

**"In the factory we make  
cosmetics, but in my  
stores we sell hope."**

**Charles Revson, founder of Revlon**

# Missing 5th P of Marketing

- Traditional 4 P's Marketing
  - ▶ Product,
  - ▶ Price,
  - ▶ Promotion,
  - ▶ Placement
- People — Missing 5th P

# Connecting with Consumer:

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**Next Retail Challenge**

# Big Opportunity #1

- **Selling Tools, Equipment, Accessories**
- **To Enhance Consumer's Experiences**
- **Think "Services Marketing" rather than "Product Marketing"**

# Big Opportunity #2

- **Retail Environments Need to Be Reconfigured to Enhance Experience**
- **More and more consumers are time-starved...shopping is a chore, NOT a fun experience**

# "Real" Department Store



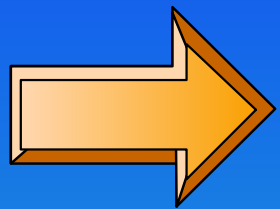
**"Marketing is the whole business seen from the point of view of its final result, that is, from the customer's point of view."**

**by Peter F. Drucker**

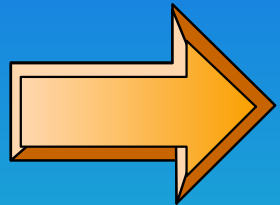
# Future Vision Secret: Why People Buy

- **Market research discovers why people buy**
- *Why People Buy Things They Don't Need* (Ithaca, NY: Paramount Market Publishing, 2002)
  - ▶ **Focus groups & two quantitative telephone surveys national representative sample**
  - ▶ **30 different discretionary product categories**

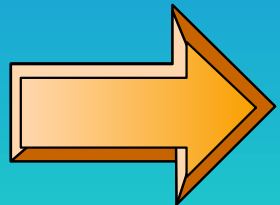
# Four Categories of Discretionary Spending



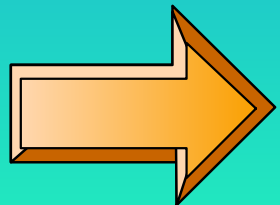
**Utilitarian**



**Indulgences**



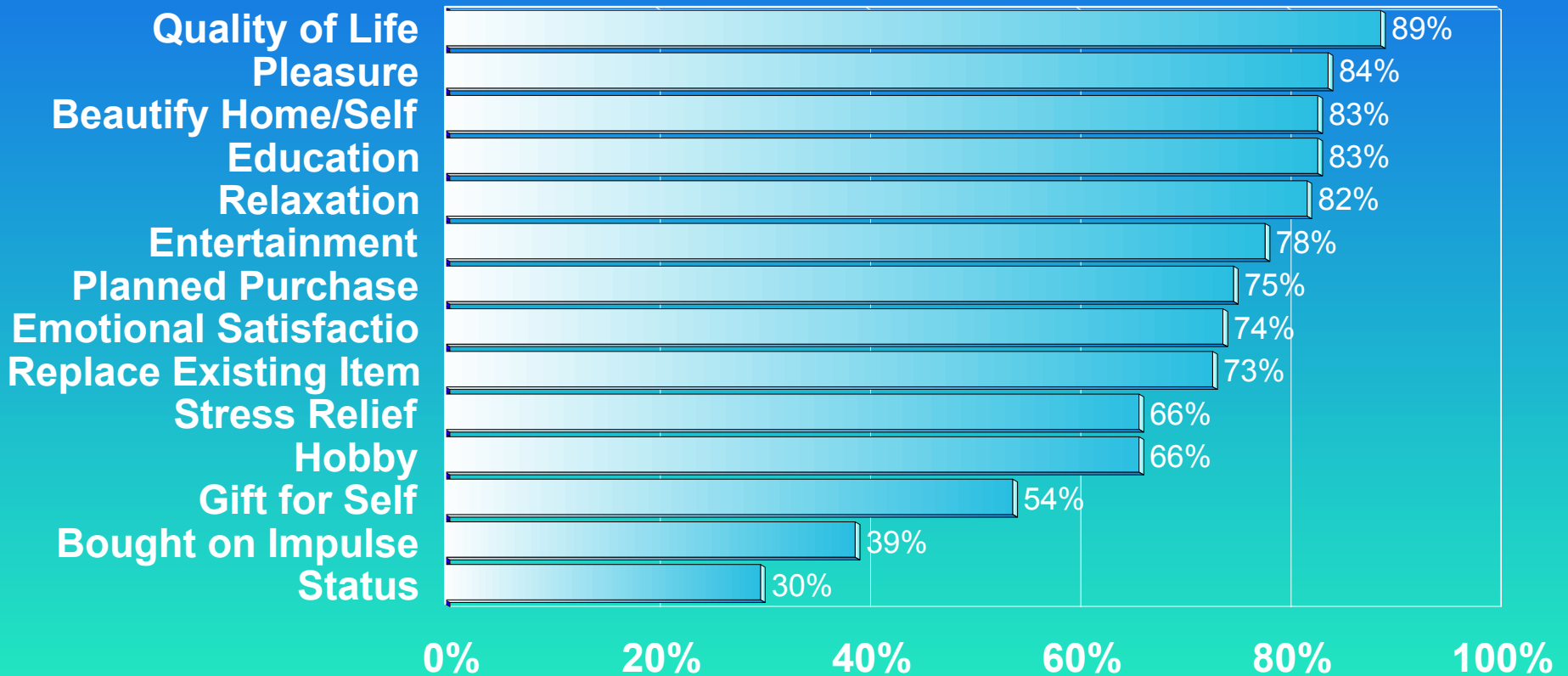
**Lifestyle Luxuries**



**Aspirational Luxuries**

# Justifiers Define Why the Consumers Buy

## Motivators to Buy Discretionary Products Very Important/Somewhat Important



*Future Vision Secret #2:*

**First the rich do it, then  
everybody else!**

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**Affluent market is bellwether of  
trends that will occur in the mass  
market**

