

Connecting with Consumer The Next Retail Challenge

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Pam Danziger

- President Unity Marketing
- Why People Buy Things They Don't Need
- Let Them Eat Cake:
Marketing Luxury to Masses
(as well as Classes)
 - www.unitymarketingonline.com
 - www.whypeoplebuy.com



**"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:

Next Retail Challenge

Fashion Numbers

Personal Consumption Expenditures Clothing & Shoes in billions 2001-2002

	<u>2001</u>	<u>2002</u>	<u>% Chg</u>
Clothing & Shoes	\$315.3	\$324.3	2.9%
Total	\$6,987.0	\$7,303.7	4.5%

Source: Bureau Economic Analysis

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

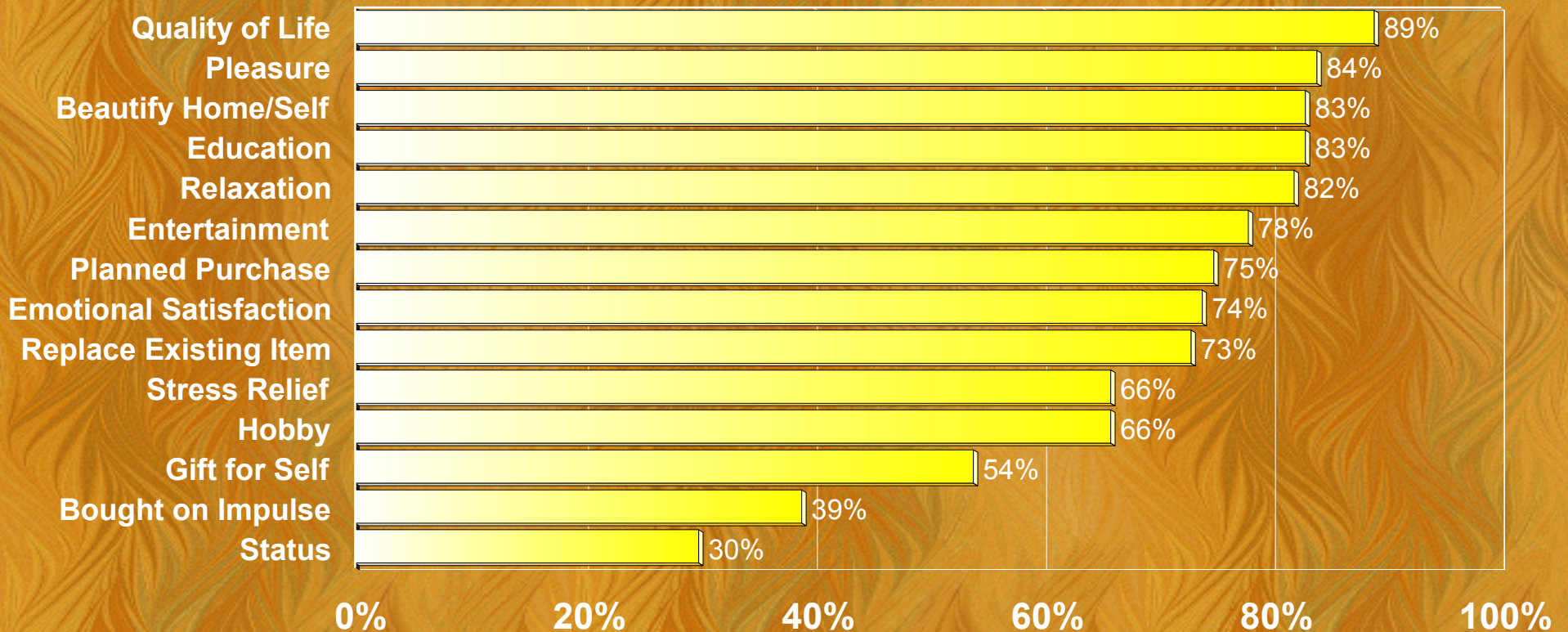
by Peter F. Drucker

Future Vision Secret #1:

- Learn Why People Buy

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!**

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

Affluent Market Represents 15 Million Households

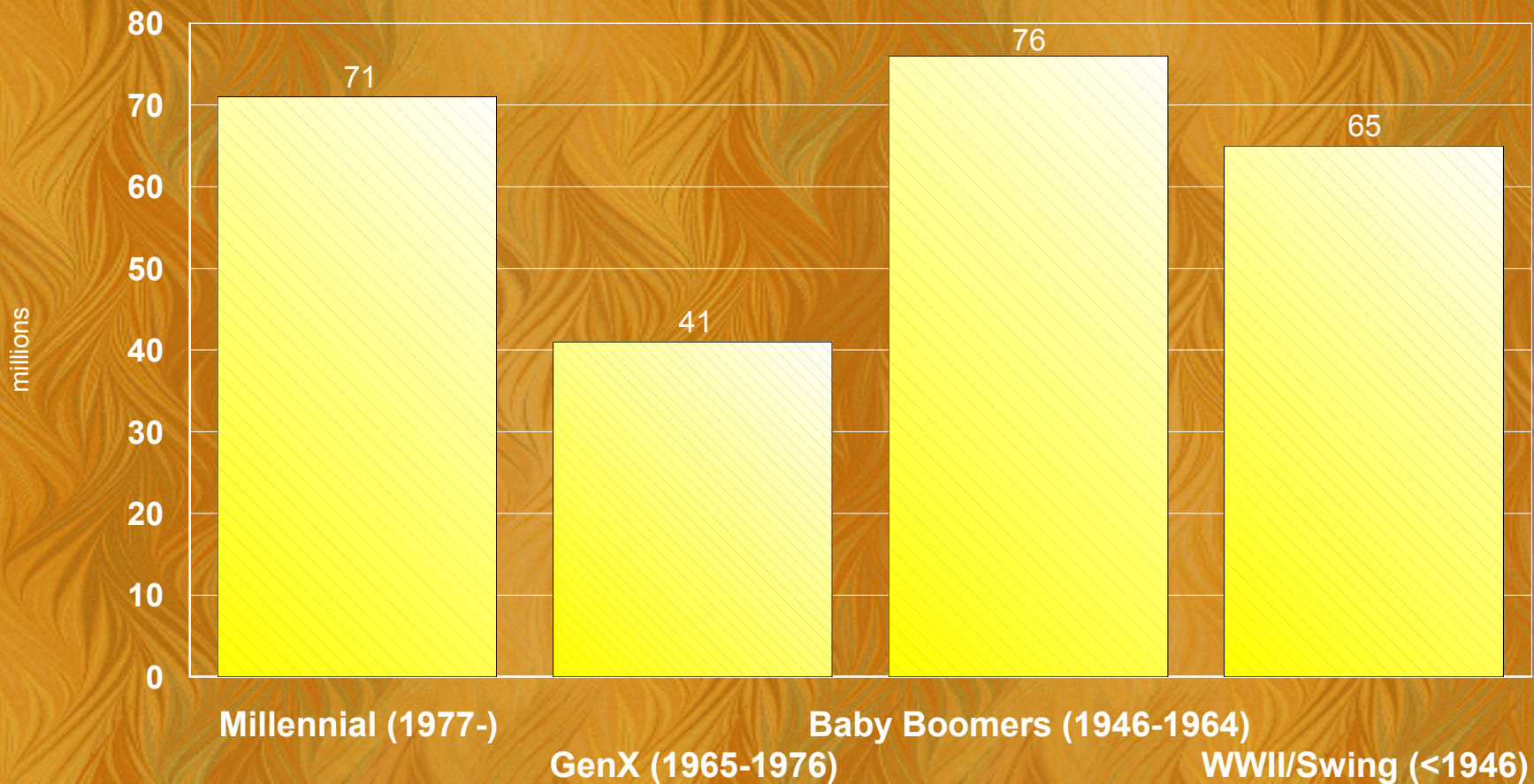
U.S. Households by Income Level
in thousands

