The Wealth Report
Leading Edge Insights into the World of the Wealthy
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Luxury Salesmanship Attributes

On the front lines in the world of luxury goods and services, wealthy consumers demand much more than just a transactional salesperson equipped with a nice smile and polished shoes. According to a new Luxury Institute survey of more than 1,000 individuals with a median net worth of $1.5 million and median income of $250,000, what these elite buyers want is an honest and knowledgeable brand ambassador and personal advocate. In industries ranging from automobiles to jewelry, department stores to hotels and resorts, product knowledge is the singular attribute that overwhelmingly shines through as absolutely essential – a quality that 87 percent of wealthy consumers say that they demand in a "good" salesperson, and an attribute which 73 percent say that an "outstanding" salesperson must possess.

A big part of the reason why product knowledge is so important in luxury goods and services is the role of the salesperson after the purchase. Aside from providing reliable answers to questions and otherwise guiding customers to make informed decisions before the sale, salespersons are frequently viewed by wealthy consumers as their primary point of contact with the company to help them solve any problems they may have after their purchase. Forty-two percent of wealthy consumers say that they want their salesperson to be their first contact for *any* issues that may arise. On specific matters, 27 percent turn to their salesperson for questions on correct use of the product or service that they bought, and nearly 20 percent want their salesperson to intervene if the service department is of no help. Only 10 percent say that a salesperson's job is done when the sale is completed.

Character *does* count: Honesty and trustworthiness are nearly as crucial as product knowledge for a salesperson. More than four out of five (83 percent) wealthy consumers identify honesty as a top three attribute for a good salesperson, and 56 percent rank it among their top three attributes for an outstanding salesperson. Trustworthiness, a close cousin of honesty, is something that 74 percent of wealthy consumers say that you will find in a good salesperson; 42 percent place it in the top three attributes of an outstanding salesperson. Income appears to be a factor in the relative importance of trustworthiness: 77 percent of individuals earning less than $200,000 annually say that it's a key attribute in a salesperson, versus 70 percent of those earning $200,000 and up.

Additional attributes cited by a majority of wealthy consumers as top requirements for a good salesperson include politeness and courtesy (72 percent); reliability (69 percent); keeping promises (62 percent), and being a good listener (59 percent). Higher income earners pay particular attention to politeness and courtesy: 74 percent of those with incomes higher than $300,000 include these qualities among their top three requirements, ranking them just ahead of trustworthiness and reliability. Being polite and courteous is also especially important when dealing with wealthy women, 76 percent of whom place this quality in their top three attributes (slightly ahead of trustworthiness), compared to 68 percent of men who rank politeness and courtesy in their top three. In addition, reliability is also slightly more important to women than it is to men (72 percent versus 66 percent).

Don't underestimate the connection between good manners and good business. The Luxury Institute, in addition to inquiring about the relative importance of salesperson attributes, also asked wealthy consumers to list three luxury firms where they experienced the best salespeople. Of the top five firms receiving mentions by at least six percent of those surveyed, the attribute of being polite and courteous was one of the top two factors that made the sales force outstanding at each of them, along with product knowledge. Depending on the industry and the firm, other attributes also assume greater significance than they do in the overall rankings (*see below*) and there are some noteworthy differences between women and men.

Several of the less frequently mentioned attributes resonate more strongly with women than they do with men. Women (as most men eventually find out!) place a high value on listening and nearly two-thirds (63 percent) of wealthy women value this in a salesperson, versus 55 percent of men who identify listening as a key attribute. Also, more than half of the women surveyed (51 percent) say that a good salesperson "knows or shows interest in me," compared to 45 percent of men who say the same. With regard to being organized, 46 percent of women cite this as a sought-after quality, but just 40 percent of men do. Enthusiasm is far more important to women than it is to men (42 percent versus 30 percent), and a salesperson's reputation carries more weight with women than it does with men (35 percent versus 27 percent).

Some attributes have very limited appeal – or may even be more detrimental than they are appealing. For example, being charming and witty is something that only 21 percent of wealthy consumers look for in a good salesperson. Being persistent, however, is a definite turn-off: just six percent of wealthy consumers (perhaps those who relish the sport of deal-making) name this as a quality that a good salesperson will possess.

Luxury Salesmanship Leaders

In an unaided recall (without any prompting from the survey), a total of ten luxury firms won recognition from at least three percent of wealthy consumers as companies where they have experienced the best salespeople. Judging by the presence of six luxury automobile brands in the top ten, car salespersons embody many of the qualities that are important to their customers. In the order of recognition for possessing the best salespeople, the top ten brands are Lexus (12 percent), Nordstrom (10 percent), BMW (9 percent), Mercedes (7 percent), Tiffany (6 percent), Neiman Marcus (4 percent), Cadillac, Acura, Four Seasons, and Infiniti (each with 3 percent).

Lexus drives off with honors as the luxury brand with the best salespeople. Eighty-four percent of wealthy consumers cite product knowledge as an important attribute of the sales staff for Toyota's luxury brand; nearly 70 percent reference the politeness and courtesy of the Lexus sales force. Fifty-seven percent of those identifying Lexus as having great salespeople are men, 80 percent are 40 years of age or older, and 29 percent have a net worth between $500,000 and $1 million. In order to maintain its standing, Lexus should continue to improve on customer perceptions of honesty, which was mentioned as a factor by just slightly more than 50 percent of those who believe that the Lexus sales force is the best. Like BMW (but unlike Mercedes), slightly better than 50 percent of the wealthy consumers who view Lexus' salespeople as tops say that they excel at listening to their customers.

<u>Nordstrom makes its mark on luxury consumers, in part, through the politeness and courtesy of its salespeople</u>. Politeness and courtesy finish slightly ahead of product knowledge (84 percent versus 82 percent) as the factor that makes Nordstrom's sales staff one of the best. Better than 60 percent cite listening as a key attribute for Nordstrom staffers, while 55 percent say that the salespeople at the Seattle-based retailer take an interest in them. High marks on these attributes may help to explain why the store enjoys especially high esteem from its female customers: 61 percent of those who say that Nordstrom has great salespeople are women. Consumers who cite Nordstrom as having a superior sales force are likely to have an income less than $200,000 and a net worth less than $2 million. The perceived trustworthiness of the sales staff could use improvement, as this attribute showed the widest gap between what wealthy consumers want and what they believe Nordstrom's salespeople are delivering. Reliability, however, is another bright spot for Nordstrom: half of the wealthy consumers who believe its salespeople to be exceptional cite reliability as a factor influencing their favorable opinion.

<u>BMW also garners recognition as a company with great salespeople, thanks to customers who cite the product knowledge (77 percent) of the German carmaker's sales staff, as well as their courtesy and politeness (71 percent)</u>. BMW stands in particularly good stead with younger consumers; eighty percent of the wealthy who cite it as having a superior sales staff are younger than 55. In addition, Nordstrom and BMW are the only two companies enjoying recognition from more than 50 percent of wealthy shoppers for showing "an interest in me." As is the case with Lexus, BMW has room to ratchet up customer perceptions of the honesty of its sales force.

<u>Another automaker enjoying a standing among the top five luxury brands for excellent salesmanship is Mercedes</u>. Eighty-two percent of wealthy customers cite the product knowledge of Mercedes' salespeople, and 72 percent reference their politeness and courtesy – numbers that are very similar to those for Lexus. Better than half (58 percent) of survey respondents also comment favorably on the reliability of Mercedes' salespeople – a distinction that they share with Nordstrom's personnel. In order to maintain its status as a brand with a reputation for outstanding salesmanship, Mercedes needs to improve on customers' views of the trustworthiness of its salespeople.

<u>Rounding out the top five brands for salesmanship is Tiffany, which boasts exceptionally high numbers for product knowledge</u>. Eighty-six percent of the wealthy who point to Tiffany's salespeople as being exemplary say product knowledge is a key attribute contributing to the jeweler's sterling reputation. Better than three-fourths (76 percent) also reference the courtesy and politeness of the sales staff, and half are impressed that they know – or show an interest in – them. Sixty-two percent of the fans of Tiffany's salespeople have a net worth of less than $1 million, and 53 percent earn less than $200,000 a year. In terms of age, 41 percent of those who offer high praise to Tiffany's salesmanship skills are less than 40 years old, and one-third are between 40 and 54 years of age. Like several of the other top brands, if there is an area for improvement at Tiffany, it is in bolstering customer perceptions of the trustworthiness of its sales staff.

<u>A highly regarded sales force goes a long way toward winning new customers through referrals</u>. Eighty-five percent of wealthy consumers say that they would be likely to recommend a luxury brand after a good sales experience, with two-thirds saying they were "very" or extremely likely to make a recommendation after a positive experience.

Luxury Jewelry Brand Status

The "King of Diamonds" dominates the rankings of brand prestige among luxury jewelers. Without any room for ambiguity, Harry Winston – a New York institution since 1932 and a wholly owned subsidiary of Canada's Aber Diamond Corp. since September 2006 – has earned the unrivaled respect of wealthy consumers on multiple fronts. According to the Luxury Institute's 2007 Luxury Jewelry Brand Status Index survey, wealthy Americans with a net worth of at least $5 million and minimum household income of $200,000 rate Winston tops (among the twenty brands considered) on all four "pillars" of value: delivering consistently superior quality; uniqueness and exclusivity; use by people who are admired and respected (social status), and making someone "feel special" across the entire customer experience (self enhancement). Harry Winston is also the top-ranked brand in terms of being most worthy of a significant price premium. Italy's Buccellati ranks second to Winston in terms of overall LBSI, and it scores well-above the benchmarks for self enhancement; being unique and exclusive, as well as for being particularly worthy of premium pricing.

There is also good news for Harry Winston's Fifth Avenue neighbor. Despite Tiffany's fifth-place ranking in the overall LBSI for luxury jewelry, and its below-par standing for brand exclusivity, wealthy Americans say that they are more likely to make upcoming jewelry purchases from Tiffany & Co. than they are from any other brand. Cartier, which ranks third in overall LBSI for jewelry, is the second most likely brand that the wealthy will choose for making upcoming jewelry purchases. Men take notice: Harry Winston and Cartier are the two luxury jewelry brands that women find most prestigious.

Luxury Watch Brand Status

On the wrists of America's wealthy, the timepieces with the most prestige are made by IWC. According to the 2007 Luxury Watch Brand Status Index survey, wealthy Americans with a minimum net worth of $5 million and annual household income of at least $200,000 rank the 139 year-old Swiss company ahead of 30 competing brands for overall brand status. IWC – maker of the famous Da Vinci perpetual calendar watch – also finishes first on two of the four component indices: consistently superior quality and the ability to make a person feel special across all aspects of the customer experience. Importantly, it is also the luxury watch brand that wealthy consumers are most likely to recommend to people they care about most. Richemont's Vacheron Constantin, the world's oldest watchmaker with an uninterrupted history (since 1755), finishes second to IWC in terms of overall LBSI score, and it finishes first on two pillars of value: being unique and exclusive, and being worn by people who are admired and respected. Also noteworthy is that Vacheron is the brand that wealthy Americans say is most worthy of a significant price premium.

