

Meet the Butterflies

The Metamorphosis of your Luxury Retail
Customer

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www.unitymarketingonline.com

Robb Report
MAGAZINE FOR THE LUXURY LIFESTYLE™

Lifestages of Luxury

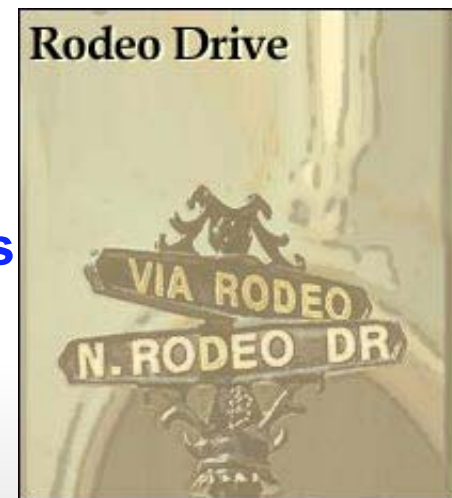
	Boomer Ages	Avg. Income	Lifestage	Luxury Satisfaction
1984	20-38 yr	\$25,178	Young adult Family Formation	Personal Home
1994	30-48 yr	\$51,812	Child Rearing	Home
2004	40-58 yr	\$74,722	Empty Nesting	Experiential

Decade of Luxury

80's Decade of Mall



2000's Decade of Luxury



90's Decade of Discounters



Luxury Is in Perpetual Motion



Masses 'trading up'

Classes reaching down for bargains

Everybody wants more 'specialness'



Luxflation

Natural evolution of all luxury is from classes to masses

What was extraordinary becomes ordinary

Luxury marketers must continually deliver greater luxury value for new luxury fulfillment



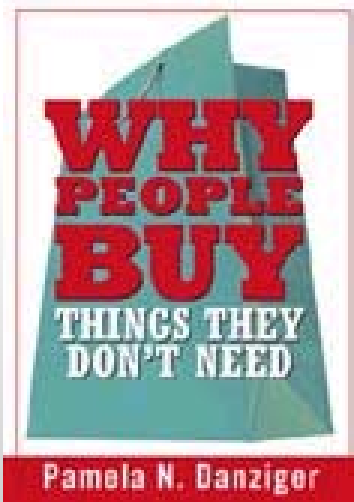
Future Vision Secret #1—

Why People Buy

Companies & stores sell things (i.e. noun)

Consumers buy experiences, feelings (i.e. verb)

Enhancing quality of life



Future Vision #2

First the Rich Do It, Then Everybody Else



06 Modern Refinement



Defining Luxury Market

Top quintile households, i.e. incomes \$75k and above (near affluents) — about 28 million

About 16 million with \$100k and above — 10.1 million affluents; 5.6 super-affluents

U.S. Households by Income in thousands	2002	% SOM
\$49,999 or less	63,057	57%
\$50k to \$74,999	20,315	18%
\$75k to \$99,999 (Near Affluents)	12,230	11%
\$100,000 to \$149,999 (Affluents)	10,073	9%
\$150,000 to \$199,999 (Super-Affluents)	2,977	3%
\$200,000 to \$249,999 (Super-Affluents)	1,154	1%
\$250,000 and above (Super-Affluents)	1,472	1%
Total	111,278	100%
Source: US Census		

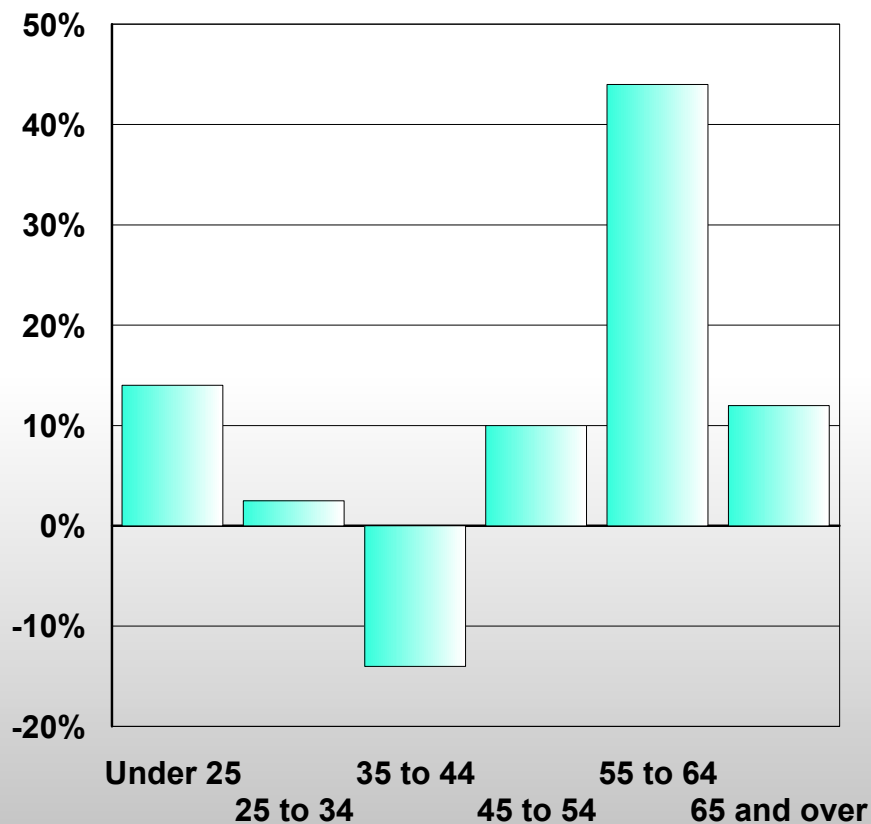
Affluent Growth Trends Positive through 2010

"The growing number of affluent, graying of the population and the increase in empty-nesting households combine to produce a favorable outlook for the luxury, travel, entertainment, household furnishings and housing industries."

