

What Do You Sell?
What Does Your
Customer Buy?

**"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
- Missing 5th P — People

Connecting with Consumer:

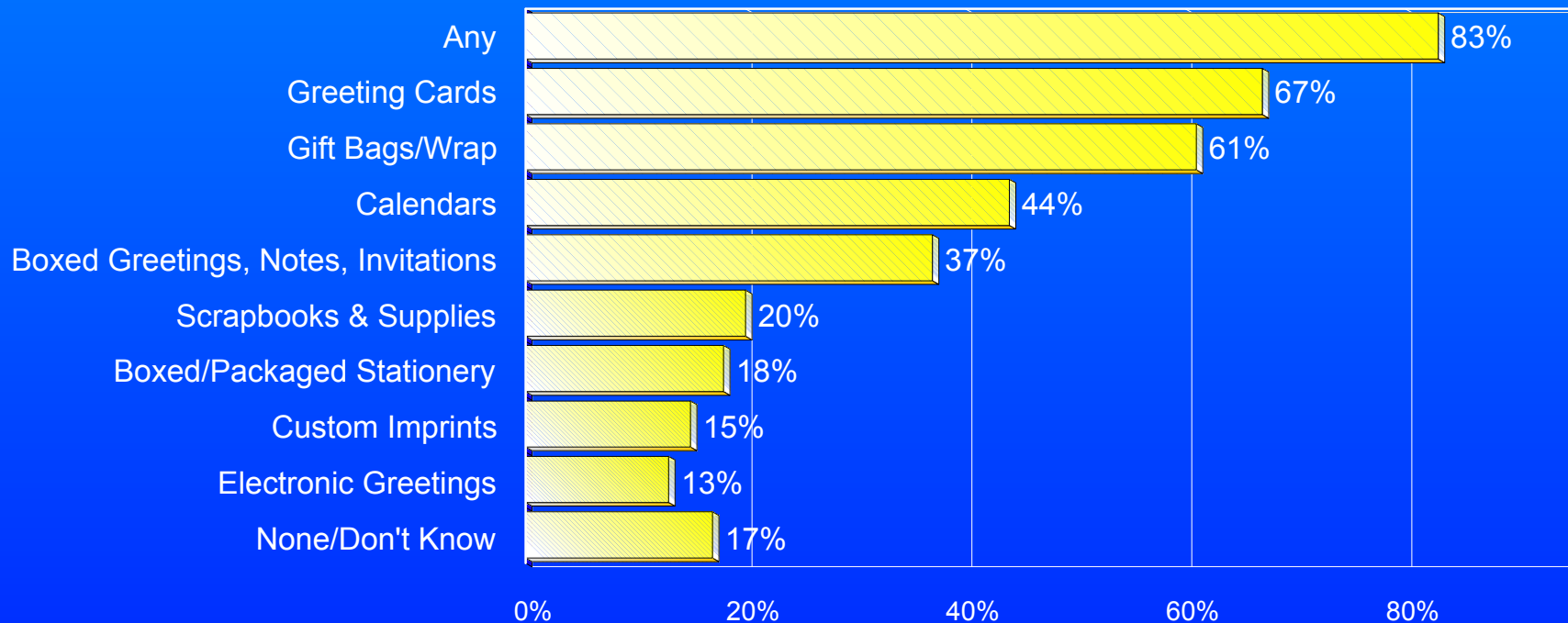
Next Retail Challenge

**Big Opportunity #1:
Selling Tools,
Equipment,
Accessories to Enhance
Consumer's
Experiences**

Scrapbooking Business Opportunity

Purchase Incidence in Past Year Demographic Summary

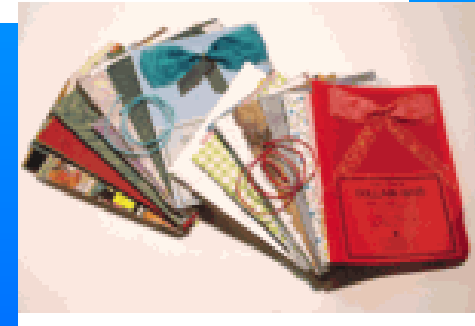
In past year have you bought any of the following stationery items?



