

Information Pollution Is The Most Critical Issue Facing Communicators Today

- The weekday edition of the *New York Times* contains more information than the average person was likely to come across during a lifetime in 17th-century England
 - Richard Wurman in *Information Anxiety*
- Typical consumer sees over 2,500 commercial messages a day.
- In every hour of prime time TV, there are 11 minutes 44 seconds of ads, about 35 commercials.
 - Sam Hill in *60 Trends in 60 Minutes*

Definition of Marketing

- Marketing's chief aim is to sell more things to more people more often for more money
 - ▲ Sergio Zyman

Market Research Provides Information To Make Sales Decisions

- **Conventional Wisdom: Past Behavior Is Best Predictor of Future Behavior**
- **WRONG!** Studying past consumer behavior only tells you about the past. To foretell where the consumers are going, how they are likely to behave in the future, you must study something else.

Why People Buy...

So You Can Sell More

Why People Buy Predicts the Future

- The "why" that drives consumer behavior is stable and fixed over time, similar to personality traits
- Consumers behavior may change due to lifestage changes, life events, but the "why" that propels them in all aspects of life is unwavering
- Why people buy is a point-of-view that can energize marketing programs
- It's all about communicating with consumers on their terms, using their language so that you align the company with needs and desires of consumers

Research Discovers Why People Buy

- **Luxury Consumer Research : Integrated Qualitative & Quantitative research (May through August 2002)**
 - ▲ **Series of 7 focus groups with affluent women living in high value homes**
 - ▲ **Telephone survey among luxury consumers**
 - **total 866 randomly selected affluent homeowners (20-minute survey)**
 - **627 homeowners with HHI \$ 100,000 or more**
 - **239 comparative cell of moderately affluent homeowners with HHI between \$50,000-\$ 100,000**
 - ▲ **14 Luxury Products and 7 Luxury Services**

Research Discovers Why People Buy *(continued)*

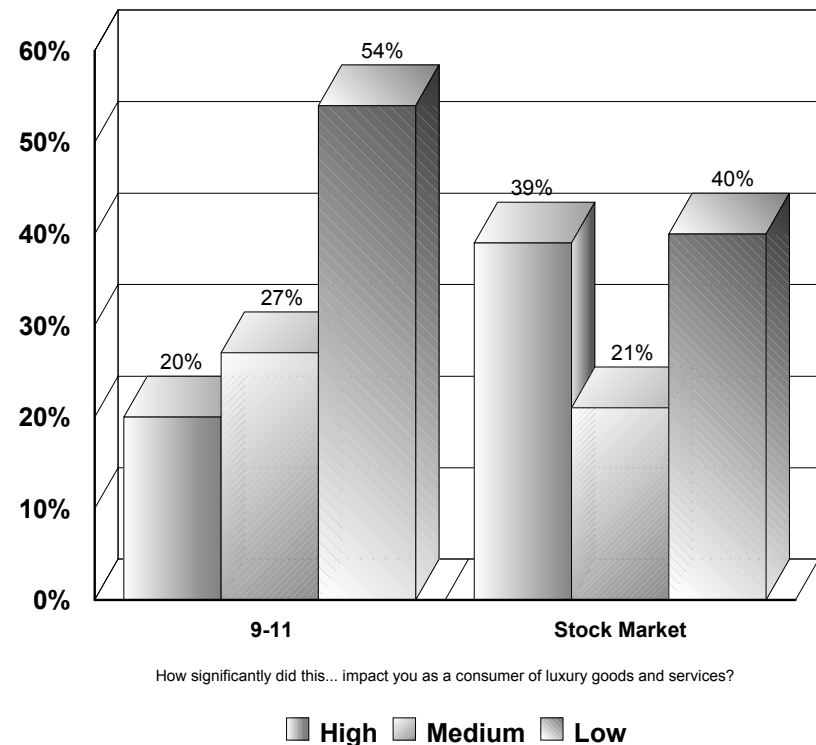
- Why People Buy Things They Don't Need (Ithaca, NY: Paramount Market Publishing, 2002)
 - ▲ Focus groups & two quantitative telephone surveys national representative sample
 - ▲ 30 different discretionary product categories

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

**Affluent market is bell-weather of
trends that will occur in the mass
market**

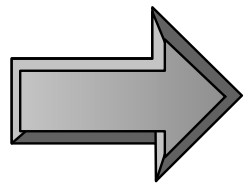
Luxury Market Is Feeling the Effects of Stock Market Downturn, more than 9-11

- 9-11 was emotional jar, but the real impacts on the feeling of well-being among the luxury market is due to stock market slide
- Rise of Comfortable Class: About half of affluents describe themselves as "comfortable," not wealthy, upper middle class, middle class.

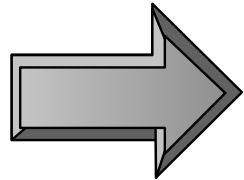


Base: Households over \$50k

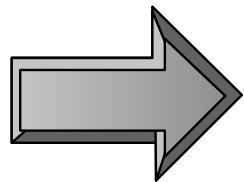
Four Categories of Discretionary Spending



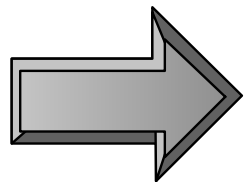
Discretionary



Indulgences



Lifestyle Luxuries



Aspirational Luxuries

Consumers View Discretionary & Luxury Purchases

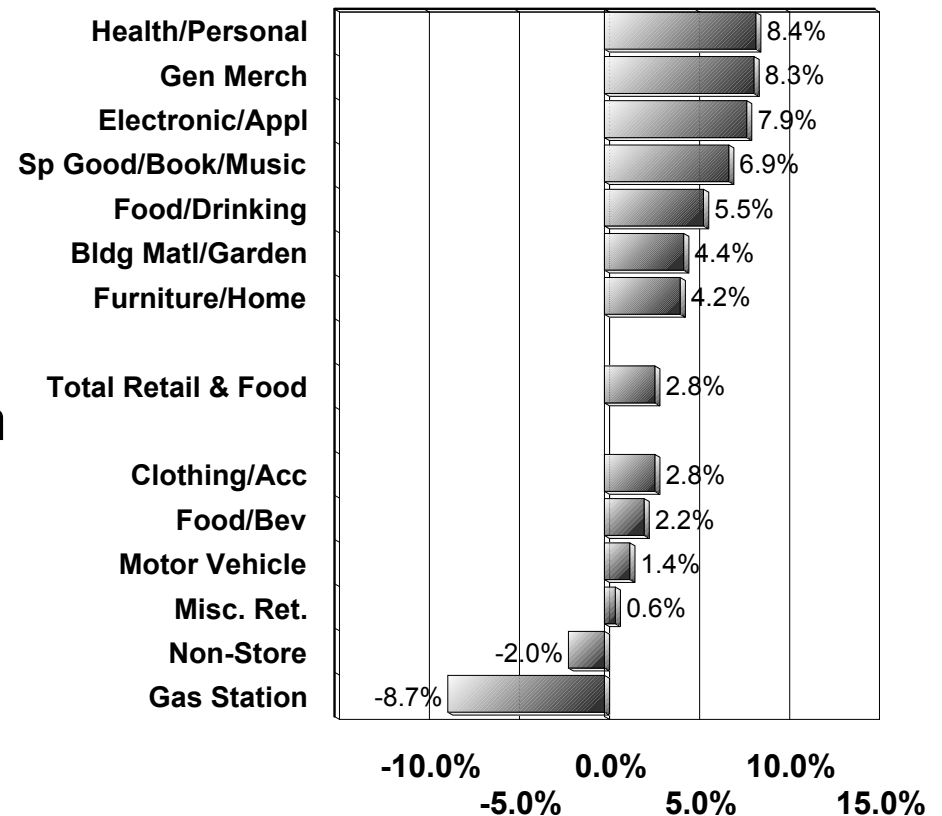
- Four types of discretionary-type purchases:
 - ▲ Discretionary: Things that make your life better, but you don't necessarily need, usually has a practical component (e.g. steam vacuum, water filter, 100% cotton sheets, down comforter, etc.)
 - ▲ Indulgences: Life's little luxuries, something I need EVERYDAY
 - Home furnishings and home accents fall into indulgence arena
 - ▲ Luxuries: More than you need, extras
 - Lifestyle Luxuries: Practical use (e.g. cars, watches, clothes, tabletop, furniture)
 - Aspirational Luxuries: Emotional satisfactions (e.g. art, boats, jewelry)

Where's the Consumer's Money Being Spent?