Conference Board, 2003

Get It While It's Hot!

Household Growth
2002-2010



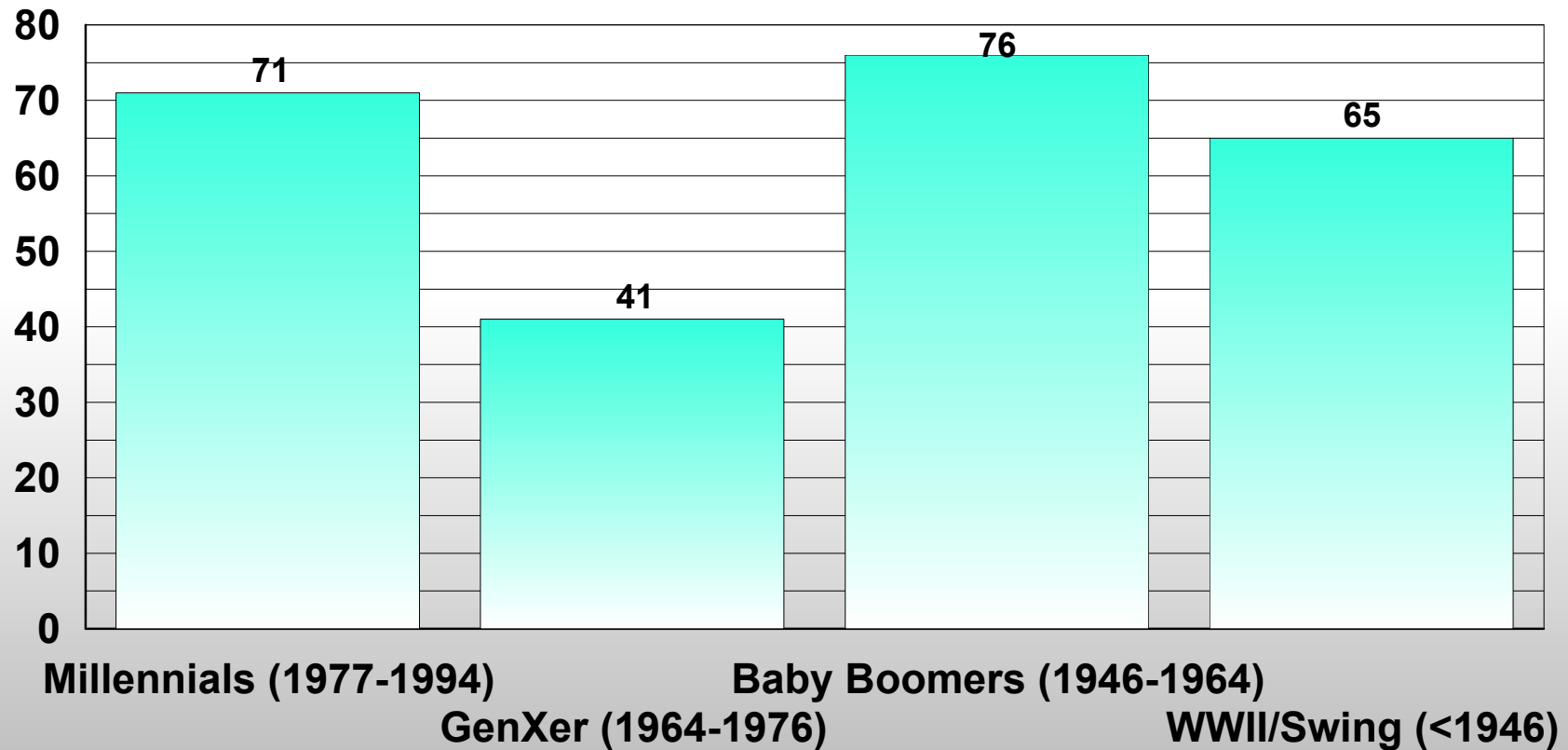
Source: Census Bureau and The Conference Board

GenXer's will never fill marketplace gap left by aging baby boomers

Conference Board predicts by the end of the decade (2010) GenerationX 'will have declined in relative importance and account for less than a quarter of the affluent.'

Diverging Marketplace

Consumer Generations



Affluents Are a lot Alike



Larger households (3.2 members), married couples

More workers (2.1)

Nearly all own homes and they own more cars (2.9)

Mostly white



High education levels (some or more college)

Middle aged (boomer generation)

Affluents Make More, Spend More, Save More

Affluent households have incomes 2.5 times larger than average

Spend only about 2 times as much as average

More money to save and invest

Highly motivated to protect standard of living

Super-Affluents Are Luxury Marketer's Sweet-Spot

Super-Affluents spend two-times more than near-affluents, 1.6 times more than affluents