Despite the domination of the brand status rankings by IWC and Vacheron, these are not the brands that wealthy Americans are most likely to buy for their next luxury watch purchase. That distinction belongs to Rolex, which is the best known of all of the brands considered, although it finishes a distant seventh in terms of overall brand status. Patek Philippe, maker of the first wristwatch in 1868, ranks third in overall LBSI for the luxury watch category, and it finishes second to Rolex as the brand that wealthy consumers are most likely to consider for future luxury watch purchases.

Private Jet Services Prestige

Blue Star Jets repeats for the second consecutive year as the most prestigious brand in private jet service. According to the Luxury Institute's 2007 Private Jet Services Luxury Brand Status Index survey, the New York-based broker of private jets tops ten other brands of private jet service providers for overall prestige, although Blue Star only narrowly surpasses Dallas-based Jet Concierge and Delta AirElite in terms of overall LBSI score. In fact, throughout the private jet service category, the ultra-wealthy consumers who were surveyed (with an average household income of $1.175 million and average net worth of $14 million) did not find substantial points of differentiation between the eleven brands under consideration. This suggests that the field is still wide-open and that a competitor offering truly superior service and an improved overall experience can rapidly build a respected brand name — a fact underscored by smaller boutique brands that have moved up through the rankings ahead of larger rivals since the last LBSI for the private jet category in 2006.

Luxury Retail

The sluggish holiday shopping season delivers sparkle to retailers in the luxury space. According to chain store sales results from the International Council of Shopping Centers-UBS December sales tally, overall same store sales growth came in at 3.1 percent – in line with original (modest) expectations. At the market's low end, Wal-Mart had its worst December in six years, posting a 1.6 percent gain in comparable December sales. Luxury retailers, however, posted solid growth that blew past expectations. Saks, which spent its first holiday as a pure luxury play, posted growth of 11 percent, versus expectations for a gain of 5.3 percent. Nordstrom, with a 9.0 percent jump in same-store sales, easily exceeded analysts' forecasts for 4.3 percent growth. The holidays were also happy for Neiman Marcus, which saw comparable sales for December rise 7.3 percent at its Bergdorf Goodman and Neiman Marcus flagship stores. With forecasts for slower economic growth in 2007 – and even some predictions of recession – the holiday shopping season provides additional evidence that high-end businesses enjoy a large degree of insulation from tumult that may affect the overall consumer economy.

Wealth Demographics

Concentration of wealth is not just an American phenomenon. According to a new study from the World Institute for Development Economics Research of the United Nations University, the wealthiest one percent of adults owned 40 percent of the world's assets – based on figures obtained in the year 2000. Furthermore, the wealthiest 10 percent of individuals in the world (which requires a minimum net worth of $61,000) accounted for ownership of 85 percent of global assets. In the United States, the top 10 percent control about 70 percent of the nation's wealth.

Many Americans who might be considered merely "affluent" by U.S. standards start to look downright wealthy when measured with a global yardstick. The minimum net worth that one needs to qualify as one of the world's wealthiest one percent is comparatively modest at just over $500,000. In fact, the *average* level of wealth in the United States was $144,000 per capita in 2000, putting Americans in a position to envy the Japanese, who enjoy $181,000 in per capita wealth. To be sure, Japan and America are both well represented among the 37 million people who qualify for membership in the world's wealthiest one percent: 37 percent the people in this group are Americans, and 27 percent are Japanese. Seven Western European nations, along with Canada and Taiwan, account for 26 percent of the world's wealthiest one percent – although none of these nations has more than a six-percent share.

In terms of the mix of assets held by households, the United States has the most diversified allocation. While nearly all of the household assets in developing regions such as Indonesia and India are in the form of real property, this asset class accounts for just above 50 percent of U.S. household wealth. Nearly 40 percent of the wealth of U.S. households is held in the form of financial assets, and 10 percent is in debts. Although Western European and other developed nations also hold a far greater percentage of household wealth in financial assets than do nations in the developing world, real property holdings (as a percentage of total wealth) are far greater in nations such as Germany, Japan and Canada than they are in the U.S. The full report makes for fascinating reading. Click here to access the report in its entirety or you may visit www.wider.unu.edu.

LUXURY INSTITUTE LLC

About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings and research institution that is the trusted and respected voice of the high net worth consumer. The Institute provides a portfolio of proprietary publications and research that guides and educates high net worth individuals and the companies that cater to them on leading edge trends, high net worth consumer rankings and ratings of luxury brands, and best practices. Publications include the monthly Wealth Report, the Luxury Brand Status Index surveys, the Luxury Best Practices surveys, the Luxury Consumer Experience Index surveys and the Luxury Website Effectiveness Index surveys. To reach the Luxury institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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Luxury Retail Experience Leaders

A January boost gives retailers a lift – especially those selling luxury. According to Thomson Financial's tally of same-store sales at 55 retailers, sales jumped 3.9 percent in January compared to the year before period, beating the 3.1 percent estimate. This helps retailers recoup from the subdued 2.9 percent holiday same-store sales gain for the November-December period. Standouts include a gain of 11.4 percent for Saks, the storied brand that has divested its holdings down to its Saks Fifth Avenue luxury department store core. Nordstrom also continues to roll, posting an 11.1 percent boost in January numbers and continuing to enjoy highly favorable ratings from wealthy shoppers.

Knowledgeable personnel and a customer-friendly return policy propel Nordstrom ahead of rivals in customer experience. Both shoppers and investors are fans of Nordstrom. Shares of the Seattle, Wash.-based luxury department have been hitting new highs on the New York Stock Exchange, and its customers give the company the highest score on the Luxury Institute's 2007 Luxury Customer Experience Index (LCEI) for luxury retailers. The LCEI is a composite score of each brand's ranking in categories such as overall effectiveness, personnel, and environment, as well as in outcome measures such as retention and loyalty, willingness of customers to recommend, being worthy of a significant price premium, and the incidence and resolution of problems. Participants in the LCEI survey have a median net worth of $1.1 million and median annual income of $214,000.

According to this group, Nordstrom dominated other retailers on every brand experience variable that goes into the LCEI calculation. Nordstrom customers raved about the "delightful experience" they enjoy, including the "few questions asked" and "positive attitude" return policy. Employees at Nordstrom, observe wealthy shoppers, "seem happy to be working there" and they "provide great service always." Participants evaluate a brand's personnel on factors that include enthusiasm, courtesy, trustworthiness and product knowledge. Finishing overall in second and third place on the LCEI, respectively, are Barneys and Neiman Marcus.

Nordstrom appears to be sharpening its focus on its thriving department store core business as it looks to sell its French subsidiary. On February 1, Nordstrom said that it had hired Goldman Sachs to explore strategic alternatives for Façonnable, a high-end French retailer that it acquired in September of 2000. Nordstrom tried before to sell Façonnable in 2005 but could not find a buyer at the right price. The acquisition of luxury watch retailer Tourneau by Leonard Green last September for 1.3 times revenue could provide a basis for any possible sale to strategic or financial buyers. Façonnable has only four boutiques in the U.S. and 36 in Europe and accounts for just a small sliver of Nordstrom's $8.23 billion in sales for the four quarters ended October 28, 2006. Façonnable could distract management time and talent from Nordstrom's wildly successful flagship department store. A sale – especially at this robust time for luxury retailers – makes wonderful strategic sense.

Luxury Fashion Design Experience Leaders

A tent-city colony took up tenancy at New York City's Bryant Park from February 2-9, camped out for the 2007 Mercedes-Benz Fashion Week. The upshot from the seven-day semiannual affair for designers and buyers (and fashion photographers and journalists!) is that women will be wearing classic but sexy wool pants and sweaters with embellishments. These "return to tradition" garments will be hot and are a big score for designers like Marc Jacobs and Heatherette's highly lauded duo of Traver Rains and Richie Rich who have designed custom garments for Britney Spears and Paris Hilton. But for the wealthy, the best fashion design experiences are most likely to come from established brands.

Classic leather appeal drives Parisian luxury purveyor above Italian and British rivals. Hermès is the fashion design house rated number one by wealthy consumers in delivering brand experience, according to the Luxury Institute's 2007 Luxury Consumer Experience Index for fashion designers. Founded as a saddler in 1837, and achieving renown during the twentieth century for its leather trunks, handbags, and overnight cases, Hermès now trades as much on the reputation of its brand as it does on the style of its bags. It finished ahead of Armani across all three pillars of brand experience – effectiveness, personnel and environment – although Armani is the brand wealthy consumers are most willing to recommend to friends and family. Gucci, which ties with Ferragamo for third place overall, is identified by the wealthy as the fashion brand most deserving of a price premium.

The wealthy still love buying the more "mainstream" luxury brands such as Polo and Coach. Most wealthy customers (95.5 percent) say they will purchase Polo Ralph Lauren in the future, with 93.4 percent of the wealthy saying they will make a future Coach purchase. Coach also gets high marks for brand environment, something that it's trying to burnish further with two Legacy stores opening this fall in New York and Los Angeles. The company now has 25 of its premium Legacy stores inside existing Coach stores.

Luxury Automobile Experience Leaders

American luxury cars can still compete and Cadillac is proof. The U.S. makes a big dent in luxury automobile opinion with General Motors' iconic Cadillac brand, and proves that Japanese and European luxury brands are not the only cars that wealthy Americans want to drive. Its clients give the classic Cadillac luxury nameplate top honors for delivering the best experience of ten luxury auto brands. According to wealthy consumers responding to the Luxury Institute's luxury auto LCEI survey, Lexus and Acura ranked a respective second and third place. Wealthy drivers frequently cited "great people" at the Cadillac dealerships and the looks, comfort and reliability of the cars themselves.

Luxury Hotel Experience Leaders

Ritz-Carlton remains at the pinnacle of customer experience in the hotel category. According to the Luxury Institute's 2007 Luxury Hotels & Resorts LCEI survey, the Marriott subsidiary edges out high-end hospitality rivals like Small Luxury Hotels of the World and Mandarin Oriental. Hotel brands, however, tend to excel in particular categories and overall LCEI rankings of the 14 hotels are extremely tight. Ritz's customer-centric culture, not its bricks and mortar, drive its positive ratings.

Wealthy Holiday Shopping Trends Recap

This year, wealthy consumers spent more money shopping online for the holidays than they did in all other traditional stores combined. The Luxury Institute asked wealthy Americans with a median net worth of $1.6 million and median annual income of $215,000 about their shopping habits over the holidays. They spent an average of $1,709 buying gifts online this holiday season and spent $768 in department stores. These are also the two most popular venues for gift buying for the wealthy, favored by nearly three-fourths of those surveyed. Fifty-seven percent prefer doing their holiday shopping at specialty retailers and boutiques, and just 10 percent of the wealthy prefer to make their purchases on the phone while browsing a company's catalog or website. According to comScore Networks, online spending in 2006 (excluding travel) totaled $102.1 billion, up 24 percent from 2005. During the week before Christmas, online spending surged 45 percent over year-before levels. Perhaps the promises of on-time shipping and the convenience of ordering online are a powerful combination for luring men. On average, men spent nearly three times more online than women did this season: $2,327 vs. $803.

