The Wealth Report

Leading Edge Insights into the World of the Wealthy

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Luxury Retail: Things Can Only Get Better

The recession bites into holiday spending as luxury retailers continue to post shriveling sales versus one year ago. Comparable sales at luxury retailers fell by 17.4 on average in December, according to the International Council of Shopping Centers, with Neiman Marcus reporting an eye-grabbing 27.5 percent decline and Saks posting a 19.8 percent drop compared to December 2007. Nordstrom's same-store sales fell by 10.6 percent. Despite the dismal results, Nordstrom shares have more than doubled off of panic lows in November and Saks is up nearly 80 percent. The optimism may be well founded.

The good news is that the news has been so bad. Stocks reflect the market's view of business conditions six to nine months into the future, and by the second half of 2009, luxury retailers will be dealing with far gentler year-over-year sales comparisons. Also, the heavy discounting that hurts current sales will begin to help, as stores clear out aging inventory and restock with full-priced fare. Store traffic trends are already beginning to stabilize according to the TNS Retail Forward ShopperScape survey, with the percentage of respondents shopping at upscale department stores in December holding steady from November. To be sure, providers of luxury goods and services are dependent on the overall economy to fuel top-line growth, and it is still unclear whether the worst of the real estate and credit crisis is behind us.

How Can Luxury Brands Weather Severe Economic Storms?

It is often helpful to look to best-of-breed brands in the luxury sector to examine how they weathered economic storms across their storied histories. One new book that offers luxury executives and entrepreneurs especially helpful guidance during these challenging times is *The New Gold Standard: Five Leadership Principles for Creating a Legendary Customer Experience Courtesy Of The Ritz-Carlton Hotel Company*, by Joseph A. Michelli. Joseph has kindly written a brief summary of the book exclusively for the Luxury Institute as inspiration and education for luxury executives during these trying times.

Every legend starts with a great heritage. While the Ritz-Carlton history has roots in European aristocracy, much of the story begins after Cesar Ritz's death in 1918, when his wife Marie permitted use of the Ritz name on acceptable properties in Europe and the

United States. Through the years, The Ritz-Carlton defined the American luxury hotel experience by providing uniformly clad wait staff, private baths in all guest rooms, and small lobbies for a personal guest greeting place. Following the New York Stock Market crash in 1929, American and European hotels carrying the Ritz-Carlton name faced financial collapse and closure. In fact, with the exception of The Ritz-Carlton, Boston, all Ritz-Carlton hotels in the United States were closed. The market's difficulties derailed the well-crafted strategy that had brought the Ritz-Carlton the loyalty of the world's wealthiest and most influential clientele. As the company's traditional customer base experienced a great loss of wealth, the leadership at the hotels had difficulty filling the sumptuous dining halls and elegantly appointed suites. Even hotels that survived through much of the crisis were facing challenges to operate, much less maintain, the standards of luxury that guests had come to expect from the Ritz-Carlton. Developer Albert Keller went to great lengths to keep the Boston hotel open. In one instance, he tried to mask the low occupancy at his hotel by turning on lights in unoccupied rooms prior to a visit from his wealthy father. Keller hoped that this would enable him to successfully convince his father to loan him the money he needed to keep the hotel operational. The economic challenges of the Ritz-Carlton brand and other hotels in the luxury category continued throughout World War II, as occupancy rates remained low in the face of global uncertainty. In fact, during the War, a number of these hotels' large meeting spaces in Europe and the U.S. were taken over for military planning and staging.

So what are the defining principles that led to the success of the Ritz-Carlton post World War II? What principles guide the modern day Ritz-Carlton hotel company through the current economic challenges? How are they relevant to other providers of luxury goods and services?