# Market Research on Luxury Market

- **Integrated Qualitative & Quantitative research (May through August 2002)**
  - ▶ **Series of 7 focus groups with affluent women living in high value homes**
  - ▶ **Telephone survey among 866 affluent homeowners**
  - ▶ **14 Luxury Products and 7 Luxury Services**
  - ▶ **Foundation for new book *Let Them Eat Cake: Marketing Luxury to the Masses (as well as the Classes)***

# Affluent Market Represents 15 Million Households

U.S. Households by Income Level  
in thousands

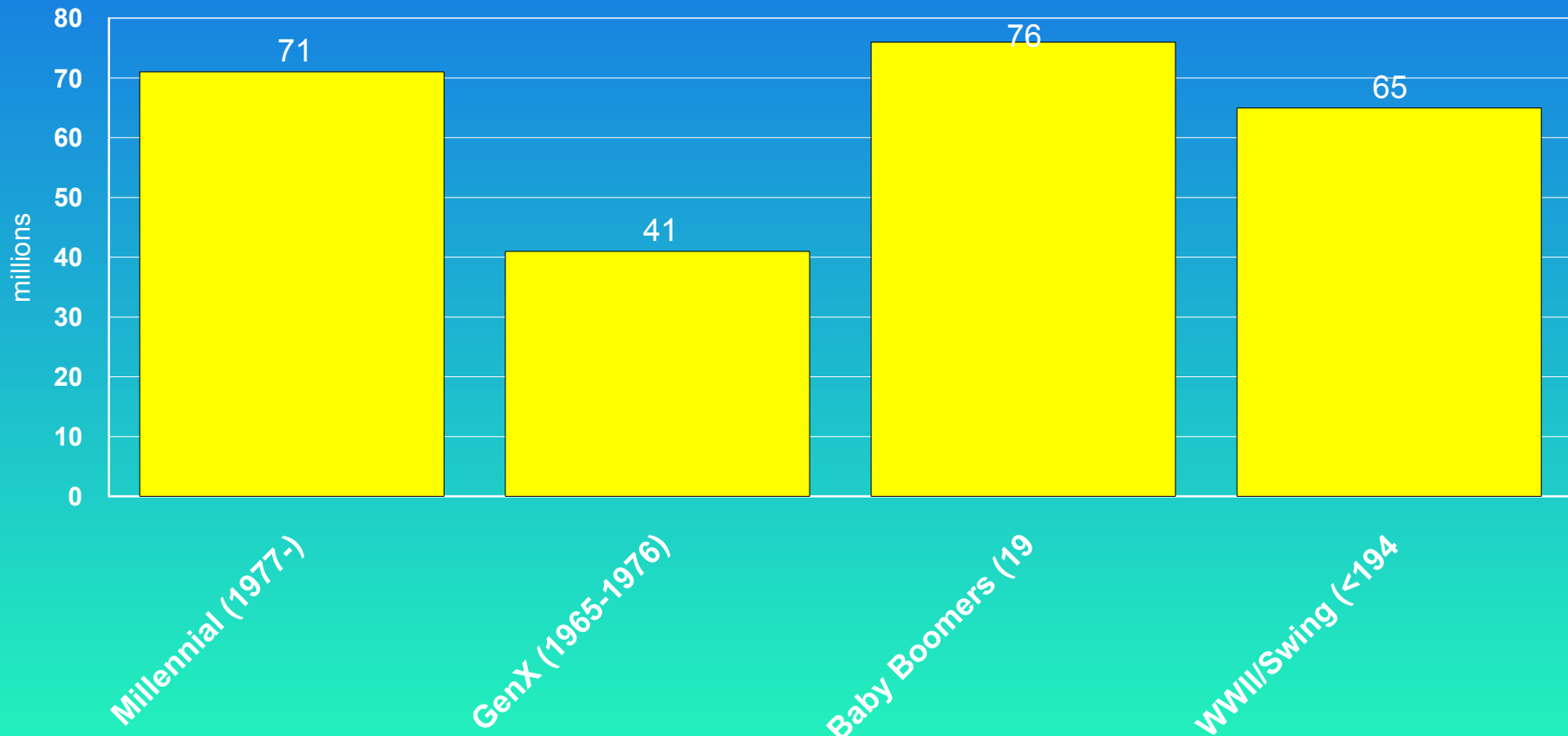
	Total	%
\$49,999 or less	62,281	57.0%
\$50k to \$69,999	16,706	15.3%
\$70k to \$99,999	15,187	13.9%
\$100,000 to \$149,999	9,533	8.7%
\$150,000 to \$199,999	3,005	2.7%
\$200,000 to \$249,999	1,096	1.0%
\$250,000 and above	1,490	1.4%
Total	109,297	100.0%