The hybrid model of using a telephone to place an order while reviewing a company's website is more appealing to wealthier and younger consumers. Individuals between 45 and 54 years of age spent $106 on average last holiday season ordering this way; those 55 and older only spent $25 on average using a combined phone/Internet approach. Those who earn more than $500,000 a year spent an average of $199 ordering on the phone while browsing the web; those earning less spent an average of $50 on the phone. The wealthy between the ages of 21 and 44 spent an average of $94 ordering on the phone while referring to a catalog; those between 45 and 54 spent an average of $35 buying gifts in this manner.

Greater wealth translates into a greater propensity for online gift shopping. Overall, wealthy Americans say they spent 10 percent more shopping online this year ($1,709) than they did at department, specialty or boutique stores combined ($1,546). Consumers worth $5 million or more, however, say that they spent 97 percent more online ($5,887) than at stores ($2,991). Clearly, luxury firms have a tremendous opportunity to deliver far more of their products and services online to eager customers.

Developing and operating sites that appeal to customers comes down to executing on fundamentals. What do the wealthy care most about? Seventy-eight percent say that having products arrive as ordered is the top indicator of good customer service, while 76 percent say getting back an email confirmation for an order is crucial. Nearly two thirds say that trusting the website to protect personal information and being comfortable using a credit card are essential. An easy to use shopping cart and easy to read content are also key, according to 62 percent of the wealthy.

Three companies doing online business correctly: Amazon, eBay, and Best Buy each received numerous positive mentions from the wealthy. Less than half (44 percent) of the wealthy care about a site's look and feel, and the ability to make an easy return has become almost implicit; only 44 percent of the wealthy considered it a factor in deciding whether a site was excellent, though 14 percent say difficulty in returning would be a primary cause of poor customer service.

On the negative end of the online customer service spectrum, reasons for disappointment are rampant. The most frequently cited sources of dissatisfaction (named by one sixth of the wealthy) are out-of-stock products, difficulty in tracking shipping, and products not arriving as ordered. Difficulty in moving from one page to another, difficult shopping cart operation, and unhelpful text or images are examples of bad customer service cited by about one in ten wealthy consumers.

Wealthier Americans plan to increase the dollar-volume of online gift shopping next holiday season. Nearly half (47 percent) of Americans earning more than $500,000 a year and 40 percent of those worth $5 million or more say they will boost their online holiday spending, compared to just 35 percent of the overall wealthy who plan to spend more online. Most wealthy Americans (62 percent) plan to spend about the same, and only three percent plan to spend less online.

Department stores are wealthy Americans' favorite brick-and-mortar stores for gift buying, driven primarily by ample product selection. Seventy-seven percent of wealthy consumers tell the Luxury Institute that product selection is the key driver of store preference, followed by excellent service (65 percent) and great sales prices (63 percent). Contrary to myth, everyday low prices, the kind touted by Wal-Mart, do resonate with 56 percent of the wealthy, though a store sending coupons (37 percent) or having friends who shop there often (28 percent) are lesser factors. Coupons are more popular as drivers of women's store preferences than those of men (42 percent to 33 percent) and women are more likely to consider sales prices important (69 percent compared to 60 percent of men). Surprisingly to some, coupons are effective with 48 percent of individuals earning more than $500,000 annually, though with just 35 percent of those earning less than $200,000 is sending coupons a driver of store preference. The importance of pricing, however, declines as income and net worth increase. Nevertheless, since most of the money is earned, those middle class spending values still shine through in America's wealthy.

Traditional merchants have large amounts of untapped potential for online sales growth. According to the Luxury Institute survey, only one third (33 percent) of the wealthy have made a purchase from the website of a retail store. High-income earners (those with incomes of $500,000+) are more likely than their lower income peers (53 percent – 30 percent) to have made an online purchase from an established retailer. Younger wealthy consumers (under 45 years of age) are also far more likely (38 percent) than shoppers over 55 (28 percent) to have bought from the website of a retailer. Top stores named by the wealthy as their favorites for the holidays include Macy's, Nordstrom and Target.

Luxury Home Audio Brand Website Effectiveness

Among leading home audio sites, Bose beats out Panasonic and Sony to win top net ranking from wealthy consumers. The Framingham, Mass. company was founded in 1964 by a Massachusetts Institute of Technology engineering professor who was disappointed with the sound of his stereo speakers. Along with advances in speaker design, Dr. Bose's company also does well with Web design. According to the Luxury Institute's 2007 Luxury Website Effectiveness Index (LWEI) survey for home audio, wealthy consumers rated Bose Corporation's web site the leader by a wide margin. They speak highly of Bose's site's ease-of-use and ultra-quick check out functions that let you order audio gear from a $4,000 home theater system to a $300 pair of noise cancelling headphones. The site is designed simply with logical navigation by the type of product you're seeking or the type of customer you are – without resorting to gratuitous music or pictures in a multimedia "welcome." Other brands could learn from Bose's leanness.

Cruise Line Website Effectiveness

"The Mouse" knows how to spin a pretty good web, too. According to wealthy consumers participating in the Luxury Institute's 2007 Luxury Website Effectiveness Index survey for cruise lines, Disney Cruise Line's website finishes far ahead of its rivals. Coming in a distant second is Crystal Cruises, and Royal Caribbean finishes third among the eleven cruise lines considered. This LWEI measures the opinions of consumers with at least $150,000 in annual income and concerns both luxury and mainstream cruise lines, since luxury consumers – particularly those who are self-made – will frequently book cruises on mainstream lines as well as luxury lines.

Attitudes & Indices

Millionaires remain more bullish on stocks than their less wealthy peers. Spectrem Group's Affluent Investor Index, measuring the investment outlook of households with at least $500,000 in investable assets, fell 2 points in January to a neutral level of 10. Meanwhile, millionaires remained in the bullish camp with a level of 15 – the fifth straight month of mild bullishness. With wealthy investors remaining rather skeptical as the Dow hits new all-time highs, the lingering pessimism could give stocks farther to run. Stock market conditions (cited by 20 percent of respondents) are, in fact, the top concern of affluent investors polled by Spectrem. Just five percent cite housing and real estate as concerns.

Wealth Demographics

New research details emerging national spending habits of Asia's burgeoning crop of wealthy consumers. According to Dr Yuwa Hedrick-Wong in his new book, *Succeeding Like Success: The Affluent Consumers of Asia*, the spending power of affluent and emerging Asians in 12 countries will total $610 billion within the next decade with 11 million wealthy households in affluent Asia and more than 58 million in emerging Asia. Dr. Yuwa, the Asia-Pacific economic advisor to MasterCard Worldwide, points out some subtleties that mark the ways in which wealth is spent in different nations. Indians, for example, tend to spend sizable sums on shopping, while wealthy Australians and Taiwanese counterparts spend the most on overseas travel and leisure. Yuwa further divides wealthy individuals according to the genesis of the wealth – inheritance, entrepreneurship, or professional skills – and finds that these factors are more responsible for determining spending patterns than is national origin.

Throughout Asia, the largest expenditures of the newly rich will go toward automobiles, computers and mobile phones, but the biggest slice of discretionary spending will be on dining and entertainment. Carmakers should also take note of the Asian appetite for automobiles, evidenced by the 51.3 percent jump in China sales for German luxury brand BMW and a 39 percent rise for Audi, the luxury auto market leader in China. Even watch and jewelry makers like Richemont are finding their strongest growth out of China's burgeoning luxury consumer market.

You could call it a wealth detector – a new business intelligence tool that identifies individuals generating wealth through deals. Wealthmonitor, a unit of Pearson's Financial Times Group's Mergermarket Group, is an online proprietary service to identify high and ultra high net worth individuals through mergers and acquisitions activity. It identifies owners, directors, and shareholders of companies for sale, while researchers and analysts track the outcomes of public and private buyouts across all industry sectors throughout the United States and Europe. The data is valuable to luxury goods providers, private banks, and other professional advisors. After launching in Europe in the fourth quarter of 2005, the U.S. version came online at the end of January.

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About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings and research institution that is the trusted and respected voice of the high net worth consumer. The Institute provides a portfolio of proprietary publications and research that guides and educates high net worth individuals and the companies that cater to them on leading edge trends, high net worth consumer rankings and ratings of luxury brands, and best practices. Publications include the monthly Wealth Report, the Luxury Brand Status Index surveys, the Luxury Best Practices surveys, the Luxury Consumer Experience Index surveys and the Luxury Website Effectiveness Index surveys. To reach the Luxury institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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The Wealth Report
Leading Edge Insights into the World of the Wealthy
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Luxury Spending Wealth Effects

Continued weakness in housing and the recent pullback in the stock market could spell trouble for luxury firms – but only if the downturns worsen. Luxury goods and services providers have reaped significant rewards from the housing boom and the four-year rebound in stocks off of their lows in the 2000-2002 bear market. But recent data are not encouraging for either asset class. The National Association of Realtors reports that the national median existing-home price in January dropped 3.1 percent over the past year to $210,600, with more than a 6 ½-month supply of homes on the market – just below last October's 7.4-month peak. Prices for new homes are also in retreat nationwide. The U.S. Commerce Department reports a 2.1 percent annual decline to $239,800 in the median price of new homes sold in January, while the National Association of Home Builders says that builders are holding inventory that will take 6.8 months to clear at the current pace of sales. Meanwhile, for the week ended March 2, the Dow Jones Industrial Average dropped 4.2 percent and the Nasdaq Composite tumbled 5.9 percent – the worst weekly performance for stocks since the beginning of this bull market in early 2003.

So just how sensitive are wealthy consumers to negative fluctuations in their net worth? To find out, the Luxury Institute surveyed 820 consumers with a minimum household income of $150,000. The median income of those surveyed was $201,000 and their median net worth was $1.5 million. The good news is that most (60 percent) of these wealthy Americans do not plan any adjustment at all in their shopping and spending habits – regardless of their investment performance or any change in the value of their real estate holdings. However, a significant slice of this wealthy demographic group does have a threshold of financial pain. Forty percent say that a decrease in the value of their assets would cause them to consider purchasing fewer luxury goods and services – and that they have a good idea where they would look to scale back their spending.

The current downturn in real estate values and stocks, however, will not prompt most wealthy consumers to cut back on spending. On average, wealthy consumers say that it would take a 19 percent drop in the value of their stocks before they would consider cutting back on spending. Just 15 percent of those surveyed said a correction of less than 10 percent would prompt a reduction. Similarly, real estate values would have to decline 17 percent, on average, to cause a pullback in spending, with only one-in-eight saying that a drop of less than 10 percent would make them spend less. More than one-in-four (27 percent) say that their real estate holdings would have to drop between 20 percent and 29 percent in value before they would consider spending less on luxuries; 32 percent could stomach a similar drop in stocks. In addition, wealthy Americans, on average, could tolerate drops of 21 percent in their cash holdings and 17 percent in the value of their mutual funds before reigning in their luxury spending.

Just six percent of the wealthy say that a decline in real estate values in isolation would prompt a cutback in spending. There is a greater sensitivity to an isolated decline in stocks: 13 percent say that a drop in the value of their stock portfolios only would cause some retrenchment in luxury consumption.