<u>Trim the sails</u>. It's been said, "We can't direct the wind, but we can adjust the sails." In this difficult economy, it is challenging for luxury providers to gauge the swirling winds let alone trim their strategic sails. While cost-cutting measures may be inevitable, many leaders reflexively carve into the core elements of the guest experience. It is clear that luxury brand leadership can avoid becoming commoditized in this cost-sensitive market, if leaders maintain a commitment to cost efficient quality improvement coupled with an understanding of the role service professionalism and staff empowerment plays in the development of guest loyalty. Ed Staros, a founder of the modern-day Ritz-Carlton hotel company, noted that during difficult economic times in the 1980s many hotel chains were cutting back on flower arrangements in the lobby and not placing mouthwash in guest rooms. Ed shared, "We always believed that economic challenges didn't mean that people didn't need or want mouthwash. It meant we had to raise the standard in a quality efficient way." So how do business leaders decide when to pull back products or service versus expanding them, particularly when business begins to slow?

To address this issue, Joseph Michelli has defined five key principles that contributed to the success of The Ritz-Carlton brand during economic upturns and downturns since its initial creation by Cesar Ritz. A synopsis of these five principles is offered for you to benchmark your leadership approach against concepts that are in play at The Ritz-Carlton today.

<u>1-Define and refine</u>: Simon Cooper, President of The Ritz-Carlton Hotel Company notes, "You can't put the veneer of quality on a business that lacks a sound foundation. The Gold Standards, and the disciplined business practices that emerge from them, create the platform for the achievements of our company." The Gold Standards referred to by Mr. Cooper are found on a pocket-sized card carried as part of the uniform of Ritz- Carlton employees. The standards reflect the service values, credo, motto and three steps of service each employee uses as guidelines for the care they are to provide one another and guests. These values are reinforced worldwide for every employee in a process called daily "line-up." Not only does leadership at The Ritz-Carlton *define* their culture, but they *refine* their products and service delivery methods in accord with their customer's changing needs. This is evidenced by modernized hotel designs and a shift in service delivery from more formal to more personal.

<u>2-Empower through trust</u>: Leadership at The Ritz-Carlton creates an environment of trust that begins with a methodical selection process to assess the talents of prospective employees. Once selected, leadership trains new hires not only in operational aspects of their jobs but in the desired outcomes they want their employees to produce for customers. Once a new hire understands those outcomes (e.g., memorable guest experiences and customer engagement), leadership steps back and allows the frontline to innovate. This stepping back process is evidenced in the $2,000 per day, per guest authority given to every staff member. This financial empowerment allows staff to do whatever is necessary to enhance a guest's stay or recover service without seeking the approval of a supervisor.

<u>3-It's not about you</u>: Since the early 1990s, executives at The Ritz-Carlton looked outside their business to drive internal process innovation. Ritz-Carlton leadership not only benchmarked other businesses, but they invested heavily in systematic listening to their staff, customers and investors. Extensive data from these sources and metrics of guest and staff engagement are used to guide business strategy. Leadership understands that the more they listen to the needs of those they serve, the more likely their staff will be to listen to the needs of the guests.

<u>4-Deliver "Wow"</u>: Ritz-Carlton leadership defines the desired memorable connection of a guest as a "Wow" experience. As such, staff members are encouraged to personally affect guests to achieve this level of emotional intensity. Twice weekly, "Wow stories" are presented during the line-up process. These stories reflect Herculean efforts (a significant number of hotel staff volunteering to create a prom experience for a teenage girl who was diagnosed with end-stage cancer) and more subtle yet equally important small acts of care and concern (a car valet who notices an empty Lime Ice flavored Gatorade in the cup holder when a guest arrives and purchases a cold one that he places in the cup holder upon the guest's departure). At The Ritz-Carlton this "Wow" service is used to demonstrate that well-defined values come alive through the collective efforts of staff each and every day. Leaders celebrate and cement culture by the stories they tell and retell.

<u>5-Leave a lasting footprint</u>: From the onset, leadership at The Ritz-Carlton sought to build a company that would have an enduring legacy. To that end, corporate social

responsibility was a component of The Ritz-Carlton's early mission statements. In addition to formal corporate giving programs, The Ritz-Carlton developed the Leadership Center, which provides training programs in quality focus and service excellence to individuals from businesses both large and small.