Source: Census, 2000

# Future of Consumer Market

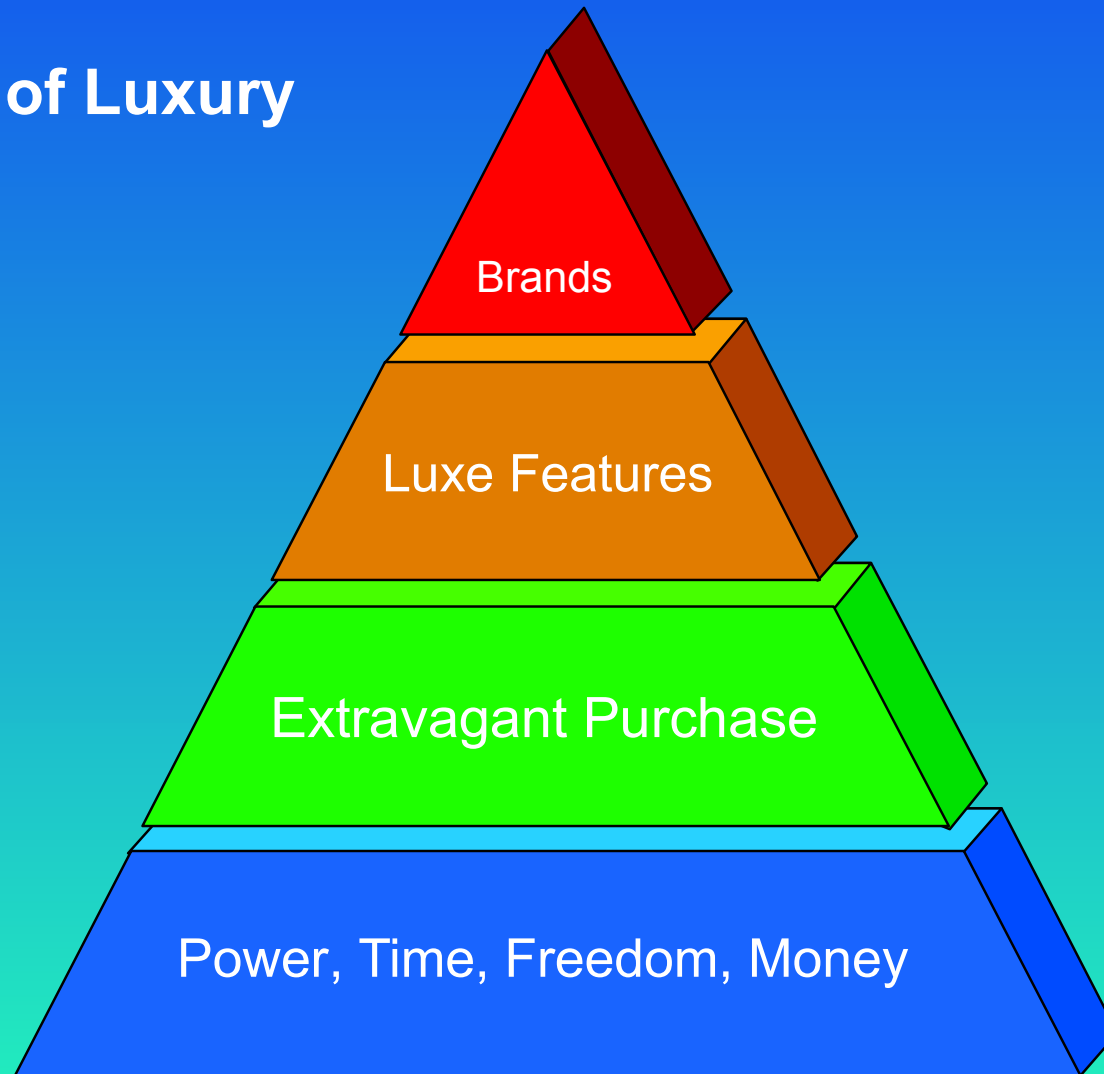
- Diverging with Biggest Opportunities at the High-End and Low-End of Market

Consumer Generations



# Luxury Is Power to Pursue Your Passions

## Dimensions of Luxury



# Luxury Is Ultimately Unattainable

- Today's luxuries become tomorrow's necessities.
- Luxury consumer is in a state of perpetual motion, always moving away from the ordinary toward the extraordinary.