Not on Needs, But on Desires

- Emotion-based purchasing accounts for at least \$3 trillion of total \$10 trillion economy
- Needs-based businesses:
 - ▲ Razor thin margins
 - ▲ Commodity pricing
 - ▲ Little product differentiation
- Desire-based businesses:
 - ▲ High margins
 - ▲ Brand differentiation
 - ▲ Market-based pricing

Monthly Retail Sales Percentage Change
Jan-Jun '02 vs. Jan-Jun '01
by type of retailer

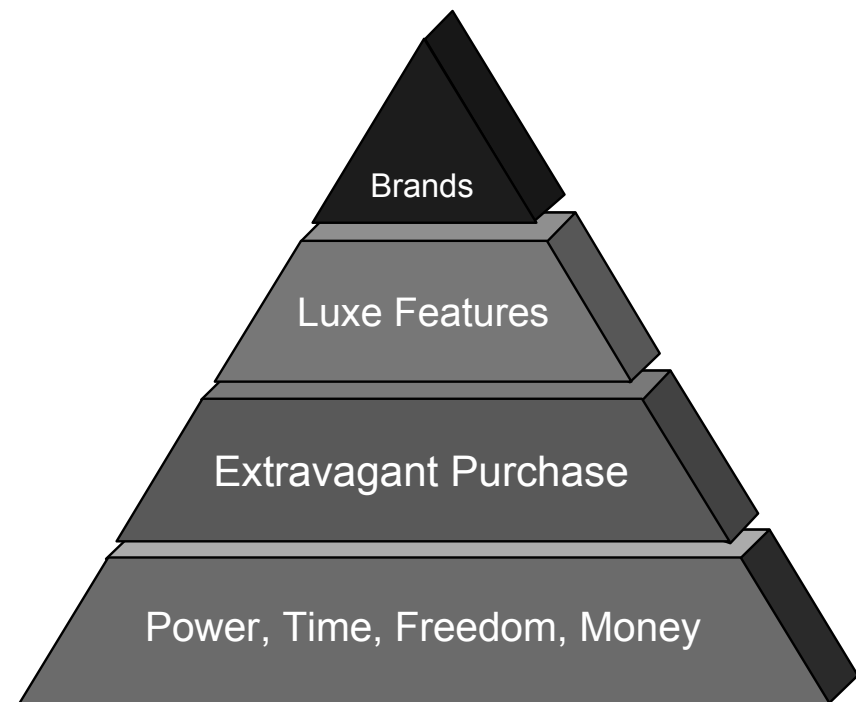


Source: U.S. Census; Est. Advanced Monthly Sales for Retail and Food Service

Luxury Is Power to Pursue Your Passions

- Luxury is individual, personal and defined subjectively
- Dimensions of Luxury define how consumers express luxury
 - ▲ Power to pursue and achieve luxury (money, knowledge, social, time)
 - ▲ Luxury is anything that is not needed or considered extravagant for one's current standard of living (e.g. Why People Buy Things They Don't Need)

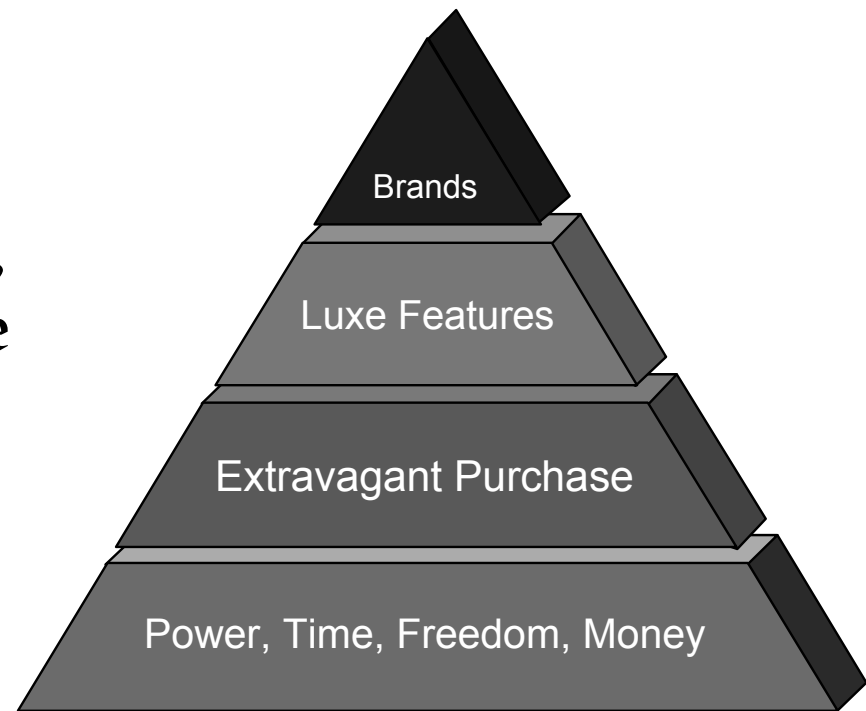
Dimensions of Luxury



Luxury Is Power to Pursue Your Passions

- ▲ Luxury product features, qualities and attributes which most consumers define as "luxury." (e.g. hand crafting, careful attention to detail, superior quality and design, sharp colors, appealing textures, long lasting, natural or exclusive materials) Ordinary brand, luxury features. Special retail.
- ▲ Luxury brand is the apex of the pyramid, most refined. Brands not about defining luxury, but making purchase decisions.

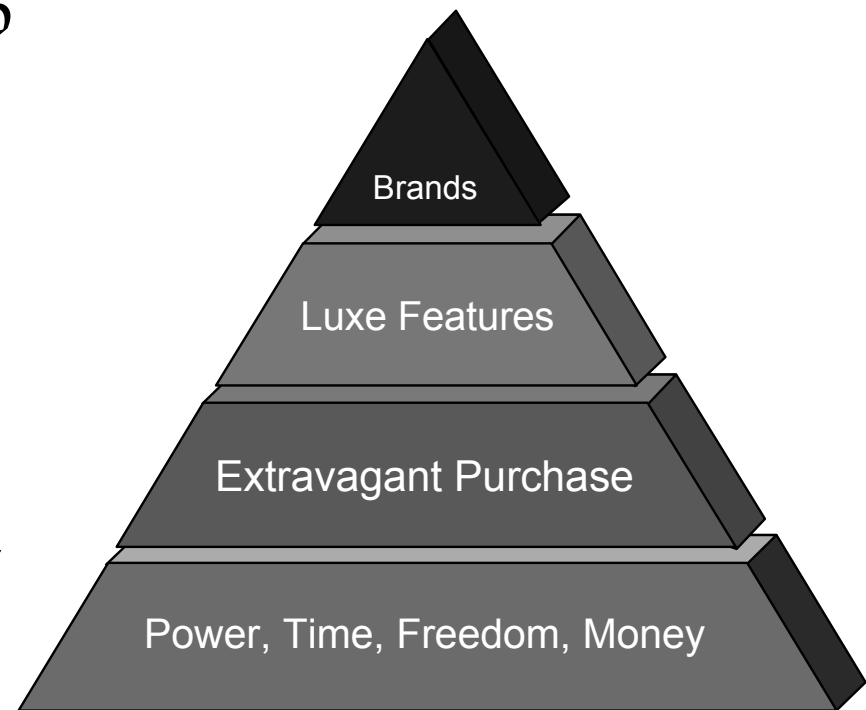
Dimensions of Luxury



Luxury Is All About Feelings

- 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 emotional values
 - ▲ Hopes, wishes and dreams of the consumers when they envision a luxury lifestyle.