Source: Telephone Survey, 2003
Base: Total Households

**Big Opportunity #2:
Retail Environments
Need to Be
Reconfigured to
Enhance Experience**

Kate's Paperie



ZAGAT SURVEY

NEW YORK CITY SHOPPING



Most Popular

1. Bloomingdale's	21. Saks Fifth Avenue
2. Saks Fifth Avenue	22. Saks Fifth Avenue
3. Macy's East & Herald	23. Saks Fifth Avenue
4. Bergdorf	24. Saks Fifth Avenue
5. Bloomingdale's	25. Saks Fifth Avenue
6. Bergdorf	26. Saks Fifth Avenue
7. Bloomingdale's	27. Saks Fifth Avenue
8. Bloomingdale's	28. Saks Fifth Avenue
9. Bloomingdale's	29. Saks Fifth Avenue
10. Bloomingdale's	30. Saks Fifth Avenue
11. Bloomingdale's	31. Saks Fifth Avenue
12. Bloomingdale's	32. Saks Fifth Avenue
13. Bloomingdale's	33. Saks Fifth Avenue
14. Bloomingdale's	34. Saks Fifth Avenue
15. Bloomingdale's	35. Saks Fifth Avenue
16. Bloomingdale's	36. Saks Fifth Avenue
17. Bloomingdale's	37. Saks Fifth Avenue
18. Bloomingdale's	38. Saks Fifth Avenue
19. Bloomingdale's	39. Saks Fifth Avenue
20. Bloomingdale's	40. Saks Fifth Avenue

hallmark

martin stewart
weddings

WORKING MOTHER

NEW YORK
BestBets

BON APPÉTIT

BRIDE'S



"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 #1: Why People Buy

Future Vision Secret #2:

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

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

Affluent Market Represents 15 Million Households

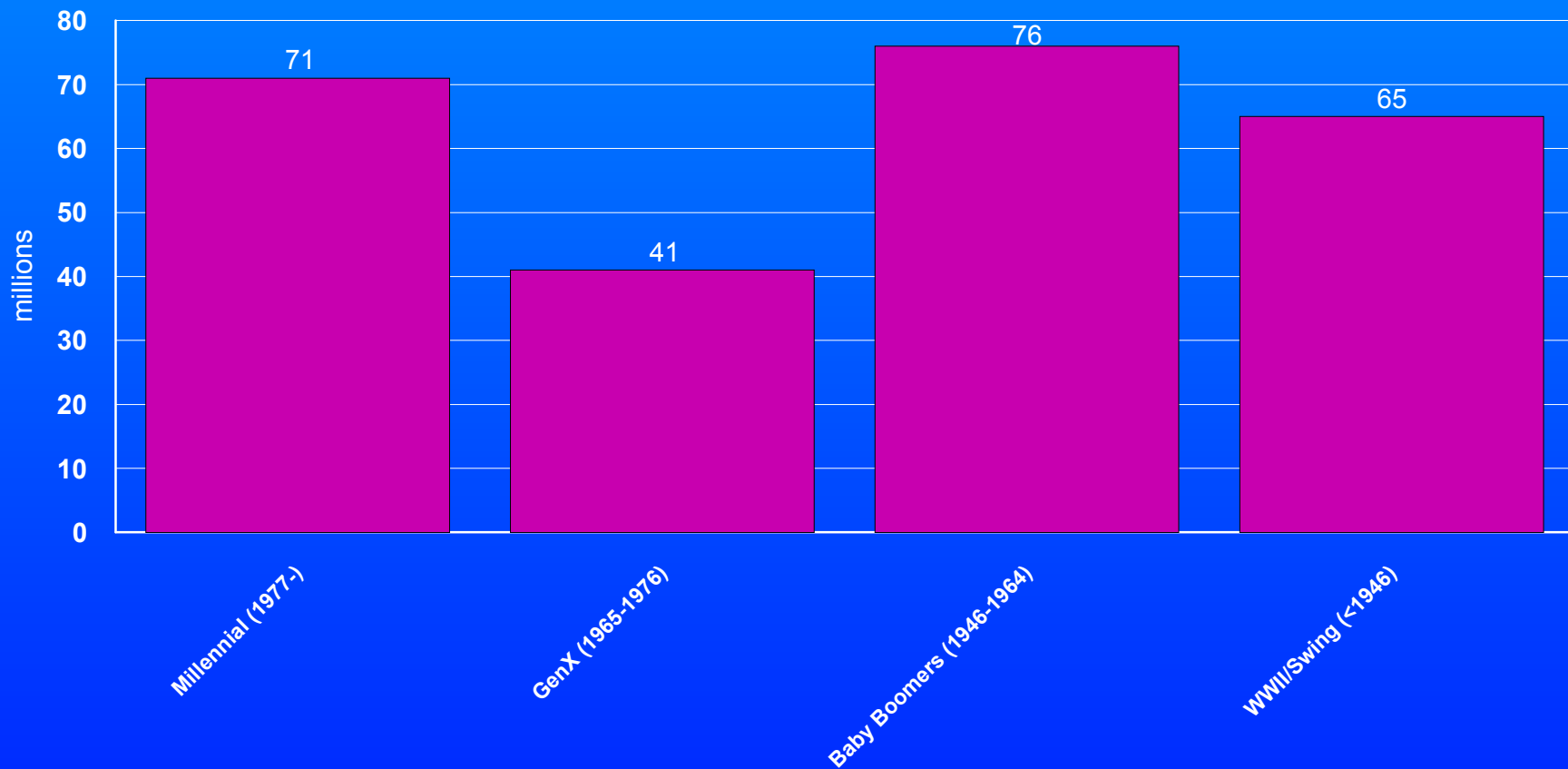
U.S. Households by Income Level
in thousands