# **Big Opportunity: Be Best of Class in Any Class**

- **No matter where you are in price-continuum, you can enhance luxury value of what you are selling**
- **Marketers influence two key dimensions of luxury:**
  - **Imparting luxury features into one's products**
  - **Building a luxury brand that resonates with the consumers**
- **Key: Infuse marketing communications with hopes, wishes and dreams**

**"In the affluent society  
no useful distinction can  
be made between  
luxuries and  
necessities."**

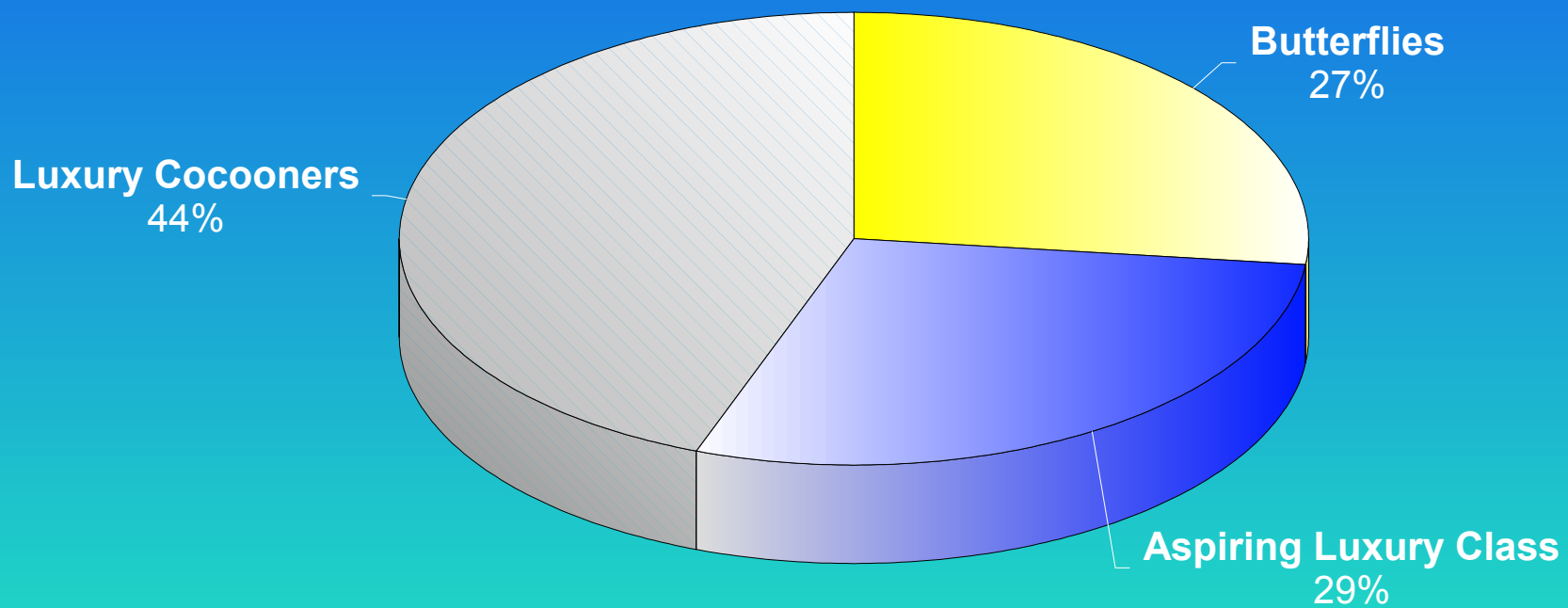
**by John Kenneth Galbraith**

# Introducing the New Luxury Market

Meet the  
Butterflies



# Luxury Market Segments



# **Butterflies Have Emerged from their Luxurious Cocoon**

- **Most evolved luxury consumer, less self-indulgent, more outwardly focused**
- **Reconnecting with the external world**
- **Looking for new meaning in their lives and new equilibrium between the roles they play in inner and external worlds**
- **Democratic in their view of luxury**

# Butterflies Have Emerged from their Luxurious Cocoon

<b>Market Penetration</b>	27%
<b>Consumer Psychology</b>	Butterflies have emerged from their luxurious cocoons and are reconnecting with outside world. Connecting, rather than cocooning, is primary driver for the butterflies. They are less materialistic than other segments and know things won't buy happiness.
<b>Demographics</b>	<ul style="list-style-type: none"> <li>• Most successful in world's terms</li> <li>• Highest incomes (\$172.4k)</li> <li>• Boomer generation</li> <li>• Highest household value (\$280k)</li> <li>• More likely to be female</li> </ul>
<b>Purchase Incidence</b>	Most active buyers of both luxury products & services (95% products; 68% services)
<b>Luxury Product Spending</b>	Spends the most annually on luxury products (\$14,675), but only 34% of spending is for luxury home (\$5,050), while majority is for personal luxuries
<b>Luxury Services Spending</b>	Spends most on luxury services, \$8,200

