile luxury consumer data, such as purchase incidence and total spending, and to provide comparative links with survey results in 2002. While the 2003 survey was not as extensive as the previous year, we did expand on questions about places where luxury consumers shopped for products and the role of branding in purchase of each luxury product. We asked about luxury consumer purchase incidence and total spending within 13 different categories of products defined in the same way, but arranged in two major categories: luxury home and personal luxuries. We combined recreational vehicles with automobiles due to low purchase incidence.

Rather than query about luxury services, we defined these purchases as 'experiential luxuries.' In this section we also eliminated party planning services due to low incidence and slightly rephrased the term describing luxury entertainment and dining experiences. Some attitude questions used in the 2003 survey were also slightly rephrased.

Besides differences in survey methodology, the 2003 sample consisted of only 443 respondents with incomes of \$75,000 and above. The average income of the 2003 and 2002 samples was comparable, both years being \$152,000. The average age of respondents in the 2003 survey was 44 years, about the same as in 2002.

An important difference in the 2002 and 2003 survey sample is that in 2003 there was a significantly higher participation of male respondents, 50 percent as compared with 32 percent in 2002. In some instances the greater participation of men in the survey sample may impact overall findings which will be noted in the survey report that follows. Note: The 2004 survey gender distribution reflects roughly a 60 female/40 male split in percentages.