The Wealth Report
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Internet Habits of the Wealthy

The online market for luxury goods continues to develop at a rapid pace. Apparel and accessories sales on the Web popped 41 percent in 2005, while sales of jewelry and watches surged 31 percent. Tiffany reports a 47 percent increase in shoppers at its site. The key is converting clicks into sales. The average wealthy American uses the Internet seven days a week for an average of 3.2 hours per day; those under 50 and worth more than $5 million are heavier users. More than half (51 percent) of wealthy consumers tell the Luxury Institute that they use the Internet to research products and services, but only 43 percent say they “buy” products and services online “occasionally” or “frequently.” Younger consumers, and those with higher incomes and net worth, show a stronger tendency to buy online. The same group is also more likely to use instant messaging, read a blog, and buy music online.

Email is the still the killer application for the wealthy. Ninety-two percent tell the Luxury Institute they use the Internet to send and receive email. The second most popular use cited by the wealthy is checking news and weather (58 percent), followed by planning travel (42 percent), and paying bills (40 percent). Just two percent of the wealthy use the Web for gambling. High-income young wealthy men are the group most likely to use the Web for adult entertainment. Almost all (98 percent) of the wealthy used the Web at home, and more than two-thirds use the Web at work, including more than 80 percent of wealthy people between the ages of 21-49, and more than four out of five wealthy individuals with incomes between $200,000 and $500,000.

The most effective way to reach wealthy consumers online is through search engine results – including paid placements. In fact, search results are the only online marketing method viewed as more effective than ineffective by luxury consumers themselves. Click-through banner ads are the least effective way to create a positive impression and to get browsers to buy a product, and yet the youngest and wealthiest consumers were unusually receptive to click-through ads. In terms of building a database, younger wealthy Americans are generally receptive to parting with contact information in exchange for access to special reports and white papers. Women are more likely to sign up for free email alerts in exchange for contact info. Nearly one third of consumers worth $5 million or more visited a Web site after being prompted in another medium such as print or TV.

The biggest online concerns of the wealthy: hackers and spammers. Wealthy Americans are most worried about email working as a conduit for viruses, unsolicited spam and possible identity theft, and these concerns increase with age. Concern over being tracked on large corporate databases, however, is greater than the apprehension over becoming a victim of identity theft (85-59 percent).

Blogs begin to catch on. Nearly one-fifth of the wealthy tell the Luxury Institute that they read Web logs on at least a weekly basis, and 28 percent of wealthy Americans report being very familiar with blogs. Frequent blog readership is highest among the youngest wealthy consumers, and among men of higher levels of income and wealth. The youngest and the wealthiest are also most likely to keep blogs of their own.

The Web is also developing secondary markets in luxury goods, some that provide real value to buyers and sellers alike. Portero, a trader of luxury goods through eBay, certifies and guarantees every item it sells against fraud and forgery. Instead of depressing sales of luxury goods, Portero provides liquidity in a pinch for somebody unloading last year's fashions to make room for more buying. By eliminating transaction risk, Portero adds trustworthiness, objectivity, and competence to the buying and selling process. We believe that luxury goods firms should, and will, eventually control secondary markets for their products. Think of what "pre-owned" cars did for luxury automakers versus traditional used car dealers in terms of brand control, customer loyalty and profitability.

Luxury Brand Status

A British study finds that just 10 of the world's top luxury brands produce 80 percent of profits. If correct, that statistic bodes poorly for the majority of luxury brands. The key to brand profitability and vitality, according to researchers Mergen Reddy and Nic Terblanche, is not to dilute brand equity by overextending a brand to chase down-market revenue. Higher sales volume is generally viewed favorably, but for luxury houses, the cost in terms of sacrificing brand exclusivity and value through overexposure is often not worth the boost in incremental sales. Brand equity is spent quicker than it can be built.

Lalique and Baccarat enjoy crystal reputations among luxury glassware consumers. According to the Luxury Institute's Luxury Brand Status Index (LBSI) survey, luxury consumers narrowly place Lalique ahead of Baccarat as the top-rated brand in luxury glassware. Steuben and Christofle came in third and fourth, respectively. Baccarat was recognized for delivering consistently superior quality, and Lalique took top marks for uniqueness and exclusivity, as well as the distinction of the brand most worthy of a significant price premium. Respondents had a minimum income of $200,000 and minimum net worth of $5 million.

With watches, Franck Muller and Patek Philippe take top honors for prestige. America's ultra-wealthy betray a penchant for Swiss timepieces in the Luxury Institute's Ultra-Luxury Watch survey, giving two Geneva-based watchmakers top honors for highest brand status among 17 ultra-luxury watch brands. Franck Muller edged out fellow Geneva-based watchmaker Patek Philippe 80-79 for overall brand status, though Patek Philippe was rated highest in delivering consistently superior quality and the most social status. Muller distinguished itself as the truly unique and exclusive brand that can make the buyer feel special across the entire customer experience – and the brand rated most worthy of a significant price premium.