Dimensions of Luxury



Luxury Major Findings

- Luxury consumers are searching for a new equilibrium and balance between their inner emotional landscape and their position in the social, political, professional milieu
- Luxury consumers are emerging from their luxurious cocoons and are looking for a new meaning in their life
- Ultimately luxury is all about a feeling and an experience. It isn't about cost but how much it means to you. It is for everyone but different for everyone. It is the freedom to pursue one's passions, to delve into one's interests, to go where you want when you want. It is a privilege that once one experiences it they don't want to give up.

Finding a New Equilibrium in their Lifestyle

- Luxury consumers are changing, shifting, moving in response to the changes in the world. They are trying to find a balance between their interior emotional world and the external world. They feel tension in what they buy, what they do, what they feel. They express new dichotomies, conflicts, challenges:

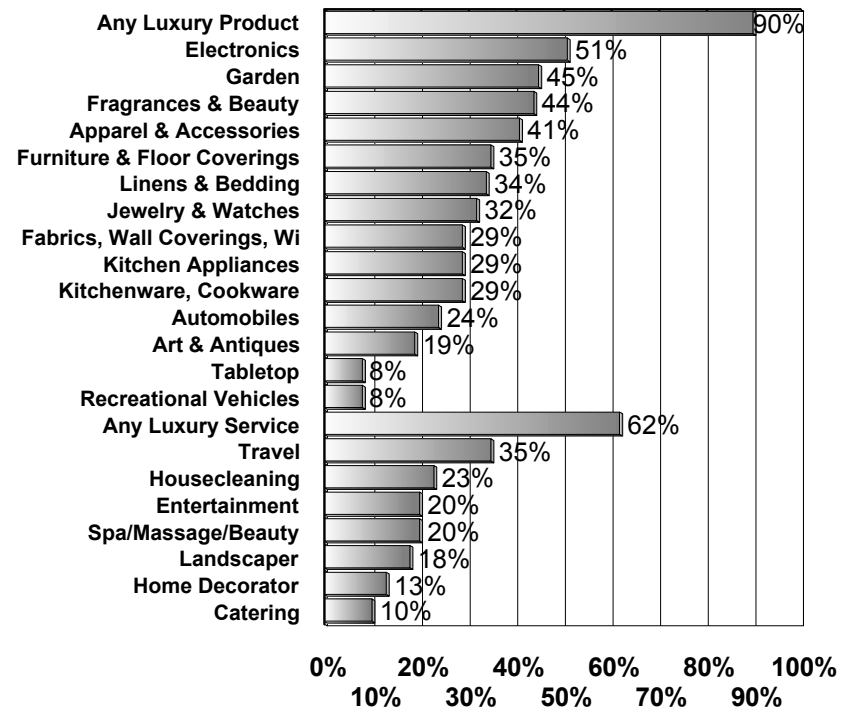
The New Equilibrium

<u>Inner World</u>	<u>Exterior Landscape</u>
Enhanced home environment	Navigating exterior world
Interest in electronics	Interest in garden
Reactive impulses	Empowered by information
Desire for exclusivity	Recognizing luxury is for everyone
Affluent lifestyle	Thrill of getting bargain
Buying luxury things	Craving luxury experiences

Luxury Electronics, Luxury Garden and Luxury Fragrances & Beauty Are Top Three Most Purchased Luxury Products

- Luxury electronics, garden and fragrance and beauty products top the list of most purchased luxury products
- Luxury service purchase incidence is lower, with travel being #1

Luxury Purchase Incidence



Base: Households over \$50k

Why Do People Buy Things They Don't Need?

- They BELIEVE they need them
 - ▲ Needs are emotional/psychological, not physical
 - ▲ Needs are real and compelling
 - ▲ Realm of dream fulfillment
 - ▲ Tipping Point: When things become a burden or cause too much stress (e.g. 9-11 tragedy)
 - When discretionary/luxury products stop contributing to quality of life, but start detracting from it.
 - When stress after buying is greater than stress created by the need.
- Key to Success: Play to the Emotional Need

Justifiers Define Why the Consumers' Buy

Improving the Quality of Life

▲ Pleasure

▲ Beautify Self & Home

▲ Education: Need to Know

● Higher education, the more they want education

▲ Relaxation

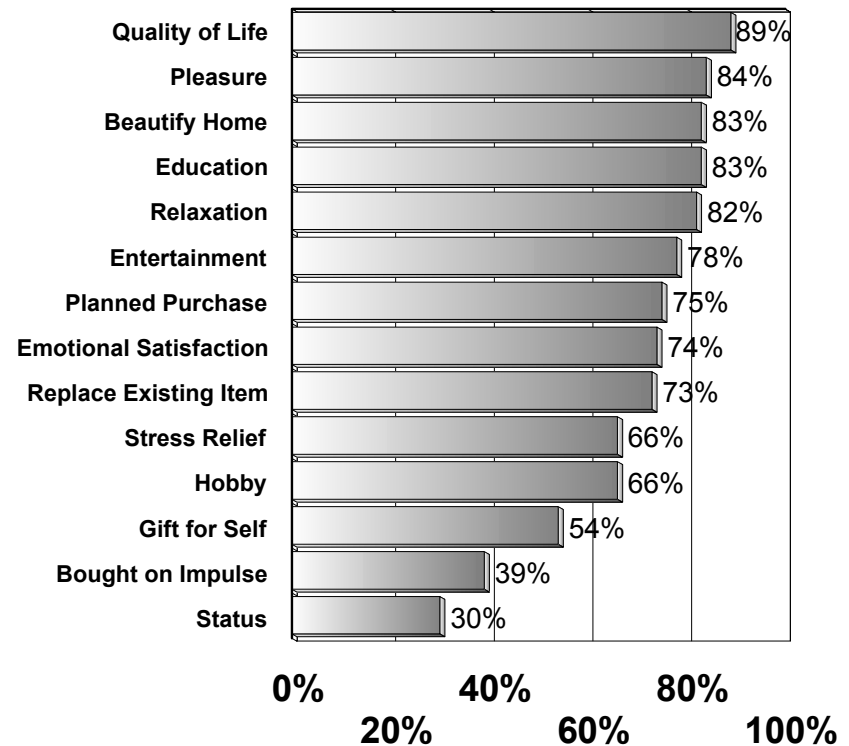
▲ Entertainment

▲ Emotional Satisfaction

▲ Replace Existing Item

Quality of life is deep concept, need to dig deep for meaning

Motivators to Buy
Discretionary Products
Very Important/Somewhat Important



Affluent Market Represents 35 Million Households

Household income before taxes:

- ▲ Median: \$44,299
- ▲ About one-third households have income over \$50,000
- ▲ Total: 35 million households
 - 11 million over \$90,000

Household income before taxes:

Affluent households have on average 3 people (1 child); 2 incomes; 3 vehicles; primarily white; high education levels; own home; ages 35-64 years old