	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

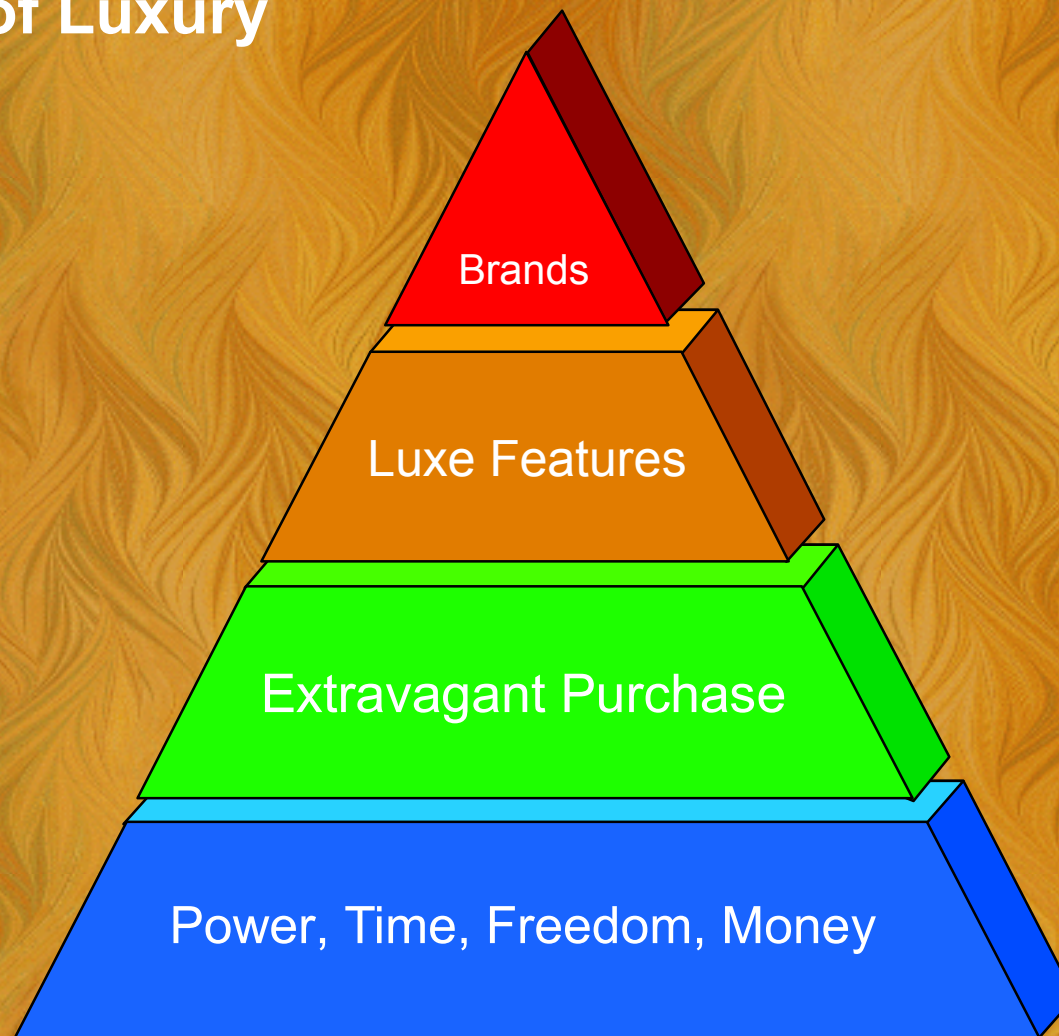
Future of Consumer Market: Divergence & Polarization