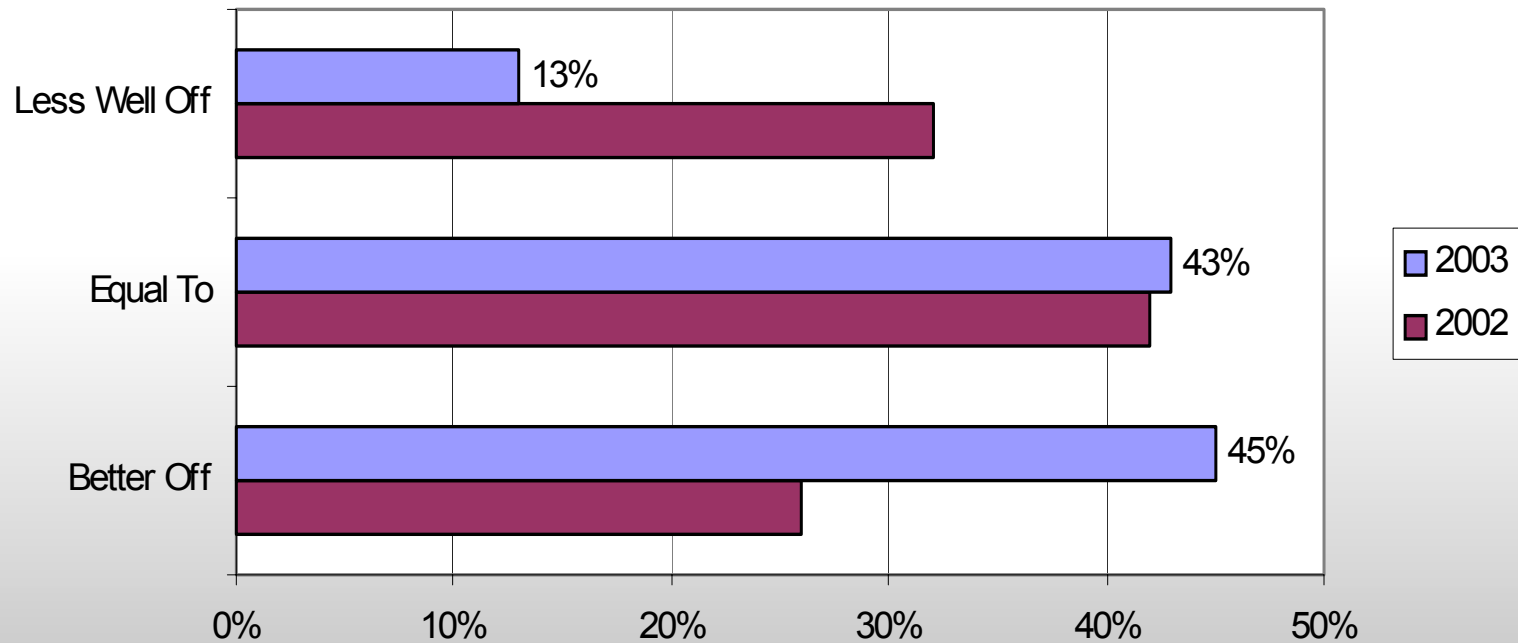
Total market potential of near-affluents & affluents great than super-affluents

	Total Home Luxuries	Total Personal Luxuries	Total Experiential Luxuries	Total Projection
Near Affluents	24.1	11.7	16.9	52.7
Affluents	25.2	11.3	31.4	67.9
Super-Affluents	42.2	30.2	36.0	108.5
Total in billions	<u>\$91.6</u>	<u>\$53.3</u>	<u>\$84.3</u>	<u>\$229.1</u>

Improved Financial Feelings

Significant improvement in financial well-being

Financial Well-Being, 2002 & 2003

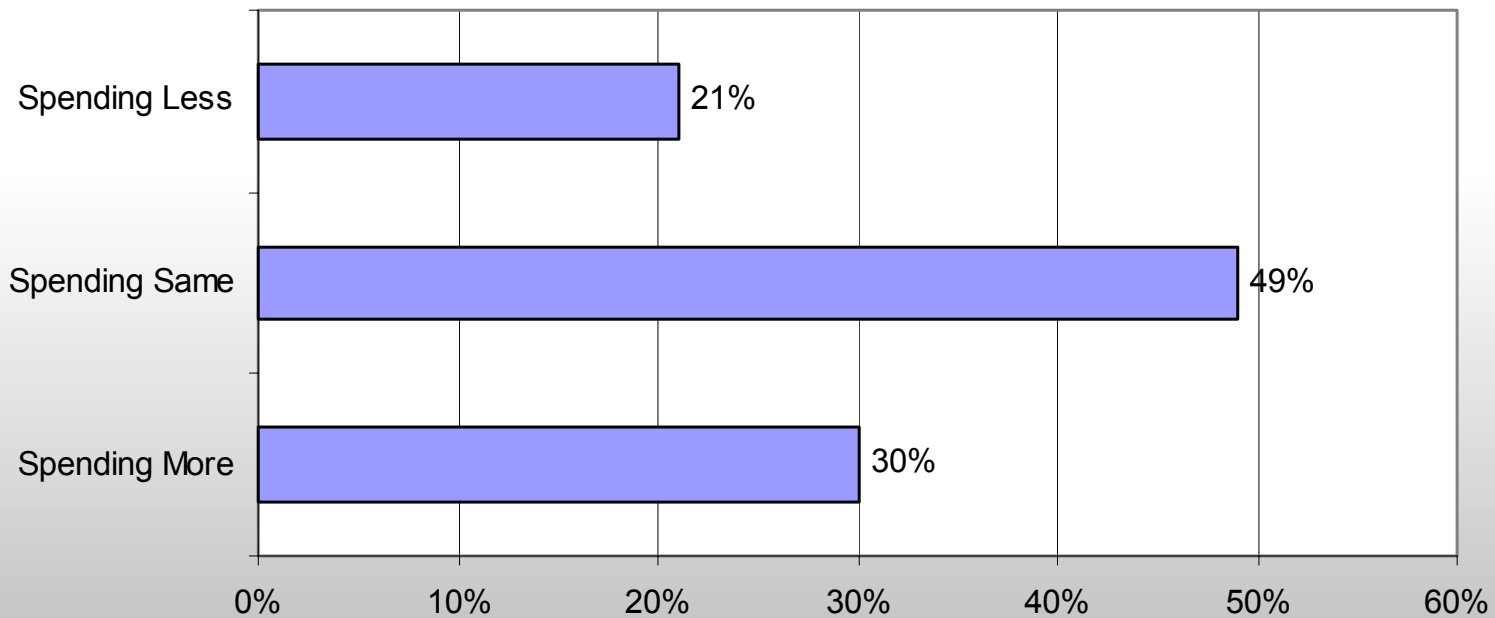


Do you feel that you are better off, equal to or less well off financially now than you were at this time last year?