	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

Consumer Generations

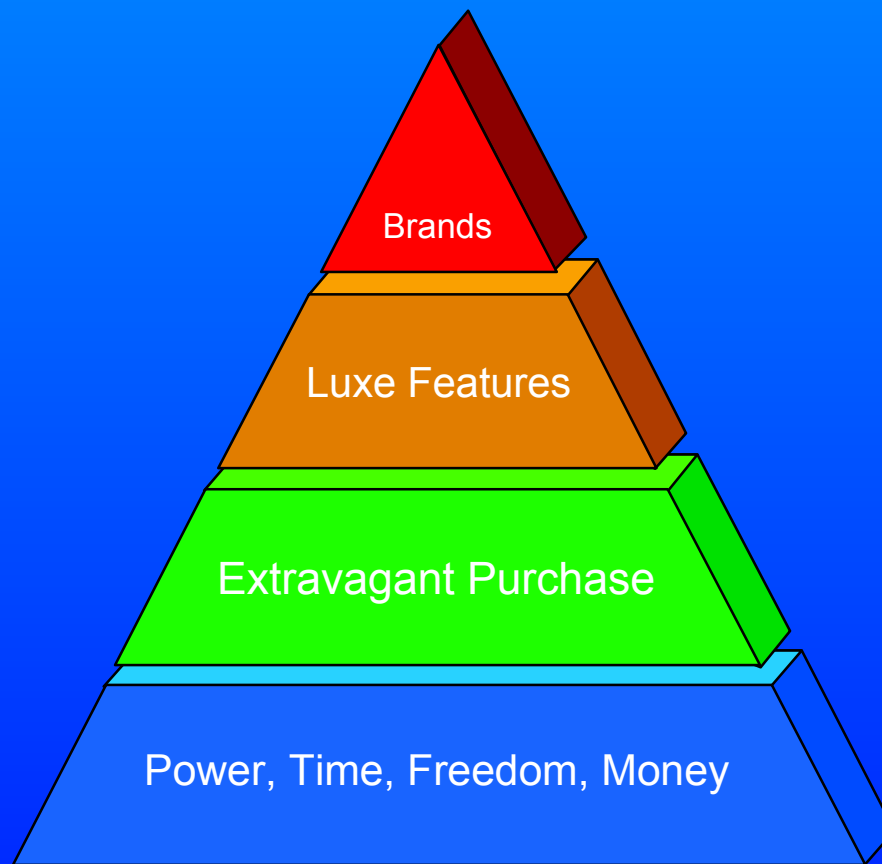


Future of Consumer Market

- Next ten years, consumer market will diverge with clustering at high-end and budget-level, without a lot in the middle