Consumer Generations



Luxury Is Power to Pursue Your Passions

Dimensions of Luxury



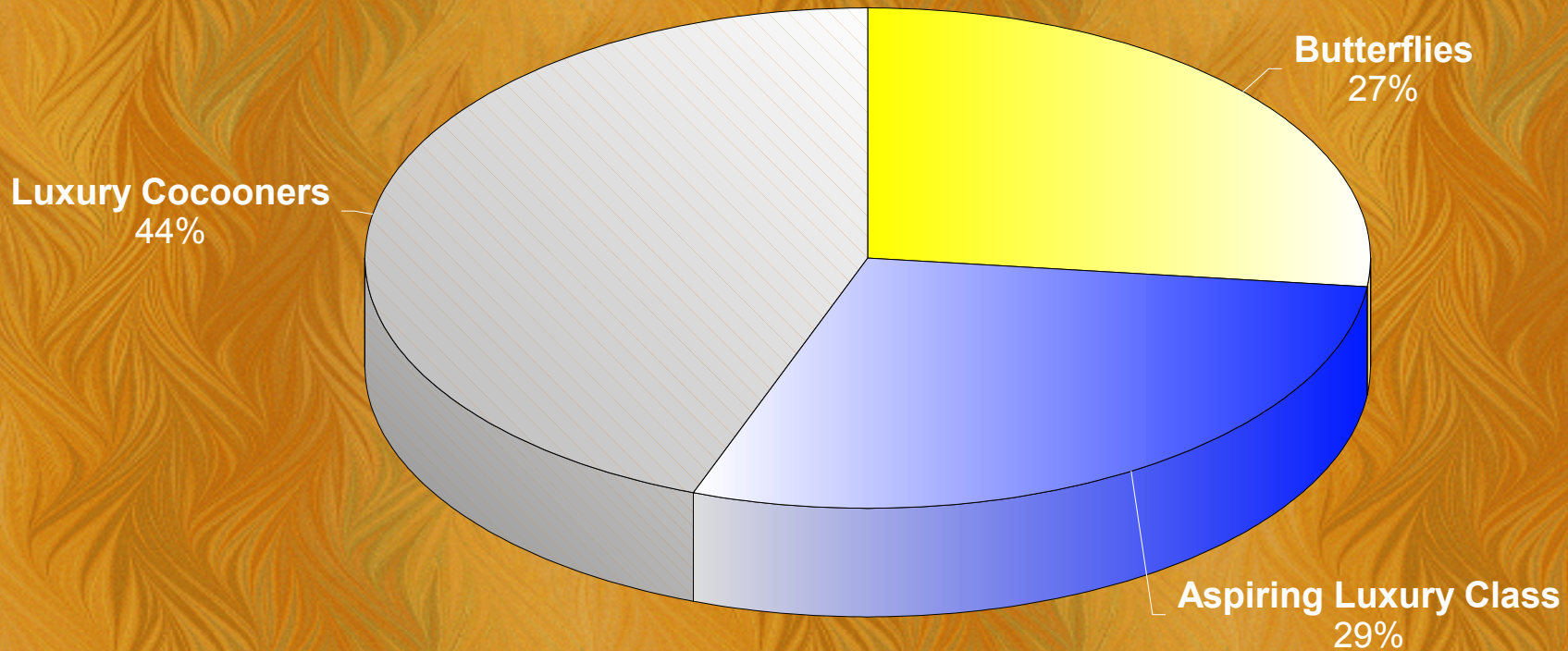
Big Opportunity:

- Be Best of Class in Any Class

Meet the Butterflies



Luxury Market Segments



Meet the Butterflies: Your New Target Market

- Purchase more fashion & beauty/fragrance products
 - Not status, rather social markers
- Two -thirds of luxury budget goes to "personal luxuries," rather than home
- Luxury Fashion Spending:
 - Avg. \$3,000 total, \$475 on last item purchased