Making the sweetest music in luxury consumer audio is Bang & Olufsen, edging out Bose as the category's most prestigious brand. Wealthy consumer audiophiles tell the Luxury Institute that the Danish company scores highest in the four pillars of brand status: consistently superior quality, uniqueness and exclusivity, enhanced social status, and the ability of a brand to make a customer feel special. Bang & Olufsen significantly stands apart from the crowd in an era when even wealthy consumers see most audio brands as commodities.

A home theater sweep for Denmark: Bang is also top brand in video. Its design aesthetics and state-of-the-art technology helped Bang & Olufsen stand out from 24 other brands in the Luxury Institute's Consumer Video Luxury Brand Status Index survey. By a wide margin, Bang beat out Japanese rivals Nakamichi and Sony. The brand took top honors in perceived quality, uniqueness, status, and in making customers feel special across the entire experience. Bang's strong brand equity places it in the enviable position of being able to command the highest price premium from America's wealthiest consumers.

Brands that lack equity will face resistance from luxury consumers as they expand into adjacent markets. One example is De Beers LV, the diamond joint venture between De Beers and LVMH that operates nine stores worldwide – only three of which are profitable. In April, the venture will open a new boutique in Dubai. De Beers has very little problem cultivating customer awareness, but does suffer from a reputation problem. In the Luxury Institute's 2006 Ultra-Luxury Jewelry Brand Status Index survey, wealthy consumers ranked De Beers fourteenth in overall prestige (just ahead of the struggling Asprey) despite ranking the South African company third in awareness. The lesson: Before making critical luxury brand decisions, you need to understand the ratings from wealthy consumers. They would have told LVMH that DeBeers has low equity as a luxury brand and major historical challenges to overcome. They would have told Asprey's investors that the brand has dramatically low awareness and equity in the United States. In luxury branding, a brand's equity is effectively what peers of wealthy consumers – not companies, publications, experts or pundits – say it is.

Even sterling brands can falter and need to be cut loose**.** Prada faced difficulties with its Jil Sander brand throughout its seven years of ownership, including the departure of the signature designer. Prada recently sold the Jil Sander unit to a private equity fund, after recently shutting down the Helmut Lang label altogether. Especially for designers, the fickle nature of fashion, the lack of fiscal discipline, and the dramatic lack of critical customer feedback make business highly unpredictable.

Red Hot Real Estate Shows Signs of Cooling

Real estate is another big reason that the wealthy turn to the Web. A new free site called "Zillow" features aerial photographs of homes along with historical and current market values, viewable as graphs and charts. For example, you can browse beachside property in Brevard County, Fla., where property has appreciated 167 percent over the past five years. Or you could marvel at your Manhattan real estate, which appreciated 240 percent over the past decade. But the cause for a mild bit of trepidation is how those graphs are beginning to sag and show signs of topping out.

A last hurrah in the numbers? Coldwell Banker says it sold $55.9 billion worth of homes valued at $1 million or more last year, up 24 percent from 2004. But more recent data on growing inventories of unsold homes and a slowing pace of sales bode ill for the longevity of the boom. The National Association of Realtors reports that sales of existing homes in January were 5.2 percent lower than a year before. The National Association of

Home Builders reports a five percent dip in January sales volume and more than five months supply of both new and existing housing units on the market, the highest inventory levels since 1996. If long-term rates continue to go higher, it's not unlikely that some areas of the country could see year-over-year declines in median selling prices. Speculators may feel the heat if excessively leveraged, but wealthy buyers happy where they are should be little affected by a softening market.

Wealth Demographics

The wealthy grow wealthier. The government's triennial Survey of Consumer Finances shows that America's wealthiest 10 percent of households grew their average net worth from $2.7 million to $3.1 million between 2001 and 2004, boosted mainly by real estate gains and a recovering stock market. Several major media outlets had incorrectly reported the numbers, but the Luxury Institute confirmed these figures directly with its contacts at the Federal Reserve. Average income for the top 10 percent fell over the period from $270,000 to $256,000, likely the result of wealthy retirees beginning retirement and lower investment income during the period. The richest 10 percent control 70 percent of the nation's wealth, and the minimum cut-off to be in the wealthiest 10 percent is a net worth of $831,600.

The demographic wave of wealth presents opportunities for marketers of goods for babies. As couples put off having children, they usually have a fair amount to spend on extras for their infants and toddlers. Smart marketers are on the scene. Gucci has $230 baby shoes, Louis Vuitton offers a $1,200 diaper bag, and Hermes sells a $475 bathrobe. Sales of luxury baby items grew 20 percent last year.

The smartest companies, though, use technology to market to the whole family and build attachment to the brand. Rockport, Maine-based CedarWorks makes and sells premium backyard play sets. Its direct-to-consumer sales of several thousand-dollar swing sets enable it to collect data on kids, their ages, and special preferences. This helps the company sell upgraded sets. In addition, an easy-to-use design interface on the Web site encourages collaboration with customers on designs. CedarWorks boasts a customer satisfaction rating of 98 percent and feasts on referrals and repeat business.