Luxury Is Power to Pursue Your Passions

Dimensions of Luxury



Big Opportunity: Be Best of Class in Any Class

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

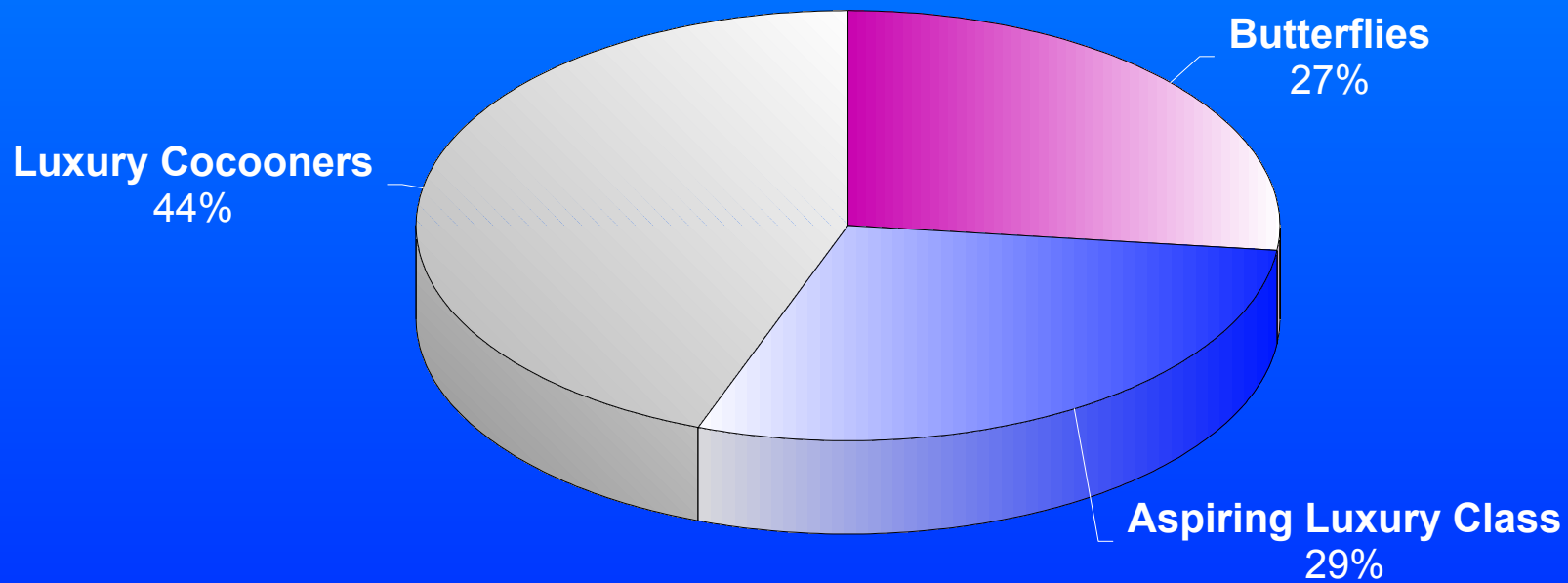
by John Kenneth Galbraith

Introducing the New Luxury Market

Meet the Butterflies



Luxury Market Segments



Butterflies Have Emerged from their Luxurious Cocoon

Market Penetration	27%
Consumer Psychology	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.
Demographics	<ul style="list-style-type: none"> • Most successful in world's terms • Highest incomes (\$172.4k) • Boomer generation • Highest household value (\$280k) • More likely to be female
Purchase Incidence	Most active buyers of both luxury products & services (95% products; 68% services)
Luxury Product Spending	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
Luxury Services Spending	Spends most on luxury services, \$8,200

Luxury Cocooners Still Wrapped in the Cocoon

Market Penetration	44%
Consumer Psychology	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.
Demographics	<ul style="list-style-type: none"> • Income below butterflies, above aspiring luxury class (\$151k) • Middle-aged • Household value below butterflies (\$256k) • More likely to be female
Purchase Incidence	Active buyers of both luxury products & services (93% products; 65% services)
Luxury Product Spending	Total spending only 65% that of butterflies, \$8,900 Majority of luxury spending, 55% or \$4,900, is for home-related luxuries
Luxury Services Spending	Spending on luxury services about 20% less than butterflies, \$7,000 per year

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

Market Penetration	29%
Consumer Psychology	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.
Demographics	<ul style="list-style-type: none"> • Lowest income (\$135k) • Middle-aged or younger • Household value about the same as luxury cocooners (\$250k), meaning less discretionary budgets • Higher representation of men as compared with butterflies or cocooners
Purchase Incidence	Active buyers of luxury products (94% purchase incidence); significantly lower levels of buying luxury services (51%)
Luxury Product Spending	Lowest spending levels, \$6,500 in total. About 54% of total spending is for home luxuries (\$3,500)
Luxury Services Spending	Lowest levels of spending on services, \$5,200