Household Income
Number of Households in millions

	Number	% Total
< \$50,000	73.6	67.6%
\$50,000 to LT \$60,000	8.4	7.7%
\$60,000 to LT \$70,000	6.5	6.0%
\$70,000 to LT \$90,000	9.2	8.4%
\$90,000 and over	11.3	10.3%

Source: BLS, Consumer Expenditure Survey

Affluent Households Spend Differently

- Affluent households spend proportionately less on Food, Housing, Transportation, Health Care, Personal Care
- Affluent households spend more on Furniture & Equipment; Household Services; Apparel; Entertainment; Education
- Affluent households spend significantly more on Insurance

Top Quintile = \$67,517 income and above

	All	% Spnd	Top Quintile	% Spnd	% Pt. Dif
Food	\$5,158	13.6%	\$8,679	11.6%	-2.0
Food Home	\$3,021	7.9%	\$4,507	6.0%	-1.9
Food Out	\$2,137	5.6%	\$4,173	5.6%	-0.1
Alcohol	\$372	1.0%	\$780	1.0%	0.1
Housing	\$12,319	32.4%	\$22,611	30.1%	-2.3
Furniture & Equ	\$1,549	4.1%	\$3,450	4.6%	0.5
Services	\$684	1.8%	\$1,685	2.2%	0.4
Shelter	\$7,114	18.7%	\$13,004	17.3%	-1.4
Utilities	\$2,489	6.5%	\$3,522	4.7%	-1.9
Supplies	\$482	1.3%	\$951	1.3%	-0.0
Apparel & Servi	\$1,856	4.9%	\$3,989	5.3%	0.4
Transportation	\$7,417	19.5%	\$13,315	17.7%	-1.8
Health Care	\$2,066	5.4%	\$2,864	3.8%	-1.6
Entertainment	\$1,863	4.9%	\$3,866	5.1%	0.3
Personal Care	\$564	1.5%	\$983	1.3%	-0.2
Reading	\$146	0.4%	\$291	0.4%	0.0
Education	\$632	1.7%	\$1,462	2.0%	0.3
Other	\$2,287	6.0%	\$4,704	6.3%	0.3
Insurance	\$3,365	8.8%	\$11,557	15.4%	6.5
Total Spending	\$38,045	100.0%	\$75,101	100.0%	0.0

Note: BLS, Consumer Expenditure Survey, 2000

Key Demographic Trends Shaping Market for Luxury & Discretionary Goods

- Escalating Quality of Life
- Aging of Baby Boomers
- Increased Education Levels
- Minority Majority

American Quality of Life Is Highest in World

- Once a consumer economy, always a consumer economy
 - ▲ Two-thirds or \$6.6 trillion is consumer spending
 - 40% or \$3 trillion is spent on buying things people don't need
- Per Capita Gross Domestic Product
 - ▲ U.S. = \$36,200
 - ▲ World = \$7,200
- *American Way of Life*
 - ▲ *Net Worth: \$71,600*
 - ▲ *Income: about \$44,299*
 - ▲ *Home Ownership: 67%*
 - ▲ *Median Sq. Ft.: 1,702*
 - ▲ *1 + 1/2 or more Baths: 52%*
 - ▲ *Porch/Deck/Patio: 85%*
 - ▲ *2+ living/den rooms: 48%*
 - ▲ *Central Air: 47%*
 - ▲ *Dishwasher: 50%*
 - ▲ *Color TV; 98%*
 - ▲ *VCR: 88%*
 - ▲ *Personal Computer: 35%*

American Consumers Continue to Demand More

- Only direction for consumers' standard of living is UP
- As consumers achieve one standard of luxury, that standard becomes the norm
- They continue to want to move up and gain more luxury satisfactions

Aging Population Means More Households in Peak Spending Years

- 10 yr. growth in households: 10.3%
- Total number of younger households (44 years and under) will decline while older households will grow rapidly
 - ▲ Fastest growing age segment will be 55-to-64 years (52.2% growth) and 45-to-54 years (25.2%)
 - ▲ Age range with the most significant decline in next ten years is 35-44 year olds, down 14.2%

**Household Projections
in millions
2000-2010**

	<u>2000</u>	<u>2005</u>	<u>2010</u>	<u>10 yr. Chg.</u>
Total	104.1	108.8	114.8	10.3%
Under 25 years	5.9	5.4	5.7	-3.4%
25-34	18.8	16.6	17.5	-6.9%
35-44	24	22.6	20.6	-14.2%
45-54	20.2	23.9	25.3	25.2%
55-64	13.6	17.3	20.7	52.2%
65+	21.6	23.1	25.1	16.2%

Source: Census Bureau

Discretionary Prospects Through 2010: Very Good

- **Highest Income:** Households ages 45-54 have highest average income (\$59,822), followed by 35-44 (\$53,579)
- **Most earners:** Households ages 45-54 have the highest number of individual wage earners (1.8), followed closely by those ages 35-44 (1.7) and ages 25-34 (1.5). Probably age dependent.
- **Homeownership rises with age:** Homeownership increases with age, with those 45 and above having the highest percentage of homeownership.
- **Household Furnishings & Equipment spending highest:** Households ages 45-54 spend the most on Household Furnishings & Equipment (\$1,980 on average), followed by households 55-64 (\$1,779) and households 35-44 (\$1,590).

**Demographic Characteristics by Age Range
1999**

	<u>Avg. Income</u>	<u>Avg. # People</u>	<u># Children</u>	<u># Earners</u>	<u>% Homeowner</u>	<u>Some College o</u>
Total	\$43,951	2.5	0.7	1.3	65%	55%
Under 25	\$18,276	1.8	0.4	1.3	13%	64%
25-34	\$42,470	2.9	1.1	1.5	45%	60%
35-44	\$53,579	3.2	1.3	1.7	67%	59%
45-54	\$59,822	2.7	0.6	1.8	77%	62%
55-64	\$49,436	2.2	0.2	1.3	80%	50%
65+	\$26,581	1.7	0.1	0.4	80%	38%

Source: BLS, Consumer Expenditure Survey, 1999

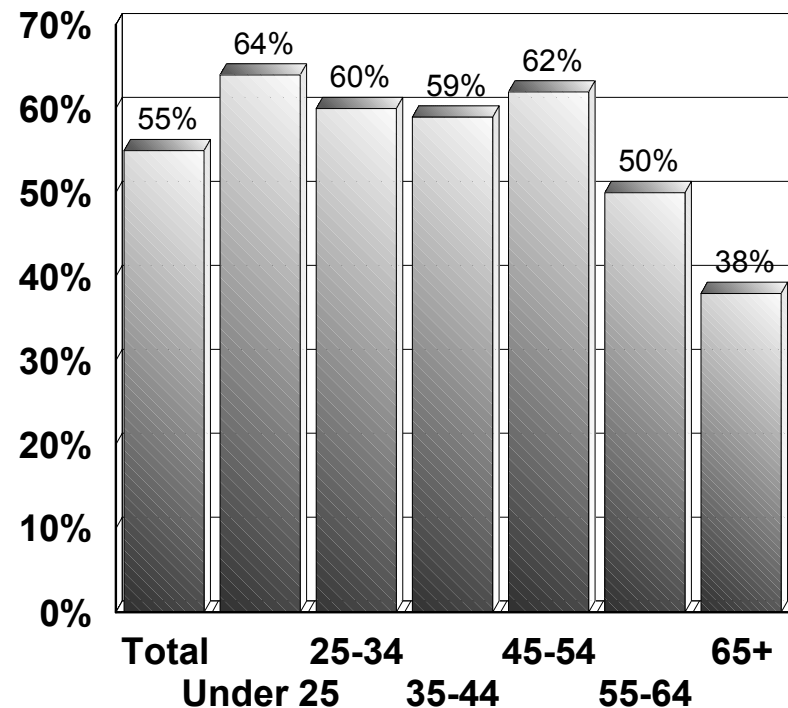
Discretionary Prospects: Caution after 2011