While no one can be protected against the strong headwinds of this economy, consistent application of key leadership principles has led to legendary customer service and memorable and transformational experiences at the Ritz-Carlton. In the process, they have established The New Gold Standard of business excellence.

The Wealthy & Mobile Devices

Safety and staying connected to family members are the biggest reasons why wealthy consumers buy cell phones and other mobile gadgets. They've also learned to love lots of the features and convenience of their BlackBerry, iPhone or other 3G wireless devices. The Luxury Institute surveyed wealthy individuals from households with average income of $332,000 and average net worth of $3.3 million to find out what drives their choice of handset and wireless provider, and to gauge their attitudes toward Internet usage, phone features and advertising effectiveness.

Nearly half of the wealthy confess to dependence on their wireless companions. Forty percent of wealthy men, and 56 percent of women, say that their cell phone or mobile device is the one personal gadget they could not give up. Only 37 percent of the wealthy 55 and older feel as fervent about their phones. More than two-thirds of women, the wealthy younger than 45, and those with incomes greater than $300,000, say they "enjoy being connected and accessible at all times."

Overall, 78 percent of the wealthy say they own a "cell phone" but just 26 percent own a smart phone or PDA. The propensity to possess a more sophisticated device increases with youth and skews in favor of men over women, 30 percent vs. 22 percent. Wealthy consumers under 45 years of age are much more likely than those older than 55 to own a smart phone (33 percent vs. 21 percent). Three-quarters of these younger consumers say that they rely on these devices to help maintain personal relationships and to improve time management by permitting them to get things done on the go. Eighty percent carry a smart phone to be more accessible to family, but work also plays a big role: Nearly half of younger men earning at least $300,000 a year, and those with a net worth of $5 million or more, are required to stay connected to work at all times. Younger and wealthier users tend to be much more enthusiastic about the features and benefits of smart phones and, importantly for service providers, they are the groups most likely to upgrade to new hardware that meets their needs, even if their old contract has yet to expire.

Almost 40 percent of the wealthy prefer having just one device to handle all of their mobile needs. Ninety-three percent of wealthy consumers already own some type of mobile device, including 46 percent who currently own a GPS device, 43 percent who own an MP3 player, and 14 percent (24 percent of the under-45 group) with handheld video game devices. Combine this with heavy Internet usage—an average of 10 hours per week at home and 9.2 hours at work—and wealthy consumers may be persuaded to consolidate their mobile gadgets and jump on the smart phone—or iPhone—bandwagon.

Despite its late entry into the smart phone fray, Apple's iPhone is gaining traction with men, younger consumers and those at the highest levels of income and wealth. Just four percent of users with a net worth less than $1 million own an iPhone, but adoption rises to 21 percent among those worth at least $5 million. Similarly, younger wealthy consumers are significantly more likely than those 55 and older (13 percent vs. 5 percent) to own an iPhone, and men are almost twice as likely as women (11 percent vs. 6 percent) to carry one. iPhone owners are also nearly twice as likely as users of other smart phones to use their devices for purely personal reasons (32 percent vs. 17 percent). On the flipside, users of iPhone competitors are three times as likely to employ their devices solely for business purposes (21 percent vs. 7 percent). Interestingly, however, 60 percent from both camps use their devices for a mix of professional and personal reasons.

Research in Motion's BlackBerry is still the dominant brand in smart phones with a market share of 43 percent, followed by Palm (22 percent) and Treo (17 percent). More than half (52 percent) of the wealthy say that they usually wait for all of the bugs in a new gadget to be discovered before buying it, so it would not be surprising to see increased adoption of the iPhone, now in its second iteration. Among wealthy wireless users, Motorola still dominates in cell phones with a 32 percent market share, trailed distantly by LG (17 percent), Samsung (14 percent), and Nokia (11 percent).