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

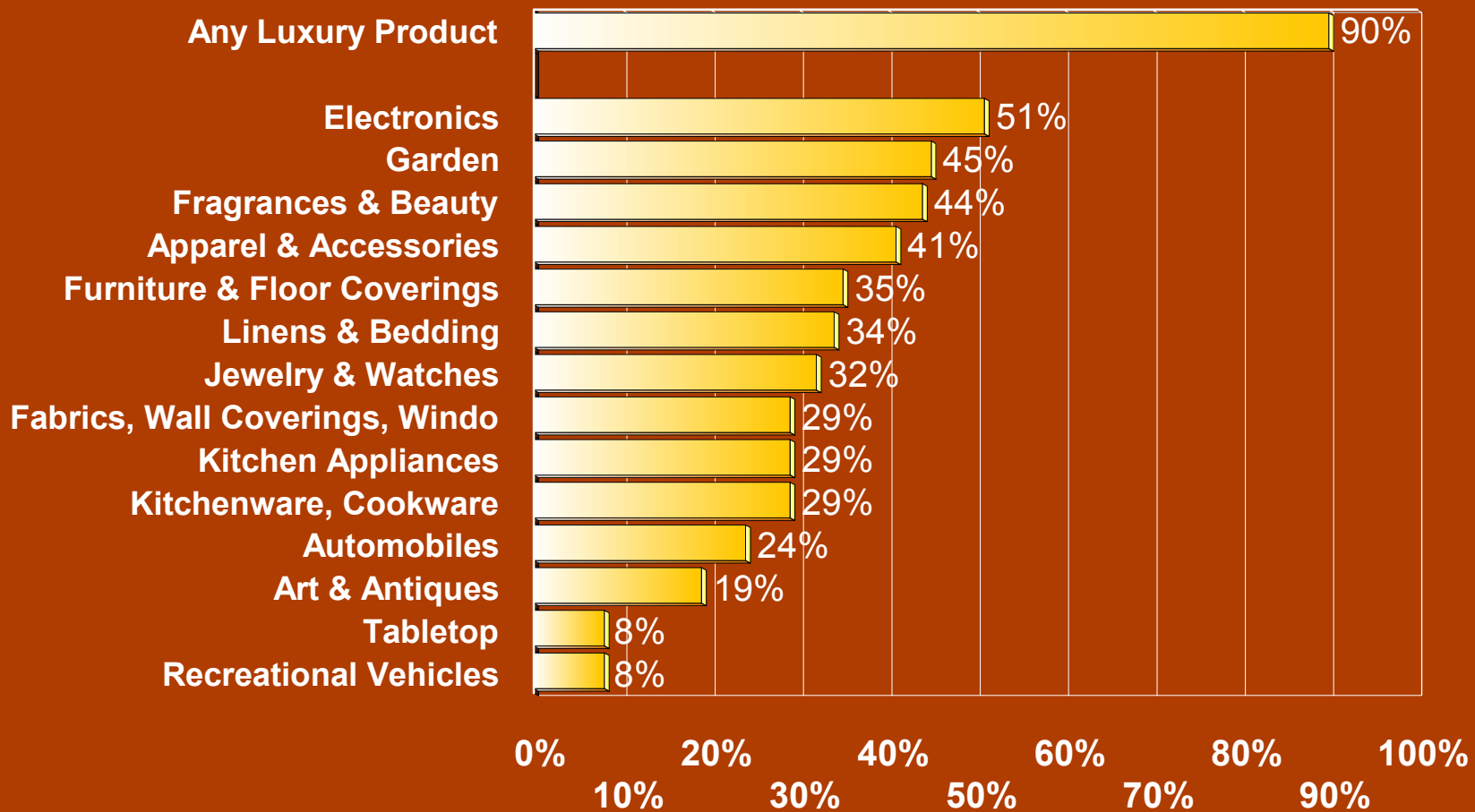
Luxury Aspirers Still Haven't Reach Their Desired Level of Luxury

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

Luxury Purchase Incidence

Fashion is #4 most purchased luxury

In past year, did you purchase or influence the purchase of any of these luxury products?



Base: Households over \$50k

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 Furnishings</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.

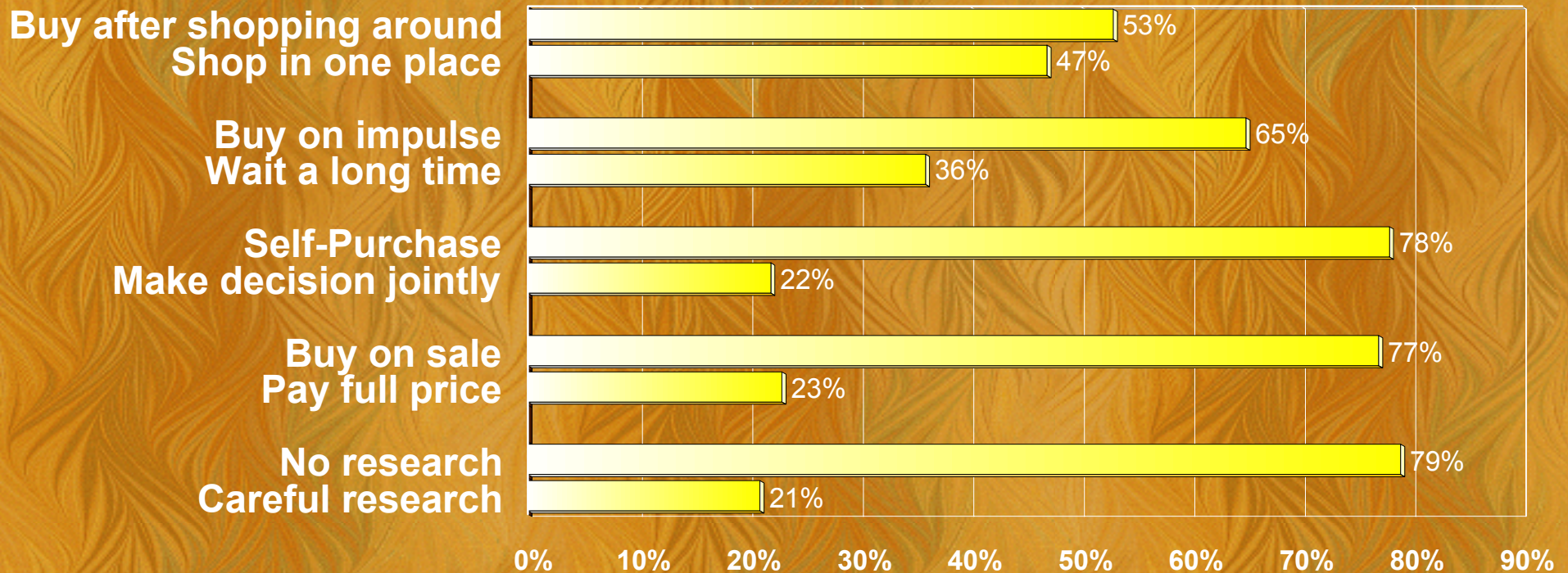
Luxury Marketers Must Connect with Consumers