- Leading age baby boomers will reach 65 years old, with marked change in consumer spending
 - ▲ "Been there, Done that" thinking begins to take over after 55 years of age, picking up steam at 65 years
- Smaller sized GenX population will mean fewer households to follow in boomers footsteps through peak spending years (45-to-64)
- Millennial generation (boomers' children, born about 1977 on) is almost as large as boomers.
 - ▲ Today leading edge millennials are 25 years old, signaling the start of household formation and building life stage.
 - Wedding boom coming, starting about 2005
 - Not yet affluent, millennials will spark value-oriented home spending
 - ▲ In 2011 leading edge millennials will reach 34 years old

Rising Education Level Will Present New Opportunities

- More educated consumers have different needs and more complex values.
- Some product categories strongly linked to educational attainment: Electronics, Art, Books, Entertainment
- Educated consumer DEMANDS information
 - ▲ How we position and communicate brand strategy
 - ▲ How we communicate in advertisements
 - ▲ How we distribute products

Consumers with Some College or More by Age, 2000



Source: BLS, Consumer Expenditure Survey, 1999

Minority Majority Trend

- White Americans of non-Hispanic origin will fall below 50% of the population, while Hispanics, Blacks and other ethnic groups will together represent the national majority
- Emotions are universal, but people from different cultures express emotions differently
- Need to understand how people with different cultural origins express those emotions as consumers

**Population Projections
2000-2050
Percent by Hispanic & Non-Hispanic Origin**

	Hispanic	Non-Hispanic	Blacks	Other
2000	11.8	71.4	11.2	4.6
2010	14.6	67.3	12.5	5.6
2020	17	63.8	12.8	6.5
2030	19.4	60.1	13	7.5
2040	21.9	56.3	13.1	8.6
2050	24.3	52.8	13.2	9.7

Source: U.S. Census Bureau, Population Reports, May 2000

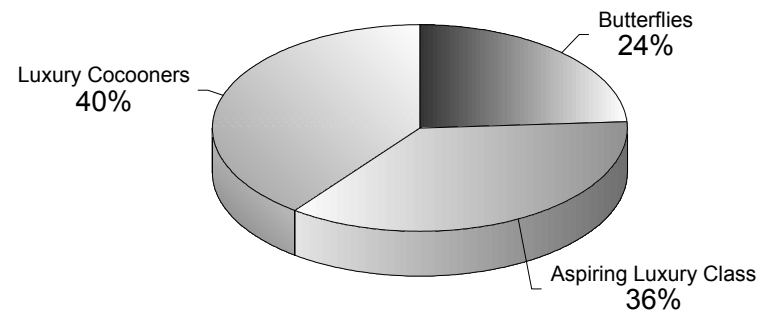
Key Luxury Market Trends

- Trend #1: Luxury consumers are emerging from their cocoons and reconnecting with the outside world
- Trend #2: Luxury brands' role in getting people to buy will increase
- Trend #3: Luxury must continually evolve and reinvent itself
- Trend #4: Luxury consumers are savvy shoppers that expect greater and greater value
- Trend #5: Luxury must extend throughout the entire buying cycle
- Trend #6: Next luxury boom will be in luxury services

Trend #1: Luxury Consumers Are Emerging from Their Cocoon and Reconnecting with the World Outside

- Cocooning trend is over
 - ▲ Butterfly segment reflects new orientation toward both interior and external worlds
- What does the end of the cocooning trend mean for manufacturers and marketers of home goods, both luxury and mass? What it doesn't mean is the end of consumer spending on home.

Luxury Attitudinal Segments



Trend #1: Luxury Consumers Are Emerging from Their Cocoon and Reconnecting with the World Outside

(continued)

- As the luxury consumers emerge from their cocoons, they will look for new products and new experiences that they can spend their money on.
 - ▲ More spending on business dress, fashion and accessories, beauty and fragrance, jewelry and watches.
 - ▲ As they turn their attention to the external environment, spending on the exterior of their home, especially the garden, patio and pool will increase.
- With a new attention to the social milieu, a return to status takes hold.

Implications & Opportunities — Luxury Consumers Are Emerging from Their Cocoon

■ From cocooning to connecting:

- ▲ Sam Hill in his new book *60 Trends in 60 Minutes* (Hoboken, NJ: John Wiley & Sons, 2002) forecasts that the dominant cultural trend for the immediate future is "Interconnectedness."
- ▲ Interconnectedness is the way the world and everyone in it is becoming interconnected through travel, media, electronic networks, etc., as opposed to disconnectedness which is the result of not being tied into networks that communicate, transport people or distribute goods and services.
- ▲ Cocooners are disconnected, butterflies are connected.

Implications & Opportunities — Luxury Consumers Are Emerging from Their Cocoon

- World gets smaller
 - ▲ Globalization will take on new meaning
 - ▲ More movement of luxury goods, services and luxury ideas between international markets, not just inbound from Europe but going the other way as well
 - ▲ Multinational luxury conglomerates will expand
 - ▲ States-bound luxury marketers will take a new look at small bastions of affluent, luxury consumers hidden in out of the way places, within second world, even third world economies

Implications & Opportunities — Luxury Consumers Are Emerging from Their Cocoon *(continued)*

- Speed of business change will increase
 - ▲ Ideas, as well as people, products and services, move faster and faster. Therefore luxury marketers must develop corporate cultures that are predisposed for action.
 - ▲ They must be able to instantly spot shifts, turns and leaps within the luxury markets they serve. They must respond with lightening speed and accurate targeting.
 - ▲ Two-year product development lifecycles can not be supported in the new global lightening-fast pace of luxury marketing in the future.

Implications & Opportunities — Luxury Consumers Are Emerging from Their Cocoon *(continued)*

- Luxury marketers must truly connect with their consumers
 - ▲ We must develop ongoing, meaningful, two-way dialogues with our customers, our potential customers, our future customers.
 - ▲ We are used to one-way communication, but with the advent of the Internet, the company website can become the central hub for two-way communication with the customer.
 - ▲ Every point of contact between the luxury brand and the consumer must be reconfigured for two-way interconnectedness. That means new methods of communications must be established between and among the luxury brand's customers, retailers, distribution partners and the company.
 - ▲ Connecting why the consumer buys with how to reach them and where to reach them takes new meaning

Implications & Opportunities — Luxury Consumers Are Emerging from Their Cocoon and Reconnecting with the World

- Garden and gardening products set to boom
- Status will return
 - ▲ A return to purchasing items that signal status is also predicted as luxury consumers assume their leadership role in society.
 - ▲ Good news: Fashion & accessories; fragrance and beauty; jewelry watches
 - ▲ Automobiles will continue to be one of the luxury consumers' favorite status symbol and the manufacturers continued broadening of the luxury market with new luxury models, lower priced, but still luxurious cars, luxury SUVs, even luxury pickup trucks are going to find an expanding market

Implications & Opportunities — Luxury Consumers Are Emerging from Their Cocoon(*continued*)

- More spending on luxury travel and entertainment is also in the forecast.
 - ▲ The demand for adventure travel will grow as consumers seek to create experiences as they venture into new regions of the world.
- Growing demand for personal services to free the luxury consumers so they have more time to spend in society.
 - ▲ Service providers will enhance the quality of the luxury consumers' life by giving them more time to devote to their passions.