# Luxury Cocooners Still Wrapped in the Cocoon

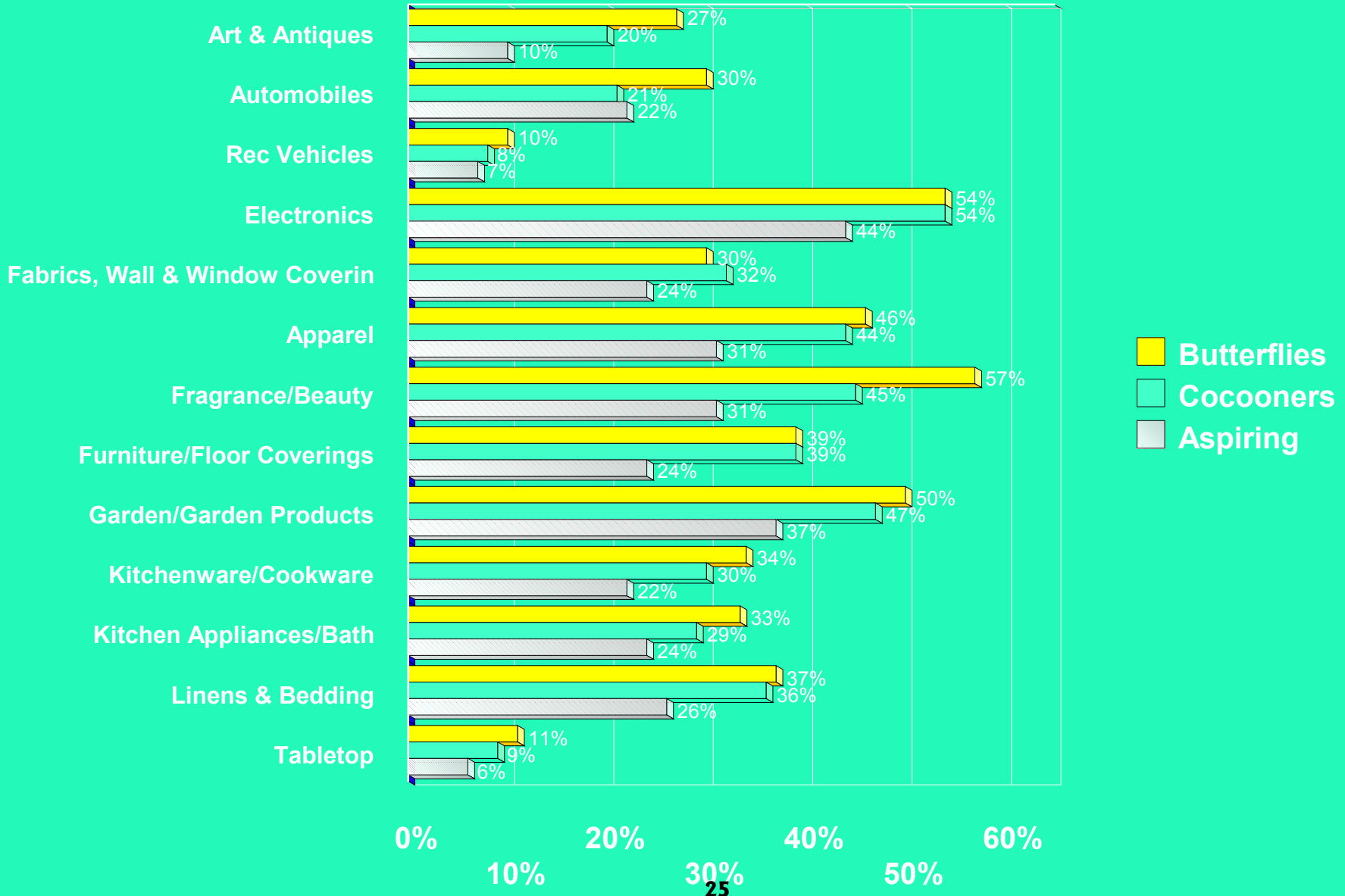
<b>Market Penetration</b>	44%
<b>Consumer Psychology</b>	They are still wrapped up in their luxury cocoons, devoting their time and attention to making their 'nests' more luxurious. They express their identity through luxury purchases and participate fully in their luxury lifestyles.
<b>Demographics</b>	<ul style="list-style-type: none"> <li>• Income below butterflies, above aspiring luxury class (\$151k)</li> <li>• Middle-aged</li> <li>• Household value below butterflies (\$256k)</li> <li>• More likely to be female</li> </ul>
<b>Purchase Incidence</b>	Active buyers of both luxury products & services (93% products; 65% services)
<b>Luxury Product Spending</b>	Total spending only 65% that of butterflies, \$8,900 Majority of luxury spending, 55% or \$4,900, is for home-related luxuries
<b>Luxury Services Spending</b>	Spending on luxury services about 20% less than butterflies, \$7,000 per year

# Luxury Aspirers Still Haven't Reach Their Desired Level of Luxury

<b>Market Penetration</b>	29%
<b>Consumer Psychology</b>	Have not yet achieved the level of luxury to which they aspire. They view luxury as an expression of what they have and what they own. For these consumers, luxury is best expressed in the things they buy and display.
<b>Demographics</b>	<ul style="list-style-type: none"> <li>• Lowest income (\$135k)</li> <li>• Middle-aged or younger</li> <li>• Household value about the same as luxury cocooners (\$250k), meaning less discretionary budgets</li> <li>• Higher representation of men as compared with butterflies or cocooners</li> </ul>
<b>Purchase Incidence</b>	Active buyers of luxury products (94% purchase incidence); significantly lower levels of buying luxury services (51%)
<b>Luxury Product Spending</b>	Lowest spending levels, \$6,500 in total. About 54% of total spending is for home luxuries (\$3,500)
<b>Luxury Services Spending</b>	Lowest levels of spending on services, \$5,200

# Luxury Products Purchased by Luxury Segments

In the past year, did you or someone in household purchase any luxury product?