Spending Outlook Mixed

Spending trends lag financial well being

Trends in Luxury Spending



Are you spending more on luxury now than last year, spending the same or spending less?

Luxury Consumer Will Not Put Lifestyle at Risk

Luxury consumer is cautious, risk adverse, protective, not spendthrift

Willing and able to spend, but new awareness of value



Where
GREAT
KITCHENS
always
cost less!!

50¢ OFF
each dry cleaned or
laundered shirt, no limit

Dependable
cleaners

What Is Luxury?

Anything You Want It to Be

Totally subjective

Changes over time, at different life stages

"Been there, done that" phenomenon

About creature comforts, feelings of comfort and well-being (e.g. experience)

Take consumer-centric approach to designing luxury

Luxury Definitions — Intrinsic & Consumer-centric

Two ways to define luxury:

Intrinsically — Attributes, qualities and features of the product 'Best of best'
(Old Luxury)

Old luxury: Martha Stewart

Consumer-centrally — Experience of luxury from the consumers' perspective
(New Luxury)

New luxury: Thom Filicia & Isaac Mizrahi

New & Old: Donald Trump

Luxury Is a Verb



Luxury is experienced and felt, not something one has or owns

Imparting that feeling of specialness, privilege and freedom

Metaphysics of Luxury



Luxury is ultimately the unattainable



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

Luxury brands must perform against consumer expectations

Key: Infuse brand and marketing communications with luxury/emotional/experiential values

Connect with the hopes, wishes, dreams, fantasies of your consumer

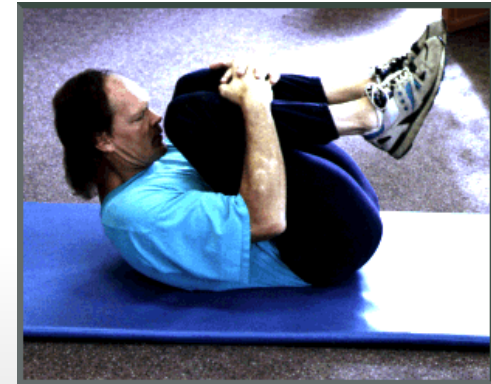
Not about the thing; it's about the experience

From Things to Experience

Companies & Retailers sell things (i.e. Noun) like plates and dishes



Consumers buy experience, feeling, ideas, happiness (i.e. Verb) like entertaining solutions, boredom relievers



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

Charles Revson, founder of Revlon

Greatest Luxury Satisfaction from Experiences

More mature luxury consumers place higher priority in making memories and experiences

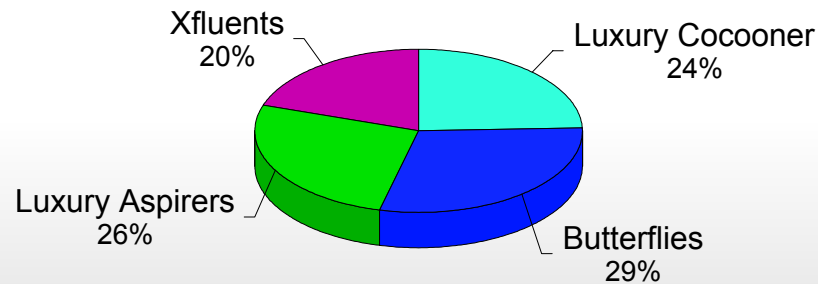
Not interested in buying more things just to have more things

Younger luxury consumer haven't been there, done that

Greatest Personal Satisfaction by generation	Total	Millennials (24-26)	GenXer (27-37)	Boomer (38-57)	Swing/WWII (58+)
Experiential Luxuries	41%	24%	35%	<u>45%</u>	<u>45%</u>
Home Luxuries	31%	19%	35%	30%	35%
Personal Luxuries	28%	57%	30%	25%	20%

Meet the Butterflies & Other Segments in Luxury Market

Luxury Segments



Four consumer segments:

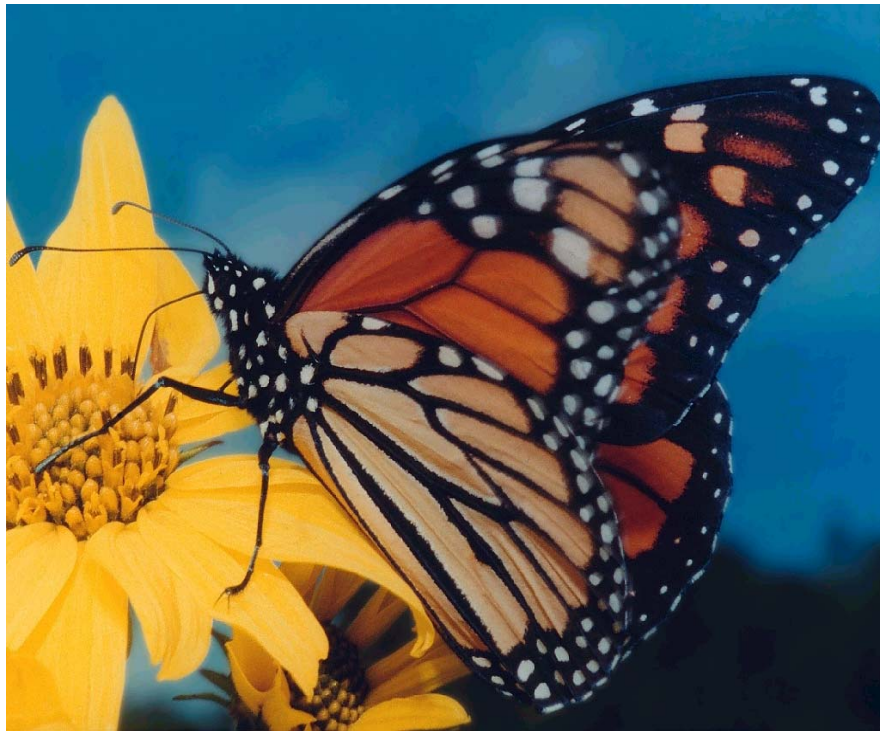
Butterflies

Luxury Cocooners

Luxury Aspirers

XFluents (Extreme Affluents)

Meet the Butterflies



Butterflies have emerged from their cocoons

Reconnecting with the outside world

Spend less on home, more on personal and experiential luxuries

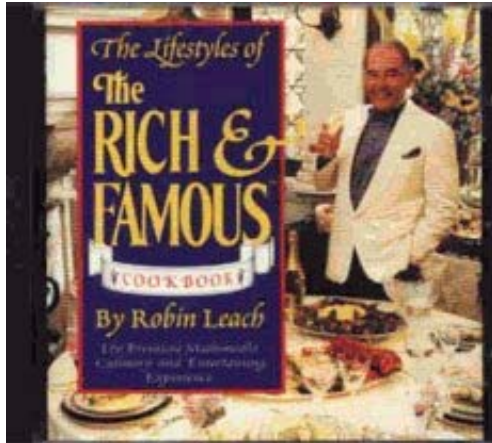
Less materialistically oriented, yet spend highly — more evolved

Butterflies most strongly agree "At my stage of life, I am less interested in buying more luxury things and more interested in spending my money on special experiences that I will remember the rest of my life."

Hint: Sell the experience to Butterflies, not the brand or product

Meet XFluents (Extreme Affluents)

Uber-spender



They deny themselves nothing, indulging in all kinds of luxuries, both experiential, home and personal

Significantly more materialistic and brand-oriented than the butterflies

Very invested in their luxury lifestyle

Hint: X-Fluents expect the best & will pay for it



Meet Luxury Cocooners



Still wrapped in luxury cocoons

More luxury spending directed toward home, including experiential home services



Participate fully in luxury lifestyle

Hint: Predisposed to buy home, not highly motivated by personal luxuries

Meet Luxury Aspirers



Aspirers have not yet reached the level of luxury to which they aspire

Luxury is an expression of what they have and what they own



Highly materialistic, they are more likely to link luxury with brands and to shop for brands with luxury 'badge' value

Hint: They will value aspirational/badge value of top line brands

Segment Summary

Luxury Market Segments Summary	Luxury Cocooners	Butterflies	Luxury Aspirers	XFluents (Extreme Affluents)
Market Penetration	24%	30%	26%	20%
Consumer Psychology	The luxury cocooners are still wrapped up in their luxury cocoons and continue to devote time and attention to making their 'nests' more luxurious. They express their identity through luxury purchases and participate fully in their luxury lifestyle.	The most highly evolved luxury consumers, the butterflies know things won't make them happy. Yet while they are less materialistic in outlook, they are highly involved in luxury purchases. Their focus is on personal and experiential luxuries	The luxury aspirers 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 and brands they buy and display.	The XFluents are the most highly indulgent luxury consumers, buying most frequently and spending more. While they share an yearning for the experiences that luxury affords, unlike the butterflies, they are firmly grounded in the material world.
Purchase Incidence	Any Home: 75% Any Personal: 57% Any Experiential: 63%	Any Home: 85% Any Personal: 64% Any Experiential: 73%	Any Home: 78% Any Personal: 55% Any Experiential: 69%	Any Home: 91% Any Personal: 71% Any Experiential: 82%
Total Experiential Spending	\$4,750 (Extreme high spend on home decorating ups average)	\$3,750 (Extreme low spending on home decorating draws down average)	\$4,500 (High spending on home decorating boosts average)	\$5,375
Total Luxury Spending	\$7,500	\$10,250	\$7,500	\$15,250

Ultimate Luxury Challenge

Transform your thing into an experience



YOUR LEFT HAND SAYS "WE," YOUR RIGHT
HAND SAYS "ME." YOUR LEFT HAND ROCKS
THE CHAIR, YOUR RIGHT HAND RULES
THE WORLD. WOMEN OF THE WORLD,
RAISE YOUR RIGHT HAND.