Age of Cocooning Yields to Age of Connecting

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

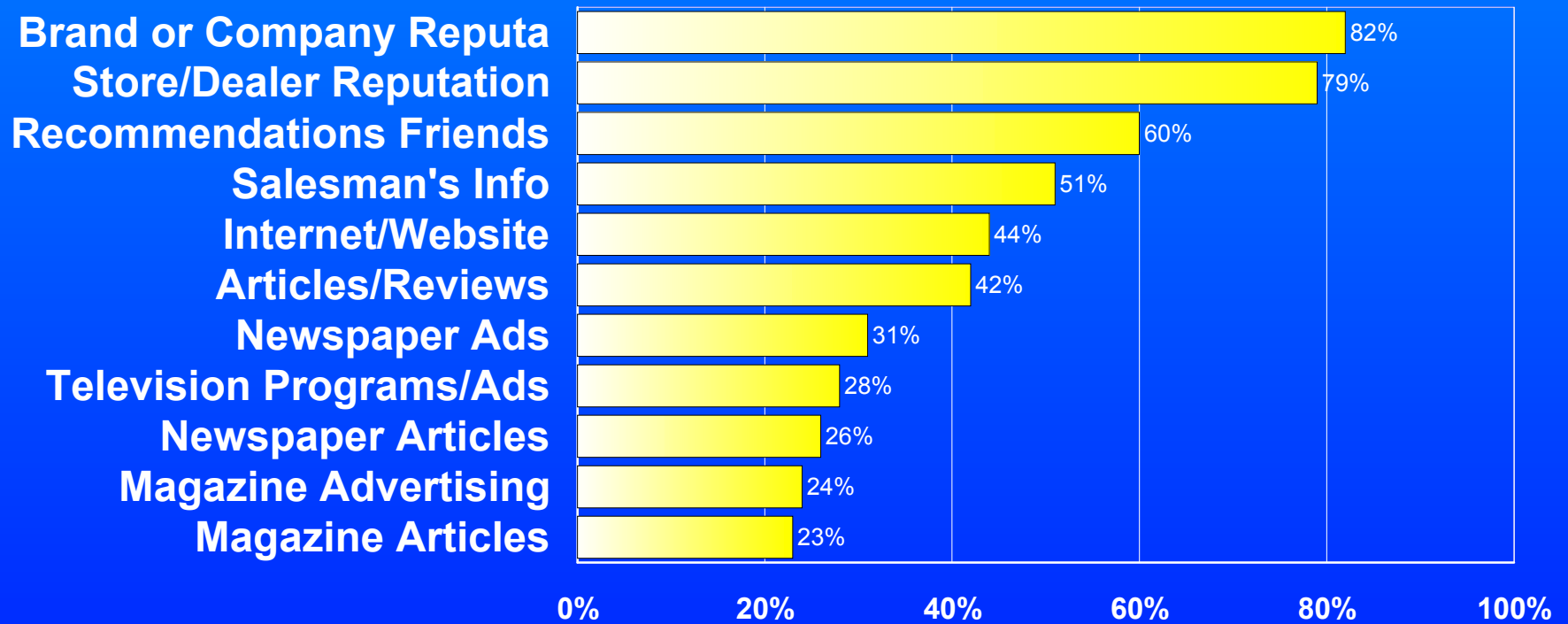
	<u>Total Spend</u>	<u>Total Housing</u>	<u>% Housing</u>	<u>Tot Home Furnis</u>	<u>% Home Spend</u>
1985	\$23,490	\$7,087	30.2%	\$936	13.2%
1990	\$28,381	\$8,703	30.7%	\$1,125	12.9%
1995	\$32,264	\$10,458	32.4%	\$1,401	13.4%
1996	\$33,797	\$10,747	31.8%	\$1,350	12.6%
1997	\$34,819	\$11,272	32.4%	\$1,512	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