The wealthy choose one brand of handset over another based primarily on quality, functionality, and customer service, all cited as very important considerations by more than 80 percent of those surveyed. Price is a secondary concern, mentioned by two-thirds of respondents and slightly more important among women and the young. Style is a consideration for half of the wealthy when shopping for a handset. Forty-two percent of wealthy wireless users base purchase decisions on recommendations from friends, reviews by customers, and third-party reviews. Another important factor for 48 percent of the wealthy are terms of the product warranty or replacement plan. About one in three decide what to buy based strictly on brand name. Women and those with the highest income and wealth pay particular attention to the warranty and brand, while "uniqueness" is very important to 35 percent of the young but to just 15 percent for those 55 and older.

As far as specific features, e-mail, Internet access and a camera are predictable must-haves, cited by 40 percent of the wealthy, but the feature deemed most important by half of all wealthy wireless shoppers is Bluetooth connectivity. Bluetooth simplifies synching devices with home computers and enables hands-free use. Wealthy consumers under 45 and those from the highest levels of income and net worth are especially avid about Bluetooth, with 60 percent citing it as a must-have feature. Younger and wealthier consumers tend to be more insistent about several smart phone features, including instant messaging, viewing and recording video, playing music, and the availability of ringtones, screensavers and games.

With regard to wireless service plans, 70 percent of wealthy users are most emphatic about having an unlimited calling plan; 60 percent demand free or reduced rate minutes for calls made in-network or between family members. Slightly more than 40 percent demand an unlimited data or text-messaging plan; one in three pay close attention to the carrier's device upgrade plan. Younger and wealthier consumers demand the most from wireless carriers in areas such as picture and video services and the ability to roam internationally.

As wealthy consumers consume more content via wireless devices, advertisers are finding smart ways to connect with wealthy users—and to compel action. Five percent of the wealthy report making a purchase as a result of seeing an advertisement on a mobile device; 11 percent visited an advertiser's website to get more information thanks to a mobile ad. Nineteen percent report that wireless advertising prompted them to take at least some kind of action, like visiting a bricks-and-mortar store (7 percent) or forwarding the ad to a friend (6 percent). In spite of the apparent efficacy of mobile ads, wealthy consumers view them negatively. Advertising embedded in games and 30-second "pre-roll" commercials that play before Web videos are the worst offenders, with 85 percent of the wealthy calling both genres "not at all appealing." Banner ads have little or no appeal for 80 percent of the wealthy, and 78 percent say that text message ads are equally unappealing. The tendency to view all forms of mobile advertising as distasteful increases with age and is especially pronounced among wealthy consumers with a net worth between $1 million and $5 million.

The widespread adoption of smart phones represents new opportunities for luxury firms. Beyond advertising, this is a time to make sure that Web sites are optimized for viewing on mobile devices and finding unobtrusive ways to stay in close touch with customers and to communicate with them whenever and wherever they desire.

To purchase the Luxury Institute’s *WealthSurvey: The Wealthy and Mobile Devices-Ownership and Attitudes-2009* visit the Market Research section of the Luxury Institute's ONLINE STORE at www.LuxuryInstitute.com. Members of LuxuryBoard.com have free access to the data via the Resource Center; to join visit www.LuxuryBoard.com for details.

A Timeless Culture of Pride in Pearls

Like the Ritz-Carlton, one of the world's leading producers of pearls is managing to burnish a storied reputation through constant rededication to excellence. Jewels of Ocean is a world leader in the design and craftsmanship of fine jewelry, and its founders and heirs have worked tirelessly to deliver uncompromising excellence for more than a century, beginning as a supplier of pearls and precious colored stones more than a century ago and quickly becoming the leading distributor throughout Europe. The company had direct relationships with mines in Colombia, Thailand, Burma, Ceylon and South Africa, and established its own prestigious line, designed and built by master jewelers working with rare diamonds, rubies, sapphires and emeralds to create timeless collections that never go out of style.