- 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

Luxury Fashion Purchase Behavior

Purchase Behavior Luxury Apparel & Accessories

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



Base: Respondents bought apparel & accessories

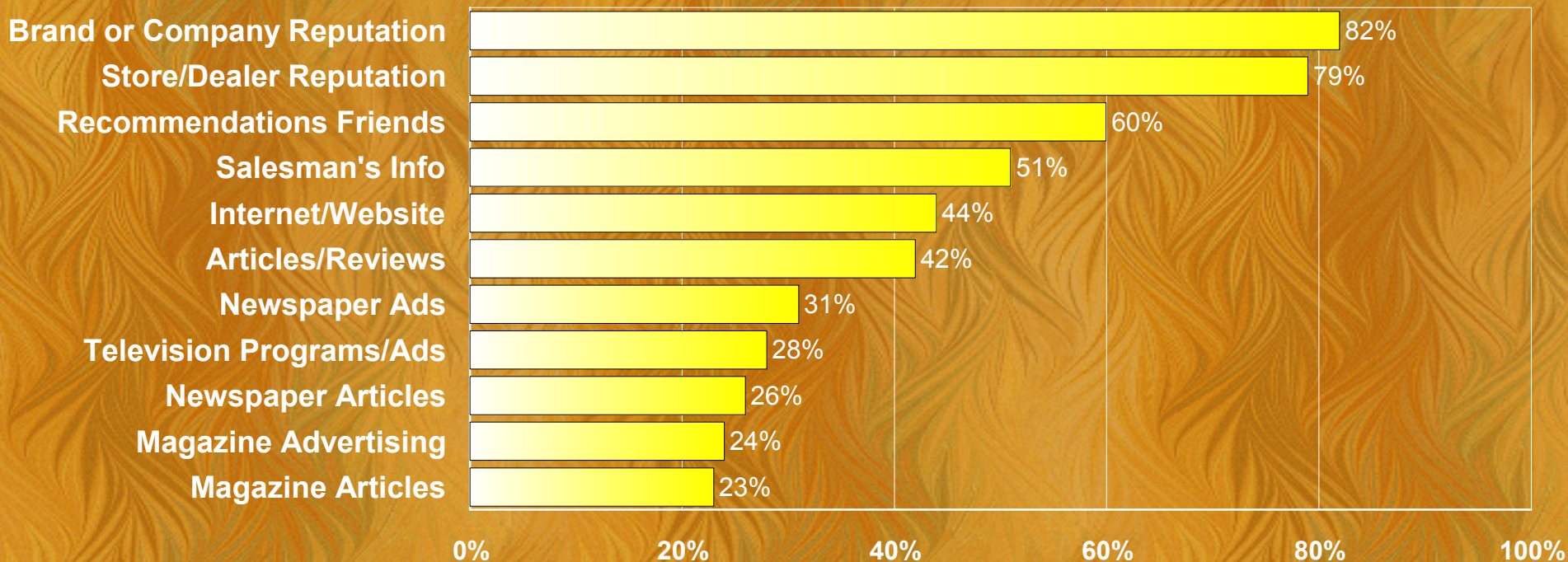
Why They Buy Luxury Fashion

- Luxury fashion is necessity
 - Must dress appropriately for stage in life, their social level, their position in society.
 - Favor classic looks, well-made, high-quality & craftsmanship
- Feel like the "Forgotten" woman
 - Fashion industry is out of touch, i.e. considers consumer "irrelevant"
 - Consumer consider fashion industry "irrelevant"

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

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