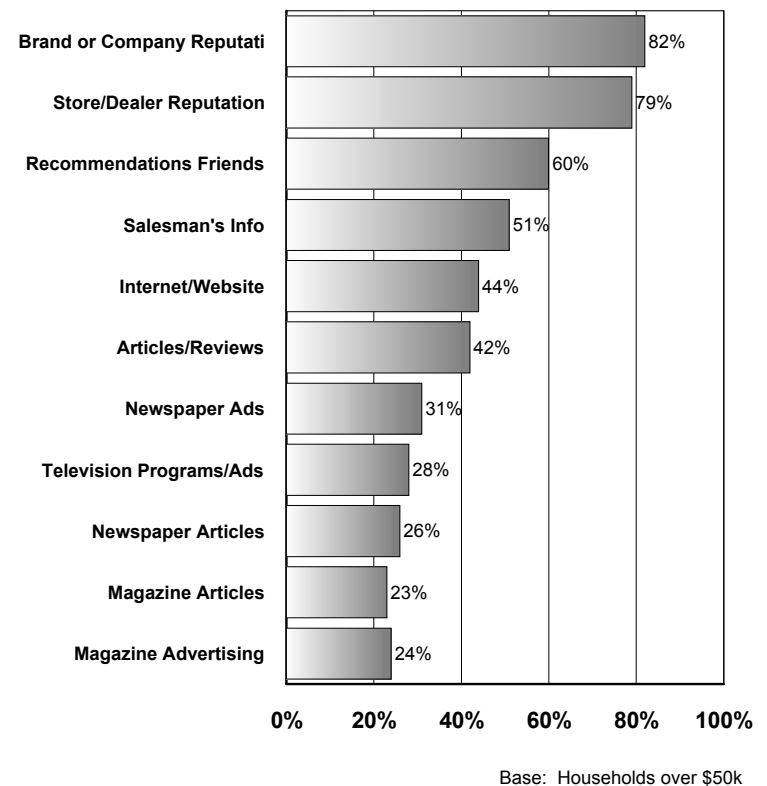
Implications & Opportunities — Luxury Consumers Are Emerging from Their Cocoon *(continued)*

- Just because consumers are emerging from their cocoon, it doesn't mean that the home is no longer a focus for spending.
 - ▲ Expanding competitive landscape for home marketers as consumers' attention is diverted to non-home-based pursuits.
 - ▲ Home furnishings retail market is ready for a major overhaul.
 - Trendsetters such as Ethan Allen and ABC Carpets provide models of the home furnishings stores in the future. These new stores will offer not just goods, but services to decorate the home.

Trend #2 – Luxury Brands Role In Getting People to Buy Will Increase

- Brands don't define luxury, but they drive sales:
 - ▲ Only 10% of our luxury consumers surveyed agreed with the statement, "Luxury is defined by the brand of the product, so if it isn't a luxury brand it isn't a luxury."
- Branding, that is building a brand, communicating its values and using the brand as a conduit to link up and connect with the customers, will continue to grow as the pivotal axis on which all marketing is based.

Influencers on Last Luxury Purchase Very Important/Somewhat Important



Trend #2 — Luxury Brands Role In Getting People to Buy Will Increase (*continued*)

- What is a brand? Not just marketing concept or financial concept
 - ▲ The brand is the contract between the company and the consumer with the terms of that contract written in emotions. It's on an emotional level that consumers relate to brands. Their passion, loyalty, dreams and desires are all involved with the brand.

Trend #2 — Luxury Brands Role In Getting People to Buy Will Increase, *continued*

- Faith Popcorn in her book *EVEolution* makes a point that women don't buy brands, they "join them." Brands enable the consumers to sift the trash from the treasure.
 - ▲ Consumers buy these brands to belong to them, to make the brand a part of themselves and their identity. Brand confer status on the owner, but its more than that...it becomes part of the consumer's personal identity, who they are, what their value system is. The passionate way consumers interact with their favorite brands is almost religious in nature. It goes beyond logic and reason to the depths of ones' personal identity.

Trend #2 — Luxury Brands Role In Getting People to Buy Will Increase, *continued*

- The essential role of brands and branding in the luxury market is to influence the consumer in their purchase decision.
 - ▲ Half of the luxury consumers surveyed say that the brand or company reputation is very important when they made their last luxury purchase decision.
 - ▲ The brand of the store is second only to brand of product in influencing purchase decisions. Some 45% of the luxury consumers rated the store or dealer reputation, i.e. brand, as very important in their last purchase decision.
 - ▲ Got to pick the right distribution partners...why more and more luxury goods producers are embracing captive retail as the best way to distribute their products to the customer.

Implications & Opportunities: Luxury Brands Role In Getting People to Buy Will Increase, *continued*

■ Luxury branding is different

- ▲ For the luxury brand, where the brand is sold, the company it keeps on the pages of magazines and advertising vehicles, and who see it is far more important that sheer numbers of advertising impressions.
- ▲ For luxury brands public relations, often supported by corporate promotional spending at the retail level, is critical to communicating the brand values and making the connection with the customer.
- ▲ The magazines selected for advertising are chosen for the quality of the readership, not the sheer numbers. The company must exert as much creativity in its brand development programs they do in their product development activities.

Implications & Opportunities: — Luxury Brands Role In Getting People to Buy Will Increase, *continued (continued)*

- The best way to cut through the advertising pollution is by communicating emotionally with the consumers
 - ▲ Use their terms and their imagery so that the advertising resonates instantly with the consumers.
- In communicating their brand to the consumer the advertiser must not talk to the consumer, rather they need to create a dialogue with the consumer.
 - ▲ They need to understand "why people buy" the specific brand...what qualities, attributes, values the consumer associates with the brand...what imagery the brand evokes...what fantasies, what feeling, what experiences that it fulfills for the consumer. Then these concepts need to be translated into advertising that will connect with the consumer.

Implications & Opportunities: Luxury Brands Role In Getting People to Buy Will Increase, *continued (continued)*

- At the retail level, the standard of customer service is critical to the proper presentation of luxury goods.
 - ▲ The sales person plays a critical role in transmitting the brand values and the brand identities, e.g. in telling the customer convincingly why this item is worth three-to-five times more than a comparable item at Sears or J.C. Penney.
- An opportunity for building one's luxury brand is to select only those retailers that are committed to the brand.
- The investment in flagship stores pays off in augmenting the brand's prestige, providing a venue to showcase the entire product line, and presenting the brand as a lifestyle.

Implications & Opportunities: Luxury Brands Role In Getting People to Buy Will Increase, *(continued)*

- In conclusion the key opportunities for luxury brand owners to overcome information pollution is the following:
 - ▲ Communicate brands in a way that facilitates consumers ability to reconcile the "tension" between desire for luxury and need for new meaning in life;
 - ▲ Identify market niches that brands can fill: (lifestage change, lifestyle changes that trigger consumer purchasing), and communicate to those constituencies through target marketing, promotions, programs and point of sale efforts.
 - ▲ Actively communicate luxury brands both rationally and emotionally in order to truly achieve consumer luxury brand recognition.

Trend #3: Luxury Must Continually Evolve & Reinvent Itself

- **Luxury is ultimately about the unattainable.**
 - ▲ **Today's luxuries become tomorrow's necessities.**
 - ▲ **Affluent are the early-adopters or the bell-weather that predicts where the rest of society will be in the near future.**
 - ▲ **Unity's guiding principle in trend forecasting: First the rich do it, then everybody else.**

Trend #3: Luxury Must Continually Evolve & Reinvent Itself (*continued*)

- The luxury consumer is in a state of perpetual motion, always moving away from the ordinary toward the extraordinary.
- Once a consumer has experienced luxury, they are heavily invested in not going back to the ordinary. Luxury represents the divide that says to the consumer, "I have made it."
- Because luxury is tied up with creature comforts and feelings of comfort, consumers who achieve a luxury lifestyle are not likely to make do with less or give up continued luxury.