# Luxury Consumers Are Emerging from Their Cocoon and Reconnecting with the World Outside

Consumers' Spending on Home  
Total Housing Expenditures & Total Household Furnishings  
Average for Typical US Household

	<u>Total Spend</u>	<u>Total Housing</u>	<u>% Housing</u>	<u>Tot Home Furnish</u>	<u>% Home Spend</u>
1985	\$23,490	\$7,087	30.2%	\$936	13.2%
1990	\$28,381	\$8,703	30.7%	\$1,125	12.9%
1995	\$32,264	\$10,458	32.4%	\$1,401	13.4%
1996	\$33,797	\$10,747	31.8%	\$1,350	12.6%
1997	\$34,819	\$11,272	32.4%	\$1,512	13.4%
1998	\$35,535	\$11,713	33.0%	\$1,601	13.7%
1999	\$36,995	\$12,057	32.6%	\$1,499	12.4%
2000	\$38,045	\$12,319	32.4%	\$1,549	12.6%
2001	\$39,518	\$13,011	32.9%	\$1,458	11.2%

Source: BLS, Consumer Expenditure Survey

# Implications: From Cocooning to Connecting

- **From cocooning to connecting**
  - ▶ **Interconnectedness is the way the world and everyone in it is becoming interconnected through travel, media, electronic networks, etc.**
  - ▶ **Cocooners are disconnected, butterflies are connected.**

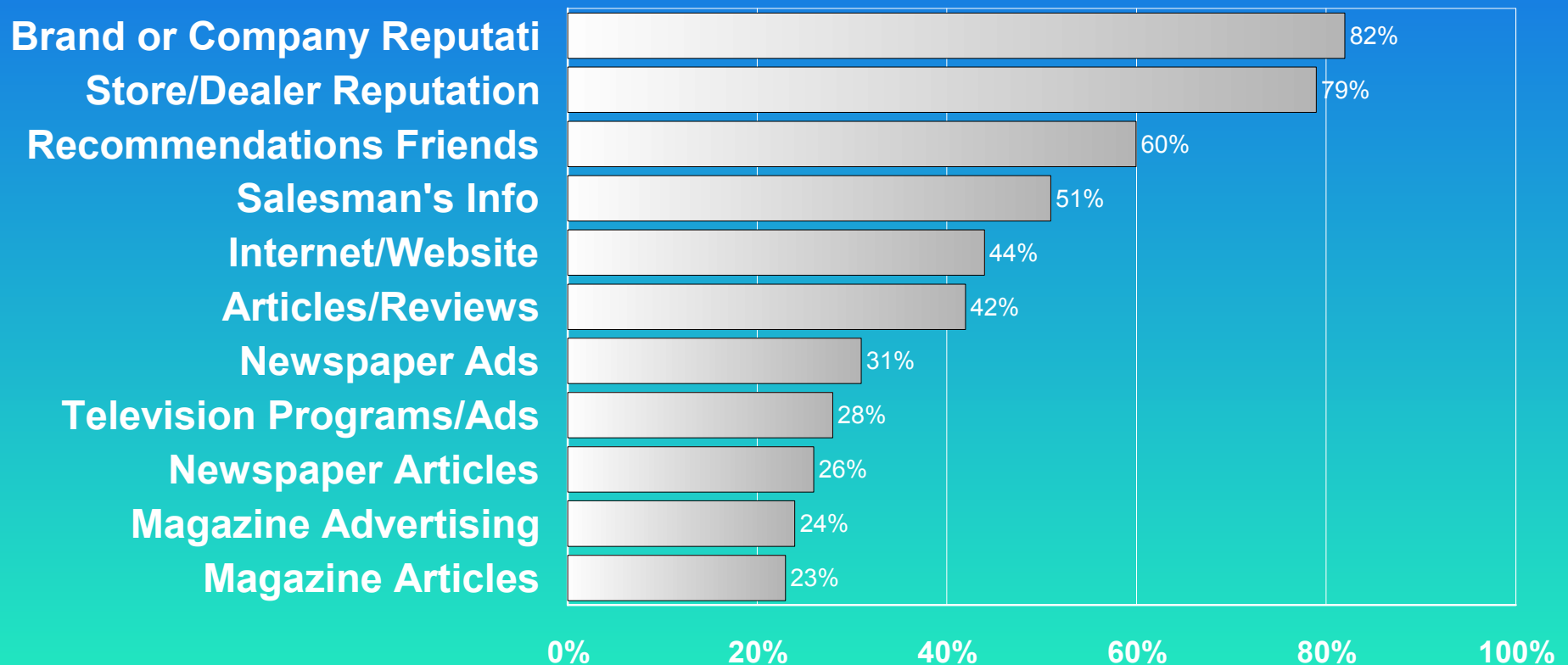
# **Luxury Marketers Must Connect with Consumers**

- **We must develop ongoing, meaningful, two-way dialogues with our customers, our potential customers, our future customers.**
- **One-way communication dominates**
- **Company website can become the central hub for two-way communication with the customer**

# Brands Are Point of Connection: Luxury Brands Role In Getting People to Buy Will Increase

## Influencers on Last Luxury Purchase Very Important/Somewhat Important

Thinking about your most recent purchase, how important were each of these influences?