Future Vision: Marketers Must Connect with Consumers

Brands Are Point of Connection

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



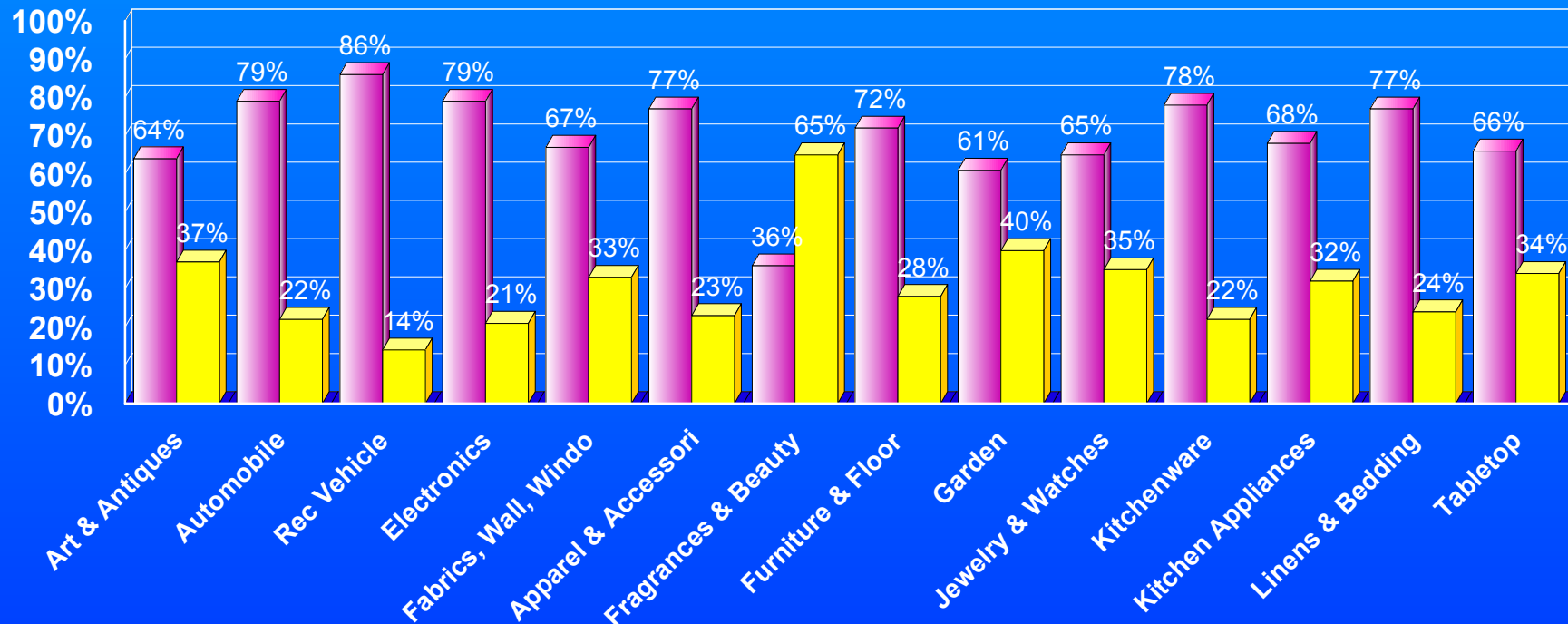
Base: Households over \$50k

The Role of Brands (product & retail) In Getting People to Buy Will Increase

Pricing: 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....

■ Buy on Sale ■ Pay List Price

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 price
- Unity's solution: Get creative in new techniques and new strategies to boost sales and capture greater market share

Connect throughout the Entire Buying Cycle

- Connect Before, During & After the Sale

Experiential Marketing Leads to 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%	22727.9	-7.7%
Christian Dior	\$11,174.0	26.7%	\$11,131.8	-0.4%	13798	24.0%
LVMH	\$10,909.0	27.0%	\$10,900.0	-0.1%	11313.6	3.8%
Richemont**	\$2,792.3		\$3,237.5	15.9%	3358.2	3.7%
Swatch	\$2,563.3	12.5%	\$2,419.5	-5.6%		
Luxottica Group	\$2,268.9	20.2%	\$2,731.8	20.4%	2959.9	8.3%
Gucci*	\$2,258.5	82.7%	\$2,285.0	1.2%	2285	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%	1876.7	0.2%
Tiffany & Co*	\$1,668.1	14.1%	\$1,606.5	-3.7%	1706.6	6.2%
Prada/I Pellettieri			\$1,553.6	1.4%	1635	6.7%
Hermes	\$1,090.9	16.8%	\$1,086.8	-0.4%	1100.9	1.3%
Waterford Wedgwood	\$1,021.3	15.1%	\$902.0	-11.7%		
Armani	\$973.6	11.6%	\$1,126.7	15.7%	1362.5	21.0%
Bulgari	\$636.6	17.9%	\$678.6	6.6%		
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%		
Avg	\$3,680.9	17.9%	\$3,703.0	4.4%	5032.7	8.5%

* Fiscal year ends early in year so sales reported represent sales year

** Previous year unavailable

Next Consumer Marketing Boom Will be in Services

**How can you service your
consumers' desires?**

Next Retail Challenge: Connect 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