Implications & Opportunities: Luxury Must Continually Evolve & Reinvent Itself

- luxury marketers need adaptability hardwired into the structural "DNA" of the luxury company
 - ▲ Because so much of luxury is about fashion, luxury marketers must keep out in front of their markets, anticipating their needs, and designing new products so that the products are ready and waiting when the consumer goes shopping to find them.

Implications & Opportunities: Luxury Must Continually Evolve & Reinvent Itself *(continued)*

- Technology offers ability to reinvent:
 - ▲ Electronics, this year's #1 most purchased luxury products, owes its leadership position to technology developments.
- Luxury marketers will be rewarded as they anticipate and plan for the next luxury innovation, the next new desire that will sweep through the luxury market.
- And, of course, after it transforms the luxury market, that next big thing will expand to the mass market.

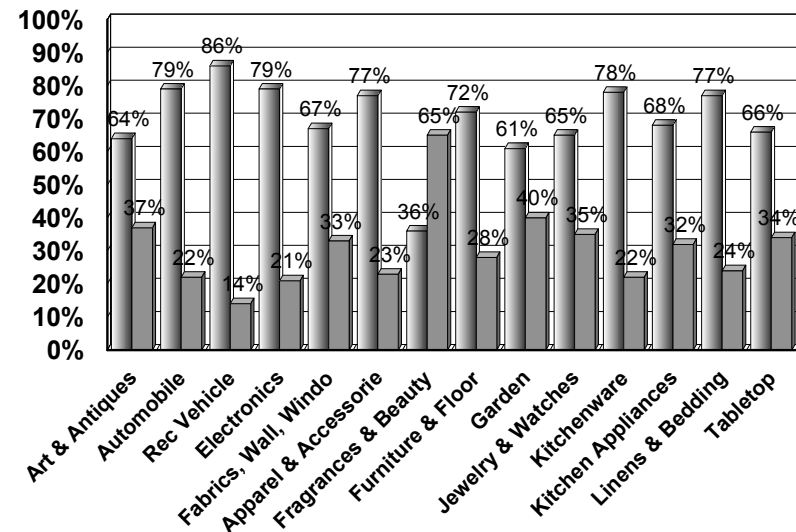
Trend #4: Luxury Consumers Are Savvy Shoppers That Expect Greater & Greater Value

■ Luxury shoppers go for bargains

▲ In every single category by one, beauty and fragrance products, the majority bought on sale or at a discount off the list price.

■ Time for us all to rethink our pricing strategies and the basic suppositions on which those pricing strategies are based.

Luxury Purchase Behavior



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

■ Buy on Sale ■ Pay List Price

Base: Luxury Product Purchasers

Trend #4: Luxury Consumers Are Savvy Shoppers That Expect Greater & Greater Value *(continued)*

- The luxury shoppers are ready, eager and always willing to search out the best price. They are savvy shoppers and know how to find a bargain and get a good price.
- The Internet is a favorite way for the more affluent, savvy luxury shoppers to comparison shop.
- Saving money/getting a bargain is scorecard on which consumer measures her "winnings" in the consumer game

Implications & Opportunities: Luxury Consumers Are Savvy Shoppers *(continued)*

- *In Businessweek's* October 21, 2002 issue they report, "Prices just keep plunging: Fears of deflation are growing as a profit squeeze prompts more cuts."
- Sales are Pandora's box of marketing: If sales are the only way to drive customers in to the store, or to get people to buy your brand, than something fundamentally is wrong with the way you're doing business.
 - ▲ Department stores' favorite trick, but it becomes less and less effective in driving traffic.
 - ▲ Marketers are giving away their profit in sales

Implications & Opportunities: Luxury Consumers Are Savvy Shoppers *(continued)*

- Unity's solution: Get creative in new techniques and new strategies to boost sales and capture greater market share.
 - ▲ Consumer promotions as a substitute for sales or giving the consumer more for their money, rather than cutting the price, may be one alternative, e.g. gift-with-purchase (Estee Lauder) or buy one-get-one-free.
 - ▲ Why not change the way consumers keep score by giving them more, something extra, rather than simply saving them money.
 - ▲ In the luxury market, marketers and retailers have a wonderful opportunity to change the game so that consumers can feel like winners without costing the company or store their profits.

Implications & Opportunities: Luxury Consumers Are Savvy Shoppers *(continued)*

- New emphasis on loyalty programs
 - ▲ Too many companies and retailers think that customer loyalty is something the customer does for you — that is totally backwards.
 - ▲ Customer loyalty is something the company/brand does for the customer. Customer loyalty is being loyal to the drives, dreams, needs of the customer...Placing them first.

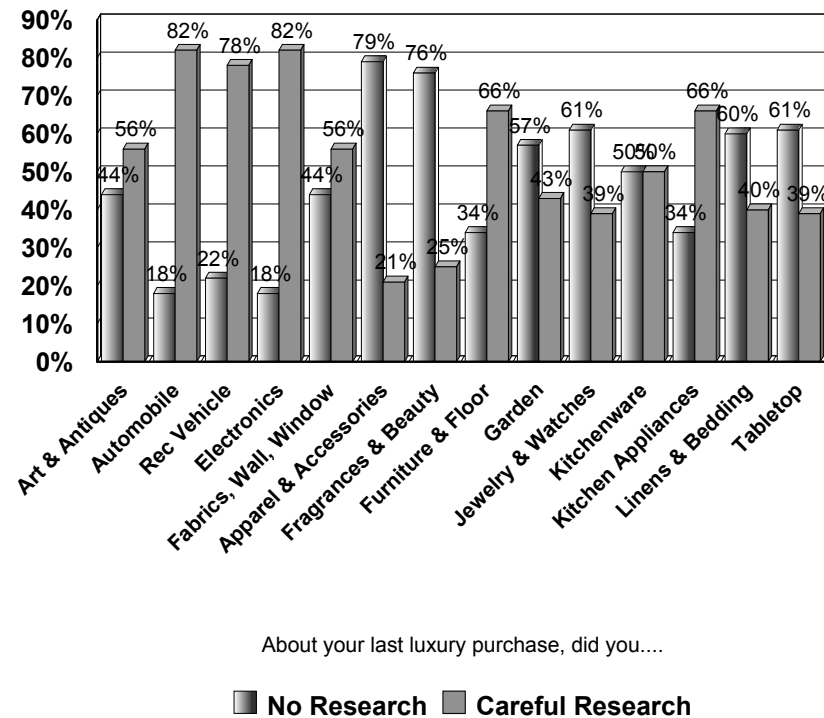
Implications & Opportunities: Luxury Consumers Are Savvy Shoppers *(continued)*

- Pricing is a trust issue: Consumers don't trust the price
 - ▲ The October 16, 2002 issue of the NYT reported in "The Latest in Luxury: Haggling," that many buyers and sellers are haggling, not just in small private boutiques, but in SoHo furniture stores, chain electronics stores, even department stores like Bloomingdale's.
 - ▲ This is clearly a trend among consumers..they believe the price isn't REALLY the price, so the consumer is reduced to haggling to find out what the price really is.

Trend #5: Luxury Must Extend Throughout the Entire Buying Cycle

- Consumers want luxury throughout the entire buying cycle.
- Pleasure is derived in the anticipation and buildup of excitement surrounding the purchase.
- Even more important is the role of in-store customer service. Luxury consumers expect greater levels of attention and service, paradoxically even when they also expect to get a bargain.