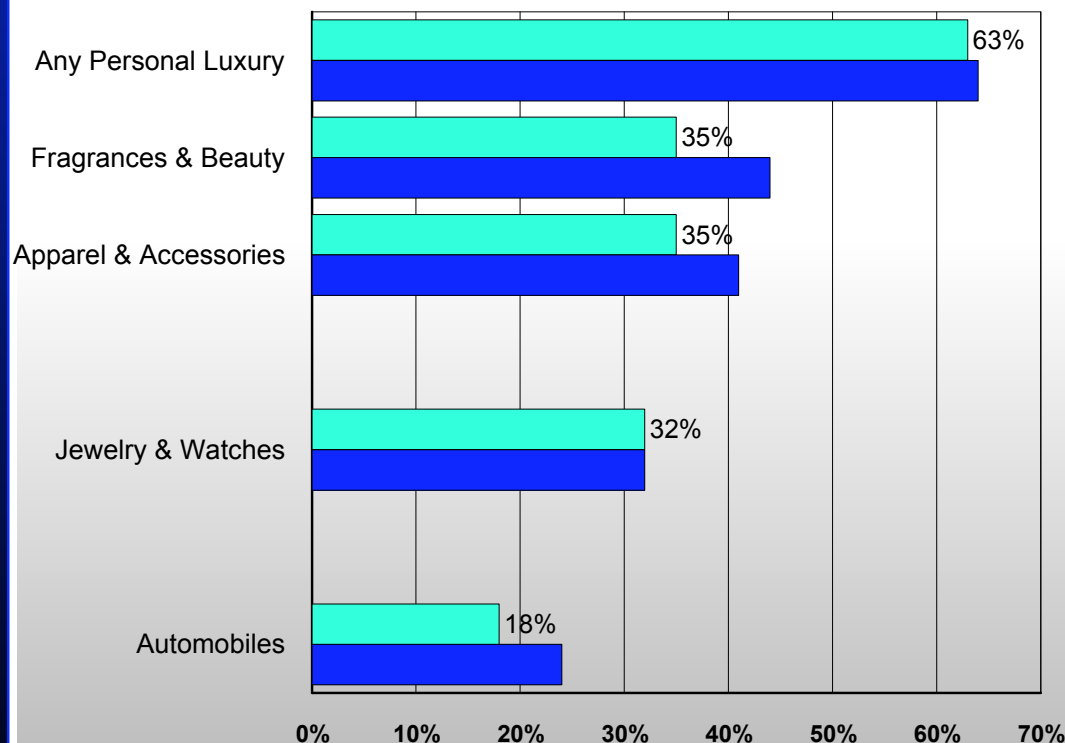
IN THE COMPANY OF THE WORLD'S MOST POWERFUL WOMEN, YOUR RIGHT HAND WILL
RAISE YOUR RIGHT HAND.



Jewelry Purchase Incidence Flat

About one-third luxury consumers bought jewelry and/or watches past two years

Luxury Purchase Incidence
2002 & 2003



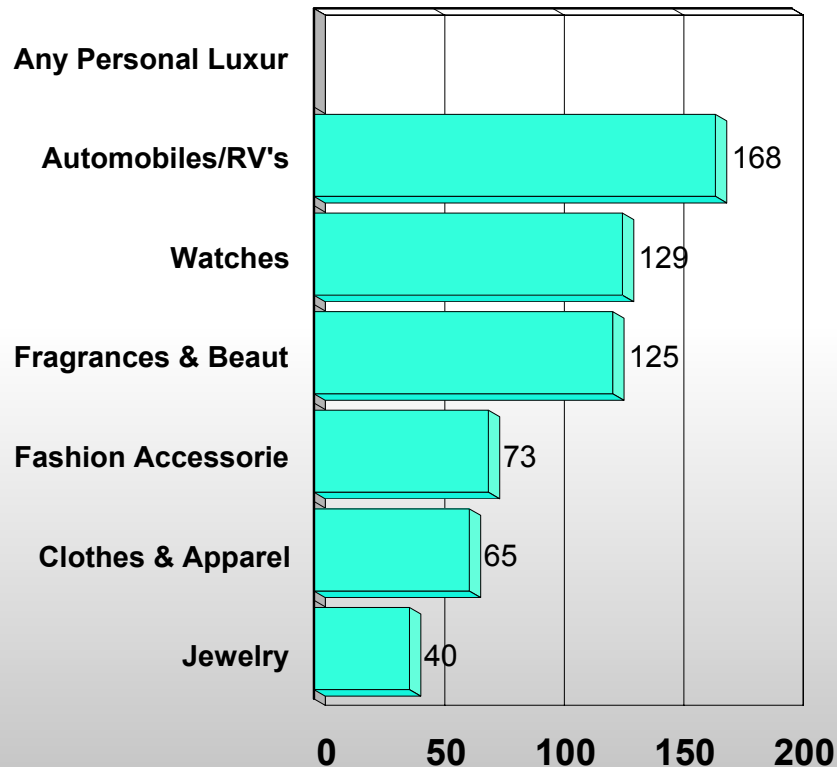
X-Fluents & Butterflies buy more

Average total spending \$1,750

2003
2002

Brand Loyalty Highest for Watches

Brand Loyalty Index
100=Normative



Performance describes how brand delivers to customer

High brand loyalty corresponds to high performance expectations (e.g. mechanical)

But all luxuries 'perform' on emotional plane

Major Branding Opportunity: Jewelry

Luxury Branding Triple Play



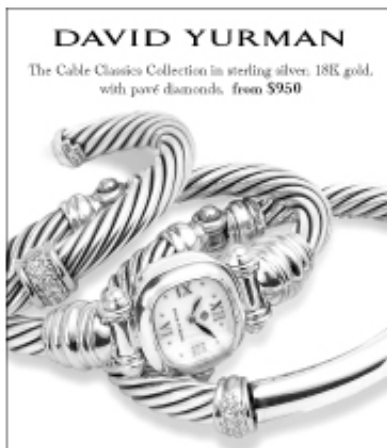
Synergy between:

Product brand

Retailer Brand

Price/Value

Added Value



Connecting New Trend

Age of cocooning ends as Connecting becomes dominant cultural trend



Conference	
Connect...	⌘K
Connect To	▶
Disconnect	⌘D
Stop Sending Video	⌘T
Stop Receiving Video	⌘R
Hide Audio Window	
Open Slide Window	
Show Chat Window	

Cocooning Was Very Good to Home Marketers

Boomers just progressed through 'cocooning' life stage

Entering empty nesting life stage

New priorities, more money

Will become harder to get consumers to invite purely decorative things into their homes

Personal and experiential luxuries take on new meaning

Key Trend: Gifting Reflects Connecting Trend



More people are buying more gifts

More people are adding more names to their gift lists

More people spending more money buying gifts



Luxury Market Future Vision

Embracing of mass to class and class to mass strategies to grow

Brands role in getting people to buy is growing

Luxury shoppers, who can pay full price, are loath to do so

Luxury must extend throughout the entire buying cycle

Experiential luxuries next boom

Luxury consumers seeking balance and new equilibrium

Mass to Class and Class to Mass Strategies

Income Quintiles Average Income 1992 & 2002

	1992	2002	% chg	Index
1st quintile	\$5,981	\$8,316	39.0%	85
2nd quintile	\$14,606	\$21,162	44.9%	98
3rd quintile	\$25,108	\$36,989	47.3%	103
4th quintile	\$40,284	\$59,177	46.9%	102
5th quintile	\$83,131	\$121,367	46.0%	100
Avg.	\$33,854	\$49,430	46.0%	100

Source: BLS Consumer Expenditure Survey

Fastest growing incomes are households in 3rd & 4th quintile (\$28k-\$75k)

'Trading Up' for life's little luxuries

Extend marketing down to capture target customers on fringes (i.e. tiered segmentation)

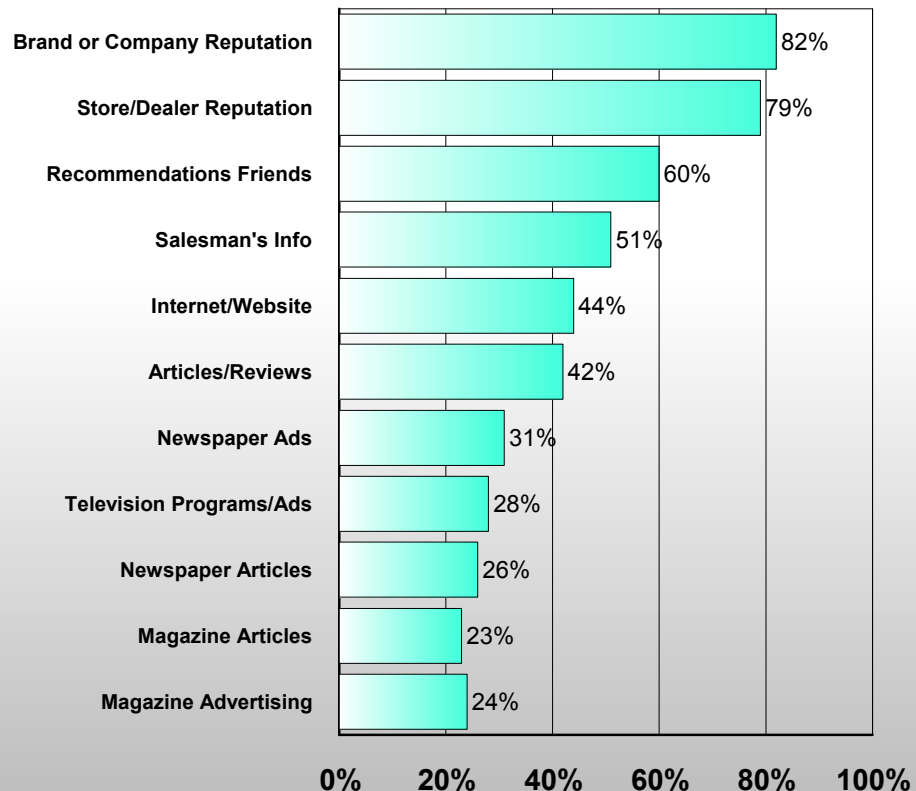
Evangelical luxury marketing

Be the best of class in ANY class

Brands' Role in Getting People to Buy Is Growing

Influencers on Last Luxury Purchase Very Important/Somewhat Important

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



Brand defines luxury in very few categories (e.g. Mercedes, Tiffany)

Luxury brands act as justifiers for buying, but not reason why people buy

Brands must perform for consumer

Word-of-mouth will grow in importance as brand validation

Luxury Brand Distinguished from Ordinary Brands

Consistent delivery of premium quality across the line, from the most to the least expensive

Heritage of craftsmanship, often stemming from the original designer

Recognizable style or design

Limited availability to assure exclusivity and possibly to generate a customer waiting list

Marketing program that supports a market position that combines emotional appeal with product excellence

Luxury Brand Checklist

Global reputation

Association with a country of origin that has an especially strong reputation as a source of excellence in the category