Among high-end industries, luxury hotels and resorts appear to be most vulnerable to any reductions in spending by the wealthy. Nearly half (49 percent) of wealthy consumers who say they would reduce spending list this as one of the areas that they would target. Forty-two percent say they would spend less on luxury automobiles, though the higher end of the car market is less sensitive with just 25 percent saying they would scale back spending on ultra luxury automobiles. Thirty-nine percent identify luxury jewelry as a place to cut back, though timepieces fare far better: 24 percent say they would spend less on luxury watches. Thirty-seven percent would trim their expenditures on luxury electronics, and 32 percent would dial back spending on art. One quarter of the wealthy say they would cut back what they spend at luxury retailers.

Although one-third of the wealthy say that they would cut back on cruises, not all segments of high-end travel appear to be especially at risk. Fewer than one-in-six of the wealthy who say that they would scale back spending would tone down outlays on destination clubs, private jet services, or yachts and yacht charters. Other areas that seem to be resilient are those where expenditures are at a low absolute level. Just one-in-ten say they would trim spending on luxury consumer publications, business and finance publications, or bathroom fixtures.

When asked about the area where they would cut back *the most*, sixteen percent of the wealthy single out luxury hotels and resorts. Luxury automobiles follow closely behind at 14 percent, and just less than 10 percent name jewelry, cruises, and electronics as a prime focus of their cutbacks. Five percent say that art, philanthropy, and ultra-luxury automobiles would be the first place they would look to reduce spending.

Understandably, higher incomes and higher levels of net worth will tend to insulate individuals a bit more from negative financial fluctuations. Just 30 percent of consumers with incomes greater than $500,000 and 33 percent with a net worth in excess of $5 million say they would consider spending less due to a decline in net worth, while 45 percent earning between $300,000 and $499,000 and 44 percent with a net worth between $1 million and $1.9 million say that they would curb spending. Also, just three percent of those worth $5 million or more say that they would cut their spending on luxury hotels and resorts, compared to 19 percent of those with lower levels of net worth. Plus, those worth between $2 million and $5 million are much less likely to slow their spending on home theaters: only one percent say that luxury electronics would be a target of cutbacks, versus 10 percent of those worth less than $2 million. Penta-millionaires, however, are more likely to reduce spending on cruises than their less wealthy counterparts: 15 percent of those worth $5 million and up would spend less at sea, compared to just five percent of those worth less than $2 million.

Wealthy women are more sensitive than men are to financial setbacks: 47 percent say that they would trim spending in the face of reduced wealth, compared to 37 percent of men. Despite their closer proximity to retirement, older wealthy Americans overall do not appear to be any more sensitive to declines in net worth than their younger peers. Luxury cruises, however, are an exception: 13 percent of the 55 and up group say that they would spend less, compared to just two percent of those between 21 and 44.

It takes a greater increase in wealth to boost luxury spending than it does a decrease to reduce it. Real estate values need to increase by 25 percent or more, on average, to boost spending, and stocks need to appreciate by 24 percent. In addition, fewer wealthy

Americans say that they boost luxury spending when they are wealthier than those who say that they cut spending when their wealth drops (35 percent versus 40 percent).

Elasticity of demand in most luxury categories seems to be persistent on both the upside and the downside. Eighteen percent of the wealthy single out luxury hotels and resorts as the area where they will spend more when net worth rises, followed by 16 percent who say they will step up spending on luxury autos. The wealthy are twice as likely to give more to philanthropic organizations during boom times than they are to cut back during periods of asset price declines (10 percent versus five percent).

Luxury autos and luxury hotels and resorts benefit especially when less wealthy individuals see their net worth rise. Just eight percent of those earning $500,000 or more and those worth more than $5 million say they spend more on high-end hotels and resorts when their wealth rises, compared to 20 percent of those with lower levels of income and net worth. Also, wealthy Americans between the ages of 21 and 44 are nearly twice as likely (27 percent versus 14 percent) than their older cohorts to spend more on luxury hotels and resorts when their wealth rises, although those younger than 55 are less than half as likely as those 55 and older to spend more on luxury cruises (six percent versus 16 percent). Nearly one-in-four (23 percent) of those worth between $1 million and $2 million will boost luxury auto spending when they're richer, compared to eight percent of penta-millionaires who say the same.

The full results of this survey, and scores of other past, present and future surveys are available in PowerPoint format for review and download. Luxury executives, as well as professionals and entrepreneurs who serve the wealthy directly, may gain access to reports and surveys by becoming a member of the Luxury Institute's new online community, The Luxury Board (www.luxuryboard.com). Annual dues are $995, payable via credit card. All members require approval.

Luxury Auto Experience Leaders

Cadillac comes out on top with wealthy consumers. The Luxury Institute surveyed Americans with a minimum household income of $150,000 about their experiences with ten luxury automobile brands, including each brand's personnel and sales and service environment, as well as the brands' overall effectiveness in meeting their needs. General Motors' classic luxury nameplate ranks first for effectively meeting customer needs, dominates each aspect of the personnel index, and tops the other nine brands for the aesthetic appeal of its dealerships. Cadillac also scores significantly above average for repurchase intent (91.9 percent), edged out only by Acura (92.6 percent) and Lexus (92 percent). "The most comfortable road car ever designed," comments one Cadillac owner. "I love it and cannot wait to purchase another one."

Lexus ranks number two in the overall Luxury Consumer Experience Index (LCEI) for autos, and it ties Cadillac's top ranking for dealership environment. "The quality of the automobile and the level of service are unsurpassed," raves one Lexus customer. Acura ranks third in terms of overall LCEI score, and it is the luxury brand with the lowest reported incidence of problems among recent purchasers, especially women. Typical of the comments from Acura lovers: "More car for less money, and it is stylish, offers great performance and has high resale value."

A conspicuous and egregious laggard among luxury automobile brands is Mercedes. While DaimlerChrysler executives decide whether or not to spin off the company's Chrysler division, it is clear that the firm's flagship brand is in need of major attention on a number of fronts. The once venerable brand ranks dead last for meeting customer needs, and in the crucial outcome metric of being worthy of a significant price premium. Quite alarming, too, is its last-place ranking for customers' willingness to recommend: Just 77.1 percent of Mercedes owners who were surveyed say that they would be "happy and pleased" to recommend the brand to people they care about. Mercedes also ranks second-to-last in brand retention: Only 74.1 percent of current Mercedes owners say that they plan to buy another one. Perhaps this has something to do with another one of the brand's dubious superlatives among luxury auto brands – the highest incidence of problems: 38.3 percent of Mercedes owners report experiencing problems that required resolution, and they rank the brand eight out of ten for managing to fix these problems completely to their satisfaction. "I feel the service staff was disrespectful, arrogant, and patronizing (perhaps because I'm female)," writes one disgruntled Mercedes owner. "Women my age just want someone to say 'I'll handle it,' and then do it. I thought I'd paid a price premium for that, but apparently not!" Sometimes the unvarnished voice of the wealthy consumer can deliver unpleasant news, but for a brand with a long heritage of quality and prestige, Mercedes can - *and must* - do much better than this!

In another case of seeking to remedy perhaps misguided luxury automobile acquisitions, Ford Motor Company is selling its ultra luxury Aston Martin brand. British auto-racing champion David Richards, backed by a pair of Kuwaiti investment groups, is paying approximately $850 million for the brand that Ford has owned for the past two decades. Although the brand is profitable, wealthy consumers indicate that it could use some polishing. Aston Martin finished seventh out of ten in last year's Luxury Brand Status Index (LBSI) survey for ultra-luxury automobiles. One big problem was that customers did *not* feel that quality was "job one" under Ford ownership: Aston ranked last for delivering "consistently superior quality." Consequently, it was also the brand that wealthy consumers were least willing to recommend to family and close friends.

Ford may want to consider doing something with another one of its premium European brands: Jaguar. Ignominiously, Jaguar ranks last in the current Luxury Auto LCEI, and has the lowest score for dealership personnel. It also finishes at the bottom of the list for having dealerships that are well organized and maintained. These poor showings contribute to the brands last-place ranking in brand retention. Jaguar, according to one of its wealthy owners, has "many maintenance problems and snooty sales and service people." It should be a terribly distressing signal to Ford that something is not right when 30 percent of current Jaguar owners vow not to buy another one. Perhaps a new owner willing to reinvest in the brand could restore some of its luster with wealthy drivers.

Wealthy Teens

Time to lose some stereotypes: Most younger wealthy Americans do not regard Paris Hilton as a role model. While wealthy teenagers are often portrayed in the media as the lazy and irresponsible beneficiaries of the success of their well-off parents, they are quite the opposite. A survey of well-off parents and their kids by PNC Wealth Management shows that, contrary to popular belief, the adolescent offspring of the wealthy are quite responsible and appreciative of the privileges that their parents' wealth affords. Just 22 percent believe that they "deserve to be rich because my parents are rich." More than half of those surveyed (55 percent) disagree with such beliefs. Forty-five percent say that they should not be able to buy anything that they want just because of their family's wealth, although 25 percent do express such feelings of entitlement. Ninety percent of wealthy parents say their kids should learn the value of money through hard work. Perhaps surprisingly, 80 percent of the teens agree, saying that they are willing to work for the things they want to buy – and almost two-thirds (63 percent) of those between 18 and 20 years of age have a full-time or part-time job to put spending money in their pockets. Just 56 percent of wealthy parents say that they give their kids a regular allowance. In addition, not many wealthy kids appear to entertain any notions of sponging off of their parents into their adult lives. Twenty percent of parents with children younger than 18 expect to support their children into adulthood, and just 10 percent of teens say they would attempt to keep the parental money spigots open for as long as possible.

<u>Some wealthy parents are open to discussing the implications and obligations of family wealth with their kids, but many are not</u>. Thirty-nine percent of teens say that they have had a serious discussion about wealth before the eighth grade, although just 28 percent of parents report having the same discussion. Eleven percent of those surveyed say that their family completely avoids the topic of family wealth.

<u>Almost half of wealthy teens (48 percent) believe they will have a harder time acquiring the financial stature of their parents and 59 percent of the wealthy parents agree</u>. Perhaps this fear inspires sound money management: almost three-fourths of teens (73 percent) say that they realize whatever money they receive from their family needs to be managed wisely. Their parents, however, may not be doing enough to prepare them. Only 27 percent say that they have shared or discussed the family budget with their kids. Nearly two-thirds of wealthy parents do say that they have established bank or investment accounts for their kids, but just 21 percent of teens say they have put any money into savings and only nine percent have made investments.

<u>A sense of purpose in life does seem to shine through the data</u>. Although 89 percent say that a high-paying job is part of a "perfect life" as an adult, 78 percent cite having " a job helping others." Just over half seem to have some degree of admiration for Ms. Hilton: 56 percent say that having a "rich lifestyle" is what's important.

Philanthropic Strategies

Leading philanthropic organizations need to stay in touch with the needs of all of their stakeholders and to make adjustments to their goals accordingly. For example, Americans for the Arts, a group dedicated to advancing the arts in schools and especially in economically challenged areas, works with a grassroots network of more than 100,000 individuals in arts agencies all over the country. They perform research and training for these groups on how to deliver the arts effectively in their communities, and to increase resources for the arts and arts education locally. Americans for the Arts is now asking stakeholders to participate in web-based surveys, online forums, focus groups, and one-on-one interviews. They will update their strategic plan based on the outcome of these interviews. This kind of "philanthropic federalism" is far superior to running an autocratic organization that only assumes its mission and strategies are still in synch with the needs of donors and the constituencies they hope to serve.