Luxury Purchase Behavior

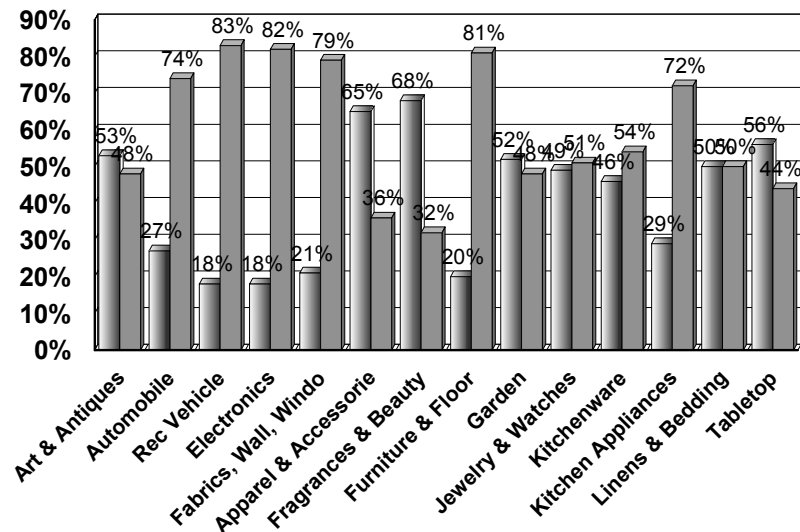


Base: Luxury Product Purchasers

Trend #5: Luxury Must Extend Throughout the Entire Buying Cycle *(continued)*

- At the end of the anticipation and waiting period, consumers are emboldened with a strong feeling that they deserve a reward for their wait.
- They want a reward, i.e. they want to feel like a winner, and the retailing environment can do much in satisfying the consumers' desire to be rewarded.

Luxury Purchase Behavior
Buy on Impulse vs. Waited a Long Time



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

■ Buy on Impulse ■ Wait Long Time

Base: Luxury Product Purchasers

Trend #5: Luxury Must Extend Throughout the Entire Buying Cycle *(continued)*

- Buying luxury is rarely a do-it-yourself process.
 - ▲ One of the defining characteristics of luxury retailing is that luxuries need to be "sold" and "presented" by a competent and knowledgeable sales professional.
 - ▲ The sales professional teaches the consumer to distinguish the superior features of a particular luxury brand.
 - ▲ Through the sales process, the consumer becomes initiated into a select group of the special, privileged. This is critical to the success of luxury selling, luxury brand building and luxury consuming.

Implications & Opportunities — Luxury Must Extend Throughout the Entire Buying Cycle *(continued)*

- Control every point of customer contact throughout that cycle and make sure to flavor all contact with luxurious messages.
 - ▲ Advertising sets the stage for luxury indulgence.
 - ▲ It must be presented in the right stores where the sales staff are trained to present the luxury product in the right light.
 - ▲ Product must deliver luxury.
- Alternatives to store retailing?
 - ▲ Direct selling, party-plans, e.g. Longaberger, PartyLites
 - ▲ Television retailing, e.g. QVC and long-form infomercial

Trend #6: Next Luxury Boom Will be in Luxury Services

■ Next boom in luxury will come in luxury services.

▲ Luxury product sales boomed in the 90's with luxury goods companies growing as much as 10-20% annually throughout the decade. Goods will settle to modest 3-5% growth.

■ Now so with services. Consumers will clamor for new luxury experiences that service providers are positioned to supply.

Luxury Brands
Sales Year Growth 2000-2001
(sales in millions)

	'00	% chg '00-'99	'01	% Chg '01-'00
Pinault-Printemps-	\$23,308.0	22.4%	\$24,623.9	5.6%
Christian Dior	\$11,174.0	26.7%	\$11,131.8	-0.4%
LVMH	\$10,909.0	27.0%	\$10,900.0	-0.1%
Richemont**	\$2,792.3		\$3,237.5	15.9%
Swatch	\$2,563.3	12.5%	\$2,419.5	-5.6%
Luxottica Group	\$2,268.9	20.2%	\$2,731.8	20.4%
Gucci*	\$2,258.5	82.7%	\$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%
Tiffany & Co*	\$1,668.1	14.1%	\$1,606.5	-3.7%
Prada/I Pellettieri d			\$1,553.6	1.4%
Hermes	\$1,090.9	16.8%	\$1,086.8	-0.4%
Waterford Wedgwo	\$1,021.3	15.1%	\$902.0	-11.7%
Armani	\$973.6	11.6%	\$1,126.7	15.7%
Donna Karan**	\$662.7	0.1%		
Bulgari	\$636.6	17.9%	\$678.6	6.6%
Coach	\$548.9	8.1%	\$616.1	12.2%
IT Holdings/Itierre	\$432.9	12.9%	\$466.5	7.8%
Versace	\$425.5	1.5%	\$450.0	5.8%
Movado*	\$320.8	8.7%	\$299.7	-6.6%
Avg	\$3,522.0	16.9%	\$3,703.0	4.4%

* Fiscal year ends early in 2002, sales reported for '01

** Some previous year data not available.

Note: Corresponds to sales year, not fiscal year

Implications & Opportunities: Next Luxury Boom Will be in Luxury Services *(continued)*

- Luxury goods marketers must discover ways to link their luxury products to luxury services.
 - ▲ For example, more luxury marketers are participating in luxury retailing (e.g. a service) which gives marketers two profit-making opportunities, first in producing the goods and second selling them directly to the luxury customer.
 - ▲ For companies that marketing luxury products, they need to continue to evaluate if there are ways to catch the luxury services wave. Can they sell services? Can they turn their product into a service?

Implications & Opportunities: Next luxury boom will be in luxury services

- Product marketers need to assume a new approach to product development and marketing: "Experiential Marketing."
 - ▲ Consumers don't buy products, they really buy feelings or experiences
- Futurist Rolf Jensen in his book, *Dream Society: How the Coming Shift from Information to Imagination Will Transform Your Business*, says "We are in the twilight of a society based on data. As information and intelligence become the domain of computers, society will place more value on the one human ability that cannot be automated: emotion. Imagination, myth, ritual — the language of emotion — will affect everything from our purchasing decisions to how we work with others. Companies will thrive on the basis of their stories and myths. Companies will need to understand their products are less important than their stories."

Implications & Opportunities: Next luxury boom will be in luxury services (*continued*)

- The luxury product, therefore, becomes a means to an end, not the end in itself.
 - ▲ Sticking point: companies too often view the product as the end.
 - ▲ To maximize the sales potential of the product, they need to view the product from the consumers point-of-view, which is a feeling that arises from the purchase of the product.

Implications & Opportunities: Next luxury boom will be in luxury services (*continued*)

- Experience marketing is infusing all product development, marketing and sales efforts with the feeling that the product promises to the customer.
 - ▲ Rather than stressing product features in advertising, such as the exquisite craftsmanship and finest quality materials, advertising must communicate the feeling that the product will inspire in the consumers.
 - ▲ To this end luxury goods marketers should copy lessons from the service-provider's marketing handbook. Luxury goods need to be sold, advertised and promoted like luxury services.

Your Business: Inventing Your Future

■ Future Vision Alternatives:

▲ Little Vision offers incremental improvement

- Product focused — Great product is taken for granted; got to be more
- Narrow niche markets — Tabletop industry focuses on bridal market which is stable at 2-to-2.5 million brides per year since 1970.
- Narrow distribution — Selling where you want to sell, not where the customer thinks you should be

Your Business: Inventing Your Future

- ▲ Big Vision offers exponential opportunities
 - Consumer market focused — Why People Buy
 - The "Why" is stable over time, but behavior changes (e.g. what, where, how much, etc.) with lifestage and circumstances
 - Maximized distribution — What is wrong with being where consumers think of your product?
 - Consumer focused merchandising — Sell what consumers want, not what you want to sell
 - Define YOUR business — eBay created a new business model by not being trapped by industry or existing business paradigms