Base: Households over \$50k

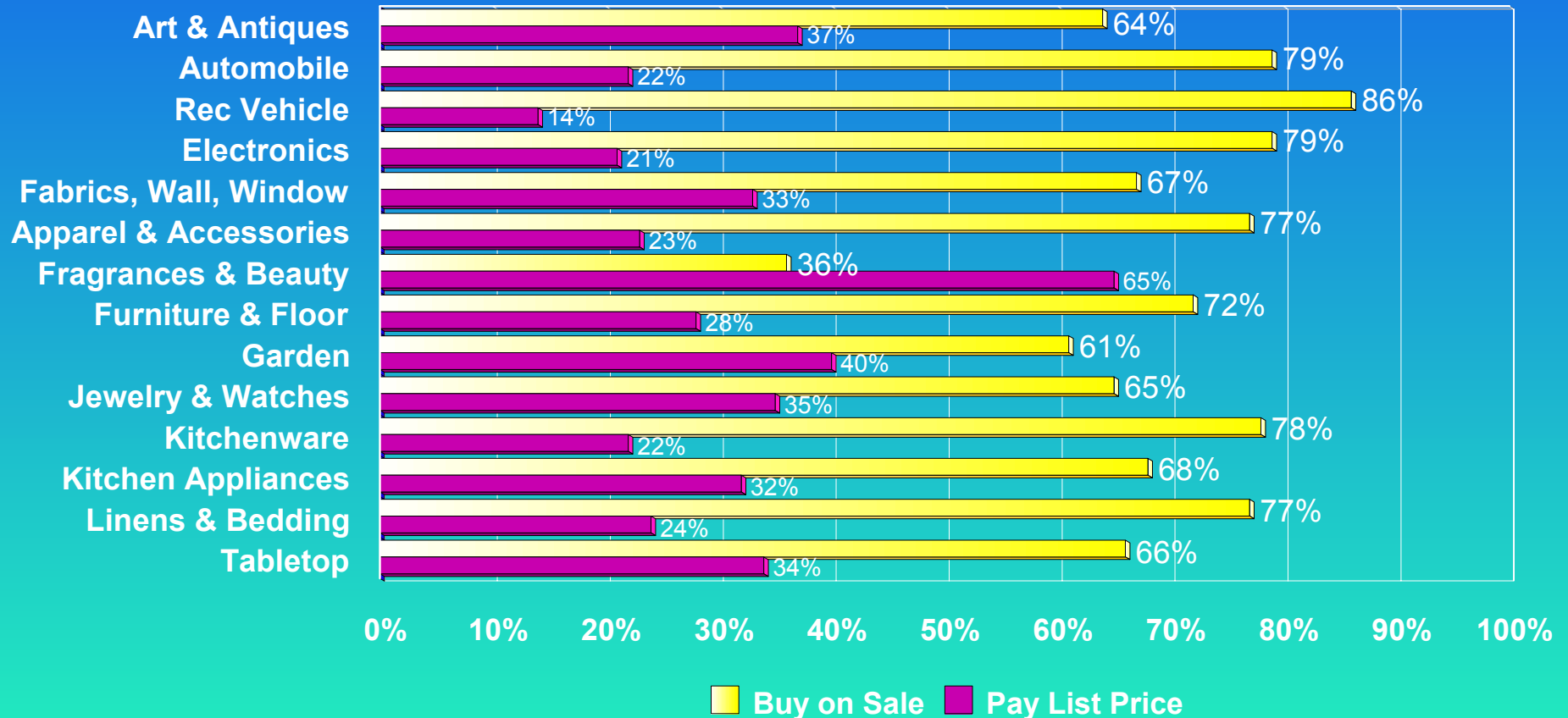
# Product Brand and Store Brands Are Connected

- The brands you sell define your store...the store defines the brand
- At the retail level, the standard of customer service is critical to the proper presentation of luxury goods.

# Are Sales Best Vehicle to Connect with Consumers?

## Luxury Purchase Behavior Buy on Sale or Discounted off Regular Price vs. Pay Full List Price

About your last luxury purchase, did you....