Luxury Opinions and Best Practices

A new forum opens up for facilitating the discussion of topics relevant to luxury firms. The Luxury Institute has launched the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs. The Luxury Board is designed to gather, synthesize, and share the collective business knowledge of luxury professionals worldwide and to provide access to valuable research, ratings and reports from the institute. Members have access to the institute's complete database of research and surveys, and will be able to conduct peer-to-peer ratings of suppliers, vendors, consultants and other providers to the global luxury goods and services industry. The Luxury Board also provides a commercial-free environment to network and share experience-based knowledge with trust, privacy and security. For membership information, visit www.luxuryboard.com.

LUXURY INSTITUTE

About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings and research institution that is the trusted and respected voice of the high net-worth consumer. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.luxuryboard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs To reach the Luxury Institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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The Wealth Report
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Internet Activities of the Wealthy

In the lives of the wealthy, the Internet has grown in importance to become an essential (if not the central) channel for the exchange of information and the conduct of commerce. Media firms and providers of both luxury and mainstream goods and services should be aware that wealthy Americans are avid Internet users who frequently tap into the information and shopping resources that the Web has to offer – and do so from multiple locations on multiple platforms. According to a survey by the Luxury Institute, a near unanimity (98 percent) of Americans with a minimum annual household income of $150,000 sends and receives email on a frequent basis; 100 percent say that they go online to get their news and weather information (76 percent frequently). Just about all wealthy consumers (98 percent) purchase goods and services on the Internet, and more than half (55 percent) report making frequent online purchases. Whether the ultimate purchase is made online or in a physical store, virtually all wealthy consumers (99 percent) research products and services on the Web before they buy them, and two-thirds (67 percent) do so frequently. Ninety-eight percent use the Web to book travel.

Wealthy women are especially drawn to the Internet for shopping – and so are the most well-to-do consumers. Sixty-three percent of women say that they are frequent buyers of goods and services on the Web, compared to 48 percent of men who say that they regularly choose the mouse over the shopping mall. While 55 percent of those surveyed say that they frequently shop online, 62 percent of those with an income higher than $500,000 or a net worth in excess of $5 million call themselves frequent online shoppers. Older wealthy Americans shop online slightly less frequently than those 54 and younger.

Compared to results of a similar survey on Internet habits of the wealthy conducted in 2005, several areas of online activity have shown especially noteworthy increases. While sending and receiving email and checking news and weather are still the most popular online activities, 82 percent of the wealthy now pay their bills online, compared to 75 percent in 2005. The wealthy younger than 45 years of age and those with a net worth less than $1 million are more likely than their older and wealthier peers to pay bills online on a regular basis.

Hard data delivered over the Web is also in higher demand by the wealthy. Eighty-five percent say that they go online to conduct research for work, up from 79 percent in the last survey. Half do so frequently. Men are more likely than women to do frequent work-related research (55 percent vs. 46 percent); wealthy Americans 55 and older and those worth more than $5 million are less inclined to do so.

Online background checks are gaining in popularity, too. Eighty percent of the wealthy report that they have done at least some sleuthing on the Web, versus 75 percent who said they did two years ago. Those with higher levels of wealth and income show a greater interest in checking references online. Twenty-eight percent of penta-millionaires and those who earn more than $500,000 – and 24 percent of those earning between $300,000 and $500,000 – say that they conduct frequent online background checks – compared to 17 percent of those with lower levels of wealth and income.

The wealthy are also turning to the Web for entertainment, as one area of e-commerce that has surged in popularity is buying and downloading music. Driven in large part by the ubiquity of Apple's iPod and other music players – 54 percent of the wealthy own an MP3 player – the percentage of the wealthy buying and downloading music has jumped from 42 percent to 55 percent in less than two years. Not surprisingly, the propensity for buying music online is skewed toward wealthy consumers younger than 45 years of age, 22 percent of whom do so frequently versus just five percent of those 55 and up. Women are more likely than men (17 percent vs. 12 percent) to download music frequently. Interestingly, almost one-fourth of those earning between $300,000 and $500,000 a year (23 percent) report downloading music from sites such as iTunes on a regular basis, while just eight percent of those worth $5 million and up say that they go online frequently to get their music. Buying video content online is not yet as popular as downloading music. Nearly one-third (29 percent) of the wealthy report buying video entertainment via the Web, but just three percent say they do it frequently; 18 percent say they do so "rarely."

The Internet is a popular tool for the wealthy to search out *offline* entertainment options in their communities. Ninety-four percent have turned to the Web to obtain information about local entertainment opportunities, and one in four does so frequently. Wealthy women are more likely than men (31 percent vs. 19 percent) to go online frequently to check out movie, theater, and concert information. In addition, wealthy consumers younger than 45 are three times more likely than those 55 and older (32 percent vs. 11 percent) to view the Web as a source of local entertainment information. Similarly, women and younger wealthy Americans are most likely to check online for information about local town services, an activity that one in five does frequently.

Sites for personal fulfillment are popular destinations for the wealthy. Ninety-eight percent say that they go online for information on a personal hobby, up from 93 percent in 2005. Those who are younger than 55 and those worth less than $2 million are most likely to use the Web as an adjunct for their personal hobbies. Ninety-seven percent of the wealthy simply like to surf and explore new websites.

The wealthy also have a robust appetite for online financial news and tools. More than three-fourths (77 percent) turn to the Web for financial management and investing as well as budgeting and personal finance; almost one-third (31 percent) are regular visitors to these types of sites. Men are significantly more likely than women to visit finance and investing sites frequently (38 percent vs. 23 percent), and those who earn more than $500,000 a year, have a net worth in excess of $5 million and are 55 or older are these sites' most avid users. The very wealthy would much rather spend time managing their portfolios in cyberspace than in their brokers' offices.

The Web is also seen as a conduit for immediate medical information by the wealthy. Ninety-five percent have gone online for medical information and 18 percent do so regularly. Women are twice as likely as men (24 percent vs. 13 percent) to obtain medical information on the Internet frequently. One-fourth of the wealthy with incomes of $500,000 and higher frequently browse for medical information, while 16 percent of those earning less than $500,000 are say that they visit sites such as WebMD to research medical topics.

Philanthropic organizations should be aware that the wealthiest of Americans are quite comfortable using the Internet to make charitable gifts. Sixty percent of the wealthy overall say that they have made donations to charity on the Web. And while just five percent of the overall wealthy population frequently makes online gifts, 12 percent of those with a net worth of $5 million and more say that they make regular gifts to charity on the Internet. Women are slightly more inclined than men to be frequent online givers, and those 45 years of age and younger are marginally more disposed to make frequent charitable gifts on the Web. Because non-profits are always looking for ways to remove the hassles from giving, they should make sure that their websites have the information and functionality that will encourage their donors with the deepest pockets to give.

Showing the pervasiveness of high-speed Internet in daily life, 99 percent of wealthy Americans regularly access the Internet from home and just two percent still use a dial-up connection. Most of the wealthy get their access with either a cable modem (47 percent) or a DSL phone line (32 percent), and seven percent even use a T-1 line. More than three-fourths (78 percent) report accessing the Internet regularly at work. Mobile access is becoming increasingly popular with the wealthy and 19 percent regularly go online with handheld devices such as the BlackBerry from Research in Motion or the Treo from Palm. Sixteen percent report using their cell phones for access on the go.

The most popular browser is Microsoft's Internet Explorer. It's used by 63 percent of the wealthy and by 74 percent of those earning more than $500,000 annually. Firefox is the second most popular browser, with a 15-percent share. AOL and Mozilla both command a six-percent share. Netscape, the first widely used browser, has a three-percent share overall, although six percent of penta-millionaires prefer it.

Google is the most popular site among the wealthy. Eight percent mention it when asked about the top five websites that they visit. Yahoo! comes in second place with a six-percent mention, followed by the Drudge Report, Amazon, eBay, and CNN each with a three-percent mention rate. Fox News, New York Times, and MSN receive mentions by two percent of the wealthy.

Google is dominant in search engines, with a 63-percent market share. A distant number-two, Yahoo! is the preferred search provider for 11 percent of the wealthy, although it is the most popular provider of homepages, leading Google by 23 percent to 17 percent. MSN comes in third for providing homepages for the wealthy at 10 percent; AOL has a six-percent share. News sites such as Fox News, CNN, and MSNBC are the preferred homepage for two percent of the wealthy.

Thirty-four percent of the wealthy have their own website with a unique URL. Two-thirds of those sites are business websites; one-third are personal sites. Personal websites are most popular with those who are younger than 45, earn less than $300,000 and have a net worth of $1 million or less. One-third of the wealthy with incomes in excess of $500,000 have their own business website, as do 28 percent of those worth $5 million or more, and 26 percent of men. More than three-fourths (77 percent) of the websites of the wealthy end in the ".com" suffix, while 10 percent end in ".net" and six percent in ".org."

The wealthy are much more likely than the general population both to read and write a blog. More than three-fourths of wealthy Americans (76 percent) report reading a blog in 2007, up from 57 percent in 2005. A much smaller percentage of wealthy Americans write blogs themselves, but this practice has also shown a big stride in adoption rate in the past two years, growing from 18 percent to 24 percent. According to the Pew Internet & American Life Project, 25 percent of U.S. Internet users overall say that they read blogs; just nine percent are bloggers themselves. More than one in five (21 percent) of the wealthy regularly read a blog; those younger than 45 are most likely to be regular readers, while those earning more than $500,000 are the most infrequent blog readers.

Among the least popular Internet activities of the wealthy: online gambling and using a dating site. Since most of the wealthy are either married or bachelors (or bachelorettes) with numerous offline options, dating sites face an uphill marketing battle to turn the wealthy into clients. As for online gambling, it might have better odds of being popular if it were legal.

Luxury and mainstream marketers can adopt best practices to make their websites more attractive to the wealthy. By addressing issues such as security, website design, and online marketing techniques, firms that serve the wealthy can improve their offerings and encourage more visits and more commerce from their wealthy visitors. Details will follow in the coming issues of *The Wealth Report*. Luxury Board members may access full results and interpretation of all Luxury Institute surveys at www.luxuryboard.com.

Luxury Audio Brand Status

"Better audio through research" – the slogan of Bose Corp. – resonates with the wealthy. Wealthy consumers rate Bose Corp. the most prestigious brand in the Luxury Institute's 2007 Luxury Brand Status Index (LBSI) survey for luxury audio. The company, founded in 1964 by former Massachusetts Institute of Technology electrical engineering professor Amar Bose, turned the tables on its Danish rival, Bang and Olufsen, which narrowly edged out Bose in the 2006 luxury audio LBSI ranking. Bose recently took top honors in the 2007 Luxury Website Effectiveness Index (LWEI), released in January. Wealthy audiophiles say that Bose differentiates itself beyond products, and they rave about its ability to create an optimal customer experience. Bose finished ahead of 30 other brands.