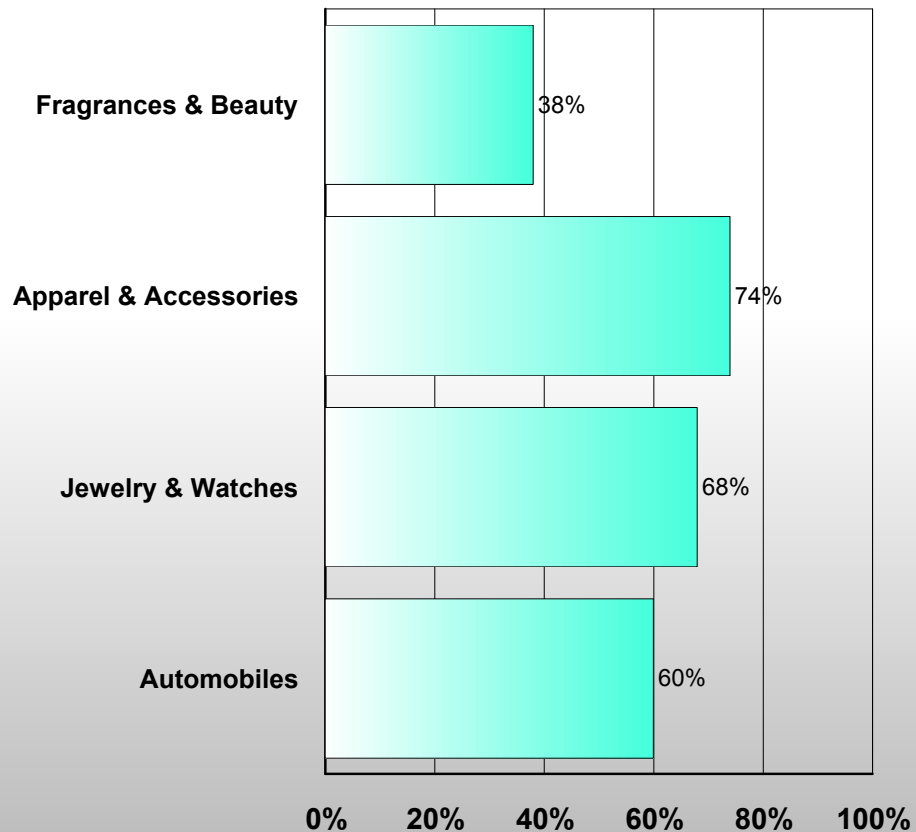
Element of uniqueness to each product as assurance of exclusivity

Ability to time design shifts when the category is fashion intensive

Embodies the personality and values of its creator

Luxury Consumers Don't Pay Full Price

Luxuries Bought on Sale
Personal Luxuries



Majority luxury consumers buy luxuries on sale

Demand for value and better price is dominant trend

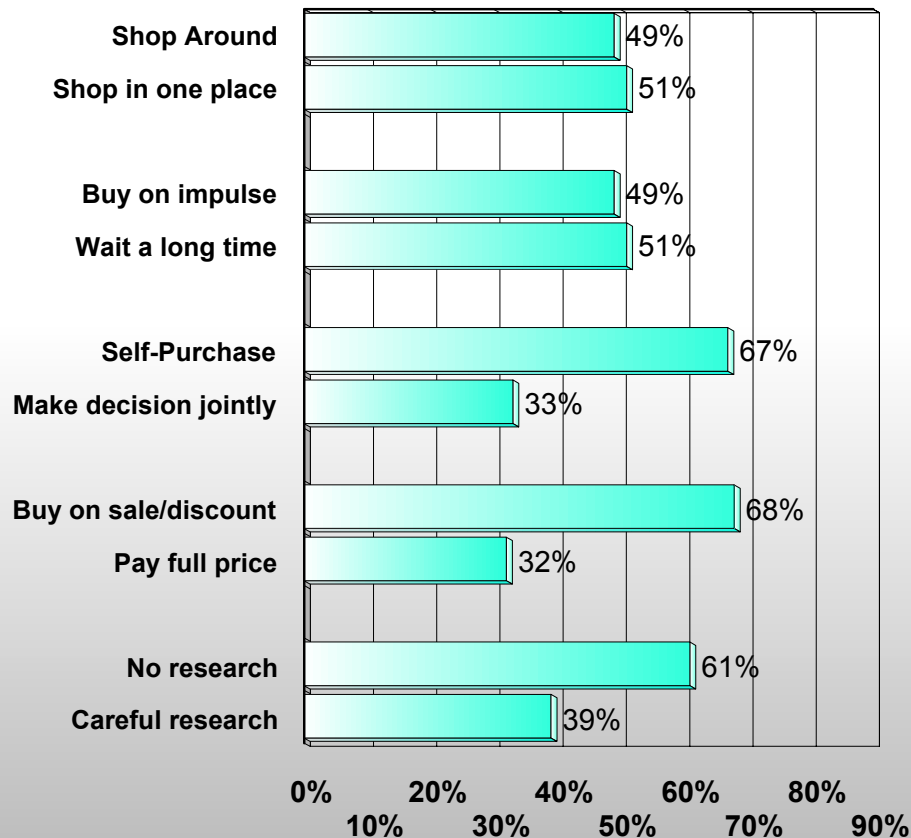
Buying on sale provides experiential thrill and reward for being 'good shopper'

Strive for best price/value

Luxury Must Extend Through Entire Buying Cycle

Purchase Behavior Jewelry & Watches

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



Self-purchase impulse drive; gift purchase is purposeful

Displays, presentation key

Good price encourages impulse to buy

Luxury delivery must romance buyer

Key words in jewelry retailing:
Special, Personal, Value

Next Luxury Boom in Experiences

Not about things, but about experiences

Luxury product marketers experienced 15-20% annual revenue growth through '90s

Experiential luxury marketers can gain this kind of growth

Connect with the consumers, deliver their luxury fantasies, continue to go more and more class, while filling the market pipeline with new customers through class to mass strategy

Search for New Equilibrium & Balance

Out of balance causes internal stress and strife

Brands that help consumers achieve new equilibrium and greater self-actualization will achieve new 21st century brand loyalty

Transcend brand marketing to achieve true connection

<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