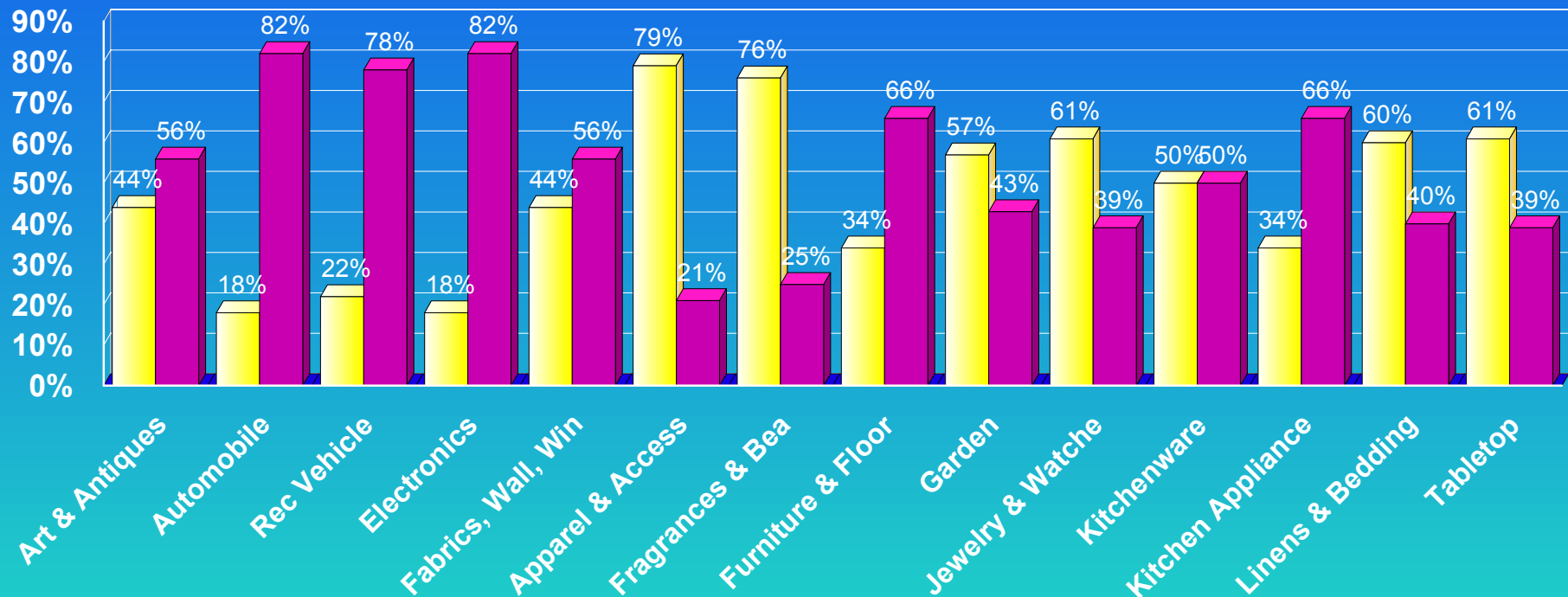
Base: Luxury Product Purchasers

# Consumers Are "Trained" to Respond to Sales

- Sales are Pandora's box of marketing
- Pricing is a trust issue: Consumers don't trust the prices
- Unity's solution: Get creative in new techniques and new strategies to boost sales and capture greater market share.
- Change the basis of scoring in the "shopping game"

# Connect throughout the Entire Buying Cycle

**Luxury Purchase Behavior**  
Did Not Do Any Research vs. Carefully Research the Purchase



About your last luxury purchase, did you do...

■ No Research ■ Careful Research

Base: Luxury Product Purchasers

# **Luxury Marketers Must Infuse Luxury in All Points of Contact**

- **Internet is primary media luxury consumers use**
  - ▶ **Website design becomes critical**
  - ▶ **Needs to be reconfigured for customer connection**

# Experiential Marketing Leads to Boom in Luxury Services

## Luxury Brands Sales Year Growth 2000-2002 (sales in millions)

	'00	% chg '00-'99	'01	% Chg '01-'00	'02	% Chg '01-'02
Pinault-Printemps	\$23,308.0	22.4%	\$24,623.9	5.6%	\$22,727.9	-7.7%
Christian Dior	\$11,174.0	26.7%	\$11,131.8	-0.4%	\$13,798.0	24.0%
LVMH	\$10,909.0	27.0%	\$10,900.0	-0.1%	\$11,313.6	3.8%
Richemont**	\$2,792.3		\$3,237.5	15.9%	\$3,358.2	3.7%
Swatch	\$2,563.3	12.5%	\$2,419.5	-5.6%	\$2,446.1	1.1%
Luxottica Group	\$2,268.9	20.2%	\$2,731.8	20.4%	\$2,959.9	8.3%
Gucci*	\$2,258.5	82.7%	\$2,285.0	1.2%	\$2,285.0	1.2%
Polo Ralph Lauren	\$1,982.4	1.7%	\$2,363.7	19.2%		
Tommy Hilfiger*	\$1,880.9	4.9%	\$1,876.7	-0.2%	\$1,876.7	0.2%
Tiffany & Co*	\$1,668.1	14.1%	\$1,606.5	-3.7%	\$1,706.6	6.2%
Prada/I Pellettieri			\$1,553.6	1.4%	\$1,635.0	6.7%
Giorgio Armani**					\$1,362.5	21.0%
Hermes	\$1,090.9	16.8%	\$1,086.8	-0.4%	\$1,100.9	1.3%
Waterford Wedgwood	\$1,021.3	15.1%	\$902.0	-11.7%		
Armani	\$973.6	11.6%	\$1,126.7	15.7%	\$1,362.5	21.0%
Bulgari	\$636.6	17.9%	\$678.6	6.6%	\$739.7	9.0%
Coach	\$548.9	8.1%	\$616.1	12.2%	\$719.4	16.8%
IT Holdings/Ittierre	\$432.9	12.9%	\$466.5	7.8%	\$580.8	24.5%
Versace	\$425.5	1.5%	\$450.0	5.8%		
Movado*	\$320.8	8.7%	\$299.7	-6.6%	\$300.1	1.0%
Avg	\$3,680.9	17.9%	\$3,703.0	4.4%	\$4,133.7	8.4%

\* Corresponds to sales year, not fiscal year, as fiscal year ends early in calendar year

\*\*Previous year data not available

# Next Retail Challenge: Connect with Consumers

- Experience marketing is infusing all product development, marketing and sales efforts with the feeling that the product promises to the customer
- Luxury goods need to be sold, advertised and promoted like luxury services.

# Connecting with Consumers

- About less talking and more listening
- About giving more value rather than taking more money
- About being involved with the customer rather than waiting for customer to get involved with you
- About connecting with the community
- About creating your business for your customers' needs