Luxury Video Brand Status

A pretty picture from Denmark: Bang and Olufsen garners highest prestige from America's wealthy. Wealthy consumers rate Bang and Olufsen the most prestigious brand in the 2007 LBSI survey of luxury video brands. The 82 year-old Danish company finished first among 26 brands, and by a wide margin against its Japanese rivals and closest competitors, Nakamichi and Sony. Similar to the audio LBSI ranking (as well as for hotels and autos detailed below), more than 1,600 American consumers with an average income of $313,000, and average net worth of $3.3 million participated in the luxury video brand status ranking.

Luxury Hotels and Resorts Brand Status

It's a small luxury world after all. America's wealthy travelers rate Small Luxury Hotels of the World the most prestigious brand in the 2007 LBSI survey for luxury hotels and resorts. The collection of more than 400 independent hotels in 65 countries from Croatia to the Maldives and Machu Picchu, Small Luxury Hotels finished ahead of fellow formidable hospitality brands Ritz-Carlton and Peninsula. Wealthy consumers considered a total of 19 luxury hotel and resort brands.

Luxury Automobile Brand Status

Germans finish strongly with Porsche continuing to roll, maintaining its lead in brand prestige. Even as it expands its lineup to include sport-utility vehicles and sedans, Porsche retains its position as the most prestigious luxury automobile brand, according to the opinions of wealthy consumers in the 2007 LBSI survey for luxury autos. Porsche stayed ahead of Mercedes and Lexus, which tied for a second place ranking, and BMW rated third. The Porsche brand evokes sensations of "fantasy, power, style and excitement." Comments one wealthy consumer: "It has always been a high-end car with design and elegance, and represents an accomplished person." Another respondent cites Porsche's reputation, styling, and performance, as well as its ability to recapture youth. Representative of many responses, one driver says, "It's a brand that I trust and respect. I own one and am proud of it." Porsche finished first in a field of 13 luxury auto brands.

Luxury Bath Fixture Brand Status

In the bathroom, wealthy consumers elevate Newport to top brass in status. Newport Brass, a brand of luxury faucets, tub and shower sets marketed by Masco subsidiary Brasstech, receives top honors from wealthy homeowners as the most prestigious brand in the 2007 LBSI survey for luxury bath fixtures. The 106-year old Hansgrohe brand from Germany's Black Forest receives a second place ranking, while California Faucets finishes third. "Newport Brass is simply a high quality, unique product and I would recommend because it is very stylish and luxurious," comments one wealthy consumer. "I own it, it's really nice and unusual. People ask me where I found my faucet handles," observes another. Wealthy consumers considered 17 luxury bath fixture brands.

Wealthy Investor Attitudes

Millionaire investors get rudely reacquainted with risk as optimism quickly erodes. Following the sharp sell-off in stocks in late February and early March (as well as the meltdown in the sub-prime mortgage market) wealthy investors drew in their horns and lost their bullish attitude on stocks. Spectrem Group's Millionaire Investor Index posted its biggest one-month drop since its inception three years ago, falling 14 points from a strongly bullish level of 19 in March to a neutral reading of five. Investors with $500,000 in liquid assets dropped from a mildly bullish level of 10 to a borderline bearish level of one. By mid-April, markets had regained nearly all of their lost ground. Perhaps wealthy investors will regain their bullish bias.

High net worth investors continue to pour money into hedge funds but plan to slow down the pace of new purchases. According to a study by Goldman Sachs, wealthy individuals plan to increase their hedge fund holdings by 23 percent in 2007, down from a 30 percent increase last year. Institutional investors, meanwhile, plan to raise allocations by 12 percent this year, nearly double the seven percent increase in 2006. A survey by Spectrem in January found a big reduction in the percentage of investors with a net worth of $25 million or more investing in hedge funds. Twenty-seven percent of ultra-high net worth investors were invested in hedge funds in 2006, down from 38 percent in 2005. The stepped up pace of institutional investments and the relative slowdown among wealthy individuals could benefit all hedge fund investors by forcing funds to become more transparent and to improve risk management. High-profile blow-ups like Amaranth last year, as well as numerous cases of fraud, have plagued the industry.

Global Wealth Management

As China grows richer, the opportunities for wealth management firms will continue to multiply. The wealth of Mainland Chinese citizens grew 16.3 percent last year, topping $1.44 trillion, according to a study by the Chinese Development Research Center of the State Council. Assuming a 13 percent annual growth rate, Chinese private wealth will nearly triple in the next decade to $3.63 trillion. Opportunistic firms like Citigroup are establishing toeholds in China through partnerships with locals. Wealth management firms, if they have yet to do so, need to gain entry into this golden opportunity.

Evidence of India's burgeoning class of wealthy individuals is also hard to ignore. According to Forbes magazine, India now has the most billionaires in Asia with a total of 36 individuals, unseating Japan (with 24 billionaires), which had a 20-year streak for being home to the most Asian billionaires. (When counted together, China and Hong Kong are home to 41 billionaires.) Separately, American Express finds that Mumbai has 25,000 millionaires, and that there are 83,000 millionaires in all of India. Furthermore, assets under management in western India grew by 51 percent in 2006.

LUXURY INSTITUTE

About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings and research institution that is the trusted and respected voice of the high net-worth consumer. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.luxuryboard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs To reach the Luxury Institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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The Wealth Report

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Wealthy Consumer Buying Decisions

Defying the spendthrift stereotype perpetuated by the likes of Paris Hilton, most wealthy Americans are quite circumspect about making large purchases. According to a Luxury Institute survey exploring the decision-making processes and roles of Americans earning at least $150,000 per year, 88 percent of wealthy baby boomers 45 and older and 86 percent of the wealthy overall do some degree of research on big-ticket goods and services before they buy them. This tendency decreases moderately, however, as income rises. Nearly two-thirds (62 percent) discuss major purchases with family members, but wealthier individuals are slightly less likely to do so. Younger wealthy consumers are much more likely than those 45 and older, and those who earn more than $500,000, to consult with friends on a major purchase (44 percent vs. 26 percent). Nearly half of the wealthy 44 years of age and younger, and those with a net worth less than $1 million, even set a budget – a step in the buying process for 38 percent of the wealthy overall, but for fewer than one out of four (23 percent) of those with a net worth north of $5 million.

Purchase Process Gender Roles

Clear but often complementary differences exist between the respective roles of men and women at various stages of the buying process. To better understand the sway of influence at each step, the Luxury Institute asked wealthy men and women who in the household participates at each of six steps: expressing a need; conducting research; evaluating brand options; setting a budget; making a final decision; and making the purchase. Although the involvement of men and women in the purchase of any luxury product or service cuts through stereotypical gender distinctions, clear differences exist between the respective purchase roles of wealthy male and female heads of household, depending on the luxury item.

Women are typically more involved than men are in the purchase of domestic items and items traditionally in a woman's domain, such as home appliances, home furnishings, jewelry, fine china and glassware, and bathroom fixtures. Men tend to be more involved with financial affairs, automobile purchases, insurance, and electronics. Wealthy men and women play nearly equal roles in choosing a second home and making travel plans, including choosing and booking airlines, hotels, and cruises.

Even when one partner seems to dominate the decision making process for a particular type of purchase, both men and women seem to be highly engaged, and there is usually a lot of collaboration along the way. For example, more than three fourths (78 percent) of wealthy households say that women initially express the need for jewelry; 24 percent say that men initiate the purchase, so there is at least some overlap. Also, once the need is expressed, the percentage of men engaged in the purchase process more than doubles; in almost half of wealthy households, men are involved with researching jewelry, setting the budget, and evaluating brands. More than half of men (54 percent) participate in making the final decision, and they are more likely than women are to make the actual jewelry purchase (67 percent vs. 62 percent). In some categories, women dominate every step of the way. For example, in fine china and glassware, women express a need in 88 percent of households (men do so in 33 percent) and women retain an 81-41 advantage in making the final decision, and a 77-42 margin for making the actual purchase.

Women are also generally more involved than men with home furnishing buys, although a majority of men do show significant interest at each stage of the purchase process. In a majority of households (54 percent), men express an initial need to purchase home furnishings (compared to 88 percent for women); 66 percent of men (and 78 percent of women) are involved in making the final purchase. A similar pattern persists in bathroom fixtures, where women express the initial need in 78 percent of households and men do so in 55 percent, but there is only a small 69-63 edge in favor of women by the time the final decision is made.

Women are more than four times as likely as men are (27 percent vs. 6 percent) to suggest that the other needs new clothes. Forty percent of wealthy women go as far as actually making the purchase of men's clothing; just 16 percent of men make the final purchase of women's clothing, although that step represents men's most significant contribution to the decision to purchase women's clothing!

In decisions about financial affairs, women play background roles but they can wield large influence all along the way. In 85 percent of households, men make the final buying decision for insurance, but this is clearly a shared decision: Nearly half (46 percent) of households say that women decide. Similarly with stocks, men make the final decision to buy in 88 percent of households, but in more than one-third (37 percent) women also decide. Even with electronics, where men make final buying decisions in 89 percent of households, women are involved in the final purchase decision in 40 percent – and women provide the spark for electronics purchases in 45 percent of wealthy households.

Marketers of luxury need to understand that products must have appeal for both men and women – even if one is significantly more likely than the other to be the final decision maker. For example, men may appear to lord over the car-buying process with an 88-percent to 59-percent edge over women in making the final buying decision – but 59 percent is still a significant veto power. Plus, in three out of five households women initiate the automotive buying process by expressing a need. Vacation homes, logically, must have appeal to both the men and women who buy them, although in 85 percent of households men make the final decision and women participate in making the final cut in more than half (54 percent).

With luxury travel, the sexes both get heavily involved in the buying process. Like with jewelry, women have a propensity for expressing an initial travel need, but then men get engaged to the point where they are more likely than women to make the final buying decision when booking airlines, hotels and vacation cruises.

Men and women are also both active in the buying process with wine and watches, although men are marginally more active than women in both categories. Women do not tend to be very involved with yacht charters or purchases; men make final decisions in 77 percent of households and women make a final yacht decision in just 19 percent.

Just behind travel, luxury clothing purchases (for both sexes) are the next most popular purchases for wealthy consumers. In the past year, 63 percent of households purchased luxury men's clothing; 58 percent bought luxury women's apparel. Other popular household luxury purchases include major electronics like HDTVs and home theaters (55 percent); champagne, wine and distilled spirits (50 percent); and home furnishings and jewelry, both of which were purchased by 45 percent of wealthy households in the past year. Respondents had an average net worth of $3 million, and an average annual income of $288,000. Members of the Luxury Institute's Luxury Board may access full results and more interpretation of all Luxury Institute surveys at www.luxuryboard.com.

Luxury Consumer Publication Website Effectiveness

Wealthy consumers give highest effectiveness marks to fashion and travel sites. The Luxury Institute's 2007 Luxury Website Effectiveness Index survey shows that *Vogue* and *Islands* do a superb job of presenting compelling online content. Both feature spectacular photography, something that translates well on the Web. Readers with an average income of $305,000 and average net worth of $3.2 million rate the *Vogue* and *Islands* websites as the most effective among consumer publications. World Publications publishes *Islands*, a photo-rich beach and travel publication, as well as the gourmet food magazine, *Saveur*, which ranks second in overall effectiveness. *Scientific American* is ranked third.