Economic Attitudes and Indices

Wealthy investors turn more optimistic on stocks. Spectrem Group reports that affluent and millionaire investors both edged further into mildly bullish territory in February, continuing a stead improvement in sentiment over the past six months. Millionaires remained more bullish than their affluent counterparts (with investable assets of at least $500,000). Stocks began to turn more volatile as short-term rates hit multi-year highs.

Habitat For Humanity: The most prestigious not-for-profit. Although the Salvation Army, United Way, and the American Red Cross are the best known institutions, America's wealthy tell the Luxury Institute that Habitat for Humanity is the top institution in terms of overall reputation, narrowly ahead of America's Second Harvest and St. Jude Children's Hospital. Habitat won special points for being unique, although America's Second Harvest topped the other 33 names in terms of consistently delivering superior quality in fulfilling its mission. The non-profit industry, famous for lack of accountability, will now be accountable to its donors via wealthy peer reviews.

Luxury Travel

Wealthy consumers speak out and rate Signature Destinations the most prestigious destination club. Finishing just ahead of Exclusive Resorts and Private Escapes in the latest Luxury Institute Luxury Brand Status Index ranking, Signature Destinations topped nine other brands for delivering "consistently superior quality, social status, and the ability of the brand to make customers feel special throughout the entire customer experience." Consumers familiar with Signature also rated it most worthy of a significant price premium. In this highly fragmented category, few brands have generated enough awareness, or differentiation, to make a strong impression with the wealthy, accounting for the tight variances in scores across most dimensions on luxury status. As with most luxury categories, bigger is not necessarily better in this industry. It is clear that even large participants have done a sub-optimal job of staking out clear brand identities.

You read it here first: High-end handbags by subscription will be a big hit. Now venture capitalists agree. The same VC fund that backed Amazon.com, along with Michael Dell's brother, are providing Seattle-based Bag, Borrow, or Steal with $8.25 million in equity funding. The two-year old company has thousands of subscribers who pay monthly fees from $19.95 to $249.95 to receive a steady supply of handbags that would sell for $1,000 and up. The model is the same as DVD subscription service Netflix. Led by the former CEO of Lands' End, Nordstrom.com and Classmates Online, Bagborroworsteal.com and its new investors plan to expand the subscription model beyond bags into new categories like watches and jewelry. Possibilities and threats are huge.

Assessing India's Allure

Bush bends the rules to usher India into the "nuclear club" while global luxury firms launch their first forays into the world's second most populous nation. With a population of 1.08 billion people and a $3.7 trillion economy growing at 7 percent a year, India has emerged as an economic and geopolitical powerhouse. President Bush recognized India's strategic and military importance to the United States during his early-March trip to southern Asia, agreeing to supply nuclear fuel and technology for India's civilian reactors – despite India's failure to sign the Nuclear Non-Proliferation Treaty and its demonstration that it has already clandestinely developed nuclear weapons. It's still a smart move that will pay rewards for U.S. consumers, businesses and strategic interests. Economically, India is already one of our biggest trading partners, and its growing ranks of well-paid knowledge workers and entrepreneurs are quickly forming a vast and lucrative market for luxury goods.

The number of Indian luxury consumers will triple in four years. New research from KSA Technopak projects that India's one million luxury goods consumers will grow in number to three million by 2010. Its $14.6 billion luxury market is expected to grow by 14 percent a year, as housing, travel, high-end autos and electronics benefit from the newly rich, while wealthier Indians drive sales of high-end clothing, jewelry, watches, and accessories, as well as gourmet food and wines. India's 1.6 million households earning $100,000 or more a year are spending an average $9,000 annually on luxury goods and services. Jewelry leads luxury purchases in India, capturing 27 percent of all spending, followed by clothing at 16 percent. The big and profitable opportunities will be in services for India's growing rich: health care, hospitality, financial services, and even nanny services. These revenues are more predictable than next year's fashion sense.

Large luxury conglomerates are moving into India, emboldened by relaxed ownership restrictions. Gucci is going for a direct retail presence and - with the Murjani Group - will set up boutiques in Mumbai and New Delhi next year. LVMH's Christian Dior brand is opening a boutique in the Indian capital, responding to increasingly frequent visits by Indian customers to its stores in Europe and the Middle East. Chanel, Cartier, Bulgari, and Dolce & Gabbana all have established local presences in India. Vuitton just began selling its Omas line of pens, which retail for $200-$600, at lifestyle stores throughout India in cities like Mumbai, Bangalore and Hyderabad. India recently began allowing single-brand retailers to own up to a 51 percent stake in their Indian outlets.

LUXURY INSTITUTE

About the Luxury Institute

The Luxury Institute is the uniquely independent and objective research institution that focuses solely on the top 10 percent of America's wealthy. The Institute provides a portfolio of proprietary publications and research that guide and educate high net-worth individuals and the companies that cater to them on leading edge trends, wealthy consumer rankings and ratings of luxury brands, and best practices. Publications include the monthly Wealth Report, the Luxury Brand Status Index surveys, the Luxury Best Practices surveys and the Luxury Consumer Experience Index surveys. To reach the Luxury institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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