At Jewels of Ocean, the original designer of the pieces is always involved with the entire process, ensuring that the original idea survives. This is how each piece speaks the same language as that of the artist who contributed to its creation. The time taken to create a piece is devoted not only to design but to the technical work of forging approximately 300 connections between each piece of metal, each of which must be neatly positioned and then hidden behind precious and royal gems. Jewels of Ocean's designers strive to design jewelry in much the same spirit as the master craftsmen of more than a century ago. Today, the fifth generation of the Jewels of Ocean family maintains the concept of eternal elegance, while portraying the Italian art of tradition in all of their collections, showcased at selected retail stores in New York, Palm Beach, Bal Harbour, Dallas, Las Vegas and Beverly Hills, as well as at fine jewelers worldwide in London, Paris, Milan, Monte-Carlo, Geneva, Dubai, Kuwait City, Tokyo, Beijing and Hong Kong.

Innovation in Books as Works of Art

Call it the masterpiece of the publishing world. The Italian FMR fine art publishing house recently donated a coffee table art book to the New York Public Library that is nearly as big as a coffee table, weighs 61 pounds, and cost 100,000 euros to make. The publisher will only "publish" 33 handcrafted copies of *Michelangelo: La Dotta Mano* (The Learned Hand), produced in part to mark the 500-year anniversary of Michelangelo's painting of frescoes at the Sistine Chapel. Featuring photographs of some of Michelangelo's most brilliant works of art, modern-day artisans created the book using technologies and methods that were widely employed during the Renaissance. On the cover is a bas-relief that faithfully reproduces Michelangelo's *Madonna della Scala* (Madonna of the Steps), executed in statuary marble extracted from the same Polvaccio quarries where Michelangelo obtained his own marble. Each detail of the work—from the silk velvet material to the decorated paper of the inner cover flaps, and the printing, binding and silk-screen prints—reveals extreme attention to detail and exquisite pursuit of excellence.

La Dotta Mano exemplifies what Marilena Ferrari, chairman of Gruppo FMR, calls *Civiltà della Bellezza:* "a profound ethical, cultural, and social renewal that restores importance to the concept of beauty as both an ethical and aesthetic value." Ms. Ferrari hopes that this work will help awaken an appreciation for "beautiful books" in modern life. "Such a beautiful book has relevance in a time of economic hardship," she told the *New York Times*. "In no way can I change the world, but I can send a message of beauty because, fundamentally, this is a message of hope. Mankind can create beauty, and that must be remembered."

Timely Innovation in Support of the Family Office

Family offices, when they're run properly, can provide many wealthy families with opportunities to do more with their wealth in terms of philanthropy, multigenerational planning and investing. Family Office Association (FOA) works with families and individuals worth at least $30 million to provide family office services such as wealth preservation, philanthropic planning, alternative investments, asset protection and luxury lifestyle services. Based in Greenwich, Conn., FOA's mission is to be the largest and most respected global organization for ultra high net worth individuals and families.

FOA pursues a unique approach to managing wealth and family legacies. It connects members with best-in-class resources and educates them through face-to-face exchanges, showcases and online initiatives. Topics covered include how to integrate passion investments (art, wine, and collectibles) and philanthropic causes with an investment portfolio of globally diversified assets. For FOA, success depends as much on proficiency in modern technology as it does in physical interaction. The ultra high net worth individual is very comfortable online and luxury firms ignore this truth to their own detriment. Embrace technology and online initiatives now, or risk losing market share to more progressive financial and luxury firms. Currently launching is the *FOA Business Network Community*, a portal destination that allows members and qualified relationships to access specific sponsor provided information, ask questions, and even to organize their own online group similar to Facebook and LinkedIn. Select financial and luxury sponsors receive online banner promotions and click-through opportunities, and may also interact directly with members. Visit www.familyofficeassociation.org for details.

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