Business & Financial Website Effectiveness

Barron's does the best job on the Web and readers don't mind paying. According to the Luxury Institute's 2007 Luxury Website Effectiveness Index survey for the Business and Finance Information and News category, Dow Jones' *Barron's* has the most appealing website. It combines rich market data along with crisp analysis of the investing week. *Harvard Business Review* and Morningstar.com finish second and third, respectively. Many consumers complain that many financial sites are downright "ineffective" by not providing relevant information, or burying it in a clutter of advertising if they do.

Business & Financial Information Brands

Rupert Murdoch's $5 billion bid for Dow Jones reasserts the ascendancy of quality in financial news content. In a deal filled with the kind of drama and intrigue – including insider trading accusations and family dynasties – you would expect to read about or watch on one of his News Corp. media properties like Fox News Channel or the *New York Post*, Murdoch's $60 per share offer for the publisher of the Wall Street Journal shows the Australian entrepreneur's appreciation not just for Dow Jones' profits but also for its brand name.

Murdoch has good taste, as wealthy consumers share his high view of Dow Jones. In addition to the above-mentioned award for *Barron's*, The *Wall Street Journal*, a Dow Jones publication, consistently takes honors as the most prestigious brand in the Luxury Institute's Business and Finance Publications Luxury Brand Status Index (LBSI) surveys. In addition, WSJ.com, the Wall Street Journal's subscription-based website, is the second most popular online financial destination, according to a recent Luxury Institute survey of Americans with annual household income of at least $150,000. Unfortunately for Mr. Murdoch, the Bancroft family, which owns a controlling position in Dow Jones' voting shares, also recognizes the value of the brand; initial reports from the family indicate that they will reject the News. Corp offer.

Wealthy individuals are avid consumers of business and financial information online – and they do not mind paying for quality content. By definition, wealthy people have significant financial assets, which they need to monitor and to manage. The immediacy and accessibility of the Web, and its abundance of free market data, company news, portfolio trackers and planning tools make it a convenient tool for money management. You cannot manage money without reliable and timely financial news and information. Nearly three-fourths (73 percent) of the wealthy turn to the Web for business and financial information, and the attraction is even stronger for those with higher levels of wealth and income: 76 percent of millionaire households and 78 percent of those earning more than $500,000 flock to the Web for financial news. Men are significantly more likely than women (84 percent vs. 62 percent) to be frequent consumers of online financial news.

Free financial information abounds on the Web, but too much advertising and sometimes a perception of bias are two of the reasons why readers flee to subscription or "members-only" sites. The most popular financial information destination is a free one that aggregates data and news from multiple sources: Yahoo! Finance, mentioned by 10 percent of the wealthy as one of their five most visited business news sites. *The Wall Street Journal* Online's top-five status with seven percent of the wealthy makes it the second most popular financial site – and this from a site that requires users to pay. In fact, WSJ.com is the second most popular subscription website among wealthy readers, trailing only the online edition of *The New York Times*. Its success is evidence that brand status from the offline world can be leveraged into lucrative online extensions. Comments one reader about the online *Journal*: "A lot of detail in articles and a wide variety of subjects. I like the insightful writers and the well-written editorial page." Behind Yahoo Finance and WSJ.com, the next most popular (free) site for financial news is CNNMoney.com, cited by slightly more than five percent of wealthy investors as a top-five financial site, followed by MSN Money, receiving top-five mention by a little more than three percent.

Company news is the most popular kind of online financial information sought by wealthy investors. Nearly half (46 percent) of the wealthy say they seek out company news when visiting a business website. But they also want insights and opinions, presumably from experts; 38 percent say they go online to find stock analysis and one-third go for personal finance topics. Reflecting a penchant for international investment, 37 percent of the wealthy want world business news when they go online, but while they invest globally they still want to follow the action locally: 24 percent go online for local business news. One out of five wealthy investors goes online to use investment tools and calculators; 13 percent use the Web to check rates on loans and deposits. "They have great research tools," says one wealthy consumer when asked why he likes a particular site. "It's easy to search and navigate, and it doesn't sell its own products, which seems more objective," says another investor. "It has all of the information I need, minimal advertising, and is well organized."

Among the top turn-offs for wealthy visitors to financial news site: cluttered design, poor navigation, and distracting advertising. Asked to describe why she did not like a certain site, one wealthy consumer cites the "really annoying pop-up ads and too many ads on content pages." Others complain about political bias and information that is not credible. Tastefully done advertising is more than tolerated: 53 percent of wealthy investors say that ads in media are an effective tool for creating a positive impression and getting them to buy on the Internet. Its perceived effectiveness, however, has declined since 2005, when two-thirds of the wealthy said that ads in media were effective.

Brokerage Website Effectiveness

Brokerages are giving wealthy investors the tools and information they need to manage their money. In a ringing endorsement of the online information provided by brokerage sites like Schwab and Luxury Brand Status-category leader Fidelity, the wealthy are more likely (three percent) to get their online financial news and information from these sites than they are to turn to sources such as Forbes.com, Morningstar, MarketWatch (each garnering mention from about two percent of wealthy investors).

A firm that emphasizes working closely and in-person with a financial adviser also has the industry's best website. According to the Luxury Institute's 2007 Luxury Website Effectiveness Index survey for Financial Brokers, the website for St. Louis, Mo.-based Edward Jones garners the highest ranking in overall effectiveness from wealthy investors. Schwab and TD Ameritrade receive second and third place rankings, respectively.

Luxury Handbag Competitiveness

Coach is the most widely purchased brand, but Gucci gets its share at higher income levels. In overall market share, Coach leads at 29 percent, with several brands competing for the rest. Coach also leads in brand awareness. In an unaided mention, 52 percent of wealthy consumers name Coach as a top luxury handbag maker. For consumers with incomes above $300,000, however, Gucci's mindshare (34 percent) almost equals that of Coach (38 percent). Coach sales grew 30 percent year-over-year in the first quarter.

Attitudes & Indices

Millionaire investors regained their bullish outlook on stocks in the month of April. Spectrem Group reports that its Millionaire index gained 10 points in April to a bullish level of 15, its third-biggest monthly advance since Spectrem began tracking wealthy investor sentiment in February of 2004. Both the Dow Jones Industrial Average and the Chinese stocks that led the downdraft of late February and early March have gone on to make new highs. In March, millionaire investor sentiment plunged just as stocks around the world resumed their rally. So its sharp recovery in April does not by itself bode well for the market in May; its history suggests it could be a good contrarian indicator!

Wealthy Americans fret about budget deficits and the U.S. losing its competitive edge in the world economy – though they're pleased with their own investment performance. According to the 26th U.S. Trust Survey of Affluent Americans, three-fourth of respondents with a minimum net worth of $5 million cite deficits and national competitiveness as their top financial worries. Nearly three out of four (73 percent) are concerned that the next generation will have a more difficult time financially; 72 percent fear that environmental issues will spur more government spending and significantly higher taxes; 71 percent are worried about the impact of taxes on the value of their estate.

Surging stocks are keeping investors happy – though nervous. Nearly half of high net worth investors (45 percent) say that their investment returns in the past year have met their expectations, and 40 percent say that performance has exceeded expectations. A majority (51 percent) says that U.S. stocks are getting riskier, and 18 percent plan to sell their U.S. stocks (compared to 8 percent who plan to sell their international stocks).

Four out of five investors worth at last $5 million say that both stocks and real estate provide the greatest investment returns. More than half (55 percent) say that hedge fund returns are "very good," but 77 percent say that hedge funds are hard to investigate, and

76 percent say that a good fund is "hard to find." On average, investors worth at least $5 million say that they hold six percent of their portfolio in hedge funds; millionaires have a two-percent allocation to hedge funds.

Wealth Demographics

Despite the real estate downturn, strong stock markets help the United States continue to mint new millionaires at a healthy clip. The number of U.S. households with a net worth of at least $1 million grew five percent to 9.3 million in 2006, according to the latest annual installment of the recently released Affluent Market Research Program from research firm TNS. This was the fourth consecutive year of growth in American millionaire ranks. TNS found that the average net worth of millionaire households was $2.16 million, with two-thirds of that net worth typically held in financial assets.

California has four counties on a list of the top ten counties populated by the most millionaires. Los Angeles County comes in on top, with 262,800 millionaire households; Orange County comes in third, and San Diego County in fifth place. Chicago's Cook County (Illinois) is the county with the second most millionaire households in the country: 167,873. Nassau County in New York (number seven) and Middlesex County in Massachusetts (number ten) represent suburban New York and Boston millionaire concentrations.

Affluent households are up in number and buying power. About 21 million U.S. households are now considered affluent, according to data firm Packaged Facts, and they had aggregate income of $3.6 trillion in 2006. This is expected to grow 27 percent by 2011 to $4.6 trillion. Although affluent households account for just 18 percent of the U.S. total, they control nearly half of income. Super affluent households with minimum incomes of $250,000 comprise only 1.2 percent of households but produce more than 12 percent of combined total U.S. household income.

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Luxury Retail Brand Prestige

As a private company, Neiman Marcus continues to burnish its reputation among wealthy consumers. The Dallas-based luxury retailer, which was purchased for $5.1 billion in 2005 by a group of private equity firms led by Texas Pacific Group and Warburg Pincus, owns the two most prestigious brands in luxury retail. Wealthy consumers with an average annual income of $319,000 and average net worth of $3 million rank Neiman's Bergdorf Goodman luxury boutique and flagship Neiman Marcus stores numbers one and two, respectively, in the Luxury Institute's 2007 Luxury Brand Status Index (LBSI) survey for luxury retailers. With the company reporting robust 6.1 percent same-store sales growth and a 47 percent jump in profits for its most recent quarter, it is not surprising that rumors are surfacing that Neiman's private owners may be preparing for a big payday with an upcoming Neiman Marcus initial public offering. Seattle-based Nordstrom, which consistently receives top honors from wealthy consumers in measures of customer experience, rated a close third behind Bergdorf and Neiman.

While it may be hard to match Neiman Marcus with bricks and mortar stores, online retailer Vivre shows that new entrants can quickly build a top-flight luxury retail brand on the Web. Vivre, which uses a "lifestyle editorial" catalogue approach to online retail, sells an eclectic mix of merchandise – everything from a woman's silk kimono for $1,860 to a set of six stag horn steak knives for $310 – and even offers the services of a personal shopper. Vivre actually outscored the top traditional luxury retailers on the individual measures of brand status: consistently superior quality; social status that the brand conveys to the buyer; uniqueness and exclusivity, and making the buyer feel special across the entire customer experience.

As more commerce is conducted on the Web, even traditional luxury retailers with sterling reputations will need to remain watchful for skillful new online competitors like Vivre. Wealthy consumers tell the Luxury Institute that a trusted brand, exclusive products, relevance, convenience, and security are the essential ingredients in a great luxury retailing site. An offline presence is not as important to wealthy consumers as luxury executives may believe it is.

Women's Luxury Fashion Brand Prestige

Hermès and Vera Wang top 24 other women's luxury fashion brands and receive the highest brand status rankings from wealthy consumers. Bottega Veneta and St. John Collections tie for second place, while Armani ranks third in the Luxury Institute's 2007 LBSI survey for women's fashion brands. Clearly, one of the spoils of victory in differentiating your brand in the often "crowded and commoditized" fashion category is the ability to command premium pricing. One of the least expensive items on Vivre.com from Vera Wang is a $585 white tank top. The 170-year old and family-controlled Hermès is regarded highly for its jewelry ($460 silver key ring, $1,250 eight-inch silver bracelet) and silks ($148 men's ties, $110 pocket squares), as well as fragrances, home décor, and saddles and other leather goods – products that launched the business in 1837.

In the past month, Hermès shares have fallen some 15 percent in Paris, as the company's controlling family maintains its opposition to selling the company. About 60 descendants of company founder Thierry Hermès own a controlling stake in Hermès, even though it trades publicly on the Paris Bourse. Critics fault the family with producing below par sales growth as it shifted more of the product mix into more expensive higher-margin items. Revenues at Hermès are growing at a respectable six-percent annual clip, although European luxury goods firms are averaging far higher annual growth of 14 percent.

Women's Apparel Market Analysis

Why have shares of Polo Ralph Lauren more than doubled in value on the New York Stock Exchange since last July? One reason could be the commanding position that the company enjoys in women's fashion. According to the Luxury Institute's Luxury Brand Market Analysis (LBMA) for luxury women's apparel, Ralph Lauren is the brand that wealthy consumers are most likely to mention (unaided) when asked to name leading companies in the space. Eighteen percent of the 1,500 Americans surveyed, who have an average income of $308,000 and average net worth of $3.1 million, cite Ralph Lauren by name. Ralph Lauren is also the brand that these same consumers are most likely to have purchased in the previous year (13 percent), purchased the last time they bought women's apparel (10 percent), and are considering for their next purchase (15 percent).

Men's Luxury Fashion Brand Prestige

It's a clean sweep for Italy, as wealthy consumers rate the 24 most prestigious brands in men's fashion. Brioni, which has outfitted clients from the "Dapper Don" (John Gotti) to "The Donald" (Donald Trump) and even President Bush in its custom-tailored suits, edged out Italian competitors Armani and Ermenegildo Zegna to take top honors in the Luxury Institute's 2007 LBSI survey in the men's fashion category. Brioni's 900 tailors spend at least 18 hours working on each of the made-to-measure tailored suits that sell for between $4,000 and $24,000. Ferragamo takes third place. The opinions of both women and men are taken into account in determining brand prestige. Prior research on wealthy consumer buying decisions shows that women usually provide men with the impetus to make a new clothing purchase and that they are frequently the ones making the final decision and the actual purchase.

Attitudes & Indices

With the Dow and S&P 500 hitting a string of new highs in the month of May, wealthy investors get a bit more bullish on stocks. Spectrem Group's Millionaire Investor Index added five points in May to a solidly bullish level of 20, making a full rebound after a plunge into neutral/bearish territory following the sharp market sell-off in late February. What's the biggest worry right now for wealthy investors? Reflecting the ubiquity of $3 a gallon gas, almost one-fourth of wealthy investors cite higher oil and gas prices (24 percent), followed the Iraq War (20 percent) and housing and real estate (nine percent).

Rising inflation and interest rates place investors justifiably on edge. Stocks sold off violently again in early June as the yield of the benchmark 10-year U.S. Treasury rose above five percent for the first time since last summer and bond yields went on to hit five-year highs. One of the market's most formidable dangers is that if rates continue to rise, they will dry up the pool of cheap money funding the spree of corporate takeovers, stock buybacks and private equity buyouts that have propelled stocks higher.

Almost half (48 percent) of the wealthiest ten-percent of households generally view current economic conditions as positive, and nearly 80 percent expect conditions to be the same or better next year. In fact, the "current business conditions" reading of 127 on the American Affluence Research Center's Affluent Consumer Expectations index is the most optimistic level in the index's five-year history. Sixty percent of investors expect business conditions next year to remain the same, while they are nearly evenly split on whether conditions will improve (19 percent) or worsen (21 percent). AARC requires respondents to have a minimum net worth of $800,000 to rank among the nation's wealthiest ten percent of households – a group that accounts for 36 percent of total personal income and two-thirds of the personal wealth of all Americans. The average income of those surveyed is $324,000 and average net worth is $3.3 million. AARC calculates that there are 9.1 million "millionaire" households in the U.S.

In a potentially bullish divergence from the sanguine view of current conditions, the 12-month outlooks for the economy and stocks – while still positive – are at historically pessimistic extremes. The 98-index level (they range from 0-200; readings below 100 represent a negative outlook) for future business expectations and the mildly positive 106 reading for 12-month stock market expectations are comparable to similarly low readings in the fall of 2006 and the fall of 2005. Keep in mind that these were both excellent times to buy stocks. Even wealthy investors and their advisors have trouble timing the market!

The most bullish investors are generally those with the highest income and net worth. Respondents to the AARC survey with income less than $200,000 or net worth below $1.5 million both have borderline bearish views of stocks over the next 12 months (index level of 99), while their counterparts who earn more than $200,000 are confirmed bulls with a reading of 116. Investors worth at least $6 million are the biggest bulls. Overall, 30 percent of wealthy investors believe that stocks will move higher in the next 12 months, 45 percent say that they will remain flat, and 25 percent expect a market decline. Wealthy investors in their fifties (95) and women (98) are the two groups who tend to hold the most bearish views of stocks.

Despite their dour outlook on stocks, women are more optimistic than men about seeing increases in their household income in the next 12 months. Women are also markedly *less* optimistic than men about current and future business conditions, but they are much more confident than men regarding the growth of their savings in the coming year. Nearly one-third (30 percent) of the wealthiest ten-percent of household expect their after-tax income to rise in the next year; nearly half (49 percent) expect income to remain steady, and 21 percent expect a drop.

Wealthy Consumer Spending Outlook

In what could be negative development for some retailers, wealthy consumers are twice as likely to save a greater percentage of their incomes in the coming year as they are to save less. Greater savings can result from higher incomes, but it generally comes at the expense of spending. The media often report the potentially misleading cliché that U.S. citizens have a "negative savings rate," but asset accumulation and rising household net worth of recent years suggests that Americans are doing a fine job socking away funds and building wealth. Bear Stearns Chief Economist David Malpass points out that the savings rate, calculated on the basis of changes in household net worth, is running at roughly 30 percent of disposable income – giving these households plenty of wiggle room to sustain their spending, even if it means that they save less.

The real estate slowdown has yet to crimp the spending of U.S. consumers. Real consumption grew by 4.4 percent in the first quarter despite a big drop in mortgage equity withdrawals. And luxury retailers like Saks, Nordstrom, Coach, and others have continued to prosper as the housing market has cooled, posting bountiful gains in sales and profits. It is unrealistic to assume that individuals with substantial wealth will put a dent in their lifestyles simply because of an unsettled economic outlook. It is quite likely, however, that they will trim their purchases of some discretionary and big-ticket items.

Vacation travel is an exceptionally bright spot for future spending plans of the wealthy. According to the AARC's Spring 2007 Affluent Market Tracking Study, nearly one-third (32 percent) of the most affluent ten-percent of U.S. households plan to boost spending on domestic vacation travel in the next 12 months; just eight percent say they will spend less. The outlook for international vacation travel is also positive and represents an improvement since last fall, although the 28 percent who plan to spend more on international travel is substantially offset by the 24 percent of the nation's wealthiest households who say that they are cutting back.

The wealthy feel more philanthropic lately, too. Almost one-fourth (24 percent) of the nation's wealthiest individuals say that they plan to increase charitable contributions in the coming year; only nine percent plan to scale back on giving. With a solidly positive spending index of 115, charitable contributions finish second only to domestic travel (125) in terms of the strength of the positive outlook.

Nearly half of those surveyed (46 percent) say that they have no plans to make any major purchases in the next year, and many wealthy consumers expect to trim back spending in several areas. Collectibles markets could be vulnerable: 28 percent of the wealthy plan to spend less on art, antiques, and wine in the coming 12 months. Better than two-thirds (68 percent), however, plan to keep spending on collectibles steady this year. Twenty-nine percent say they will cut back on spending for cameras and photographic equipment, and just eight percent say they will spend more in this area. Twenty-three percent of wealthy consumers, perhaps perfunctorily, say that they will spend less on designer apparel; 14 percent say they will cut back on *non-designer* apparel purchases. Watchmakers and jewelers could also be in for tough times over the next year. Cameras, collectibles, upscale restaurants, and watches and jewelry all have "spending index" scores below 100, indicating retrenchment on the part of consumers.

Within the home, the only category showing a positive spending index reading (101) is computer equipment. Major home appliances, with a spending index score of 88, appear set to suffer the most in the year ahead. Twenty-eight percent of the wealthy plan to spend less on home appliances in the next 12 months; just 17 percent plan to increase spending. One-fourth look to spend more in coming year on home furnishings, home computers, and home entertainment, but those increases are offset by equal, or slightly greater, percentages of the wealthy who plan to reduce spending in each of those three categories. The home computer spending index score of 101 has rebounded sharply from a negative reading last fall of 91. Perhaps Microsoft and its new Windows Vista operating system should share some of the credit for stoking sales of personal computers.

High-Net Worth Major Purchase Forecast

The outlook for purchases of automobiles, cruises, and boats has improved since last fall. More than a quarter (26 percent) of America's wealthiest households plan to buy some type of motor vehicle in the next 12 months, making automobiles the most popular category of major future purchases. The likelihood of buying a new vehicle in the next year rises with income and net worth: Twenty percent of households with income less than $200,000 and net worth less than $1.5 million say that they will buy a new car in the next year, but a much larger 37 percent of households worth more than $6 million and 31 percent with incomes greater than $200,000 plan to do the same.

Wealthy Americans older than 60 years of age are the group that is most likely to take a cruise, but the one most unlikely to buy a new sailboat or powerboat. Overall, 19 percent of households surveyed by AARC say that they plan to book a cruise in the next year, although the hankering for the high seas is not shared equally. Just 12 percent of wealthy consumers in their fifties plan to take a cruise, compared to 26 percent of those 60 and up. The urge to cruise also rises with wealth and income; 31 percent of households with a net worth of more than $6 million have a cruise on their agendas, versus 13 percent of households worth less than $1.5 million. The appeal of *buying* a new boat apparently diminishes after 60, as just 0.6 percent of this group plans to purchase a new motorboat or sailboat, although 4.9 percent of wealthy individuals younger than 50 plan to buy a boat.

The ongoing downturn in residential real estate is reflected in reduced intentions to purchase or build a primary residence, but the appetite of the wealthy for vacation homes remains robust. Just 3.9 percent of respondents plan to buy or build a primary residence in the next year – a four-year low. This percentage is down sharply from the 8.8 percent who said last fall that they were planning to acquire a primary residence. Plans to purchase a vacation home peaked in the spring of 2005, when 10.5 percent of the wealthy said that they were in the market for a second or third home.

Following a sharp drop in the fall of 2005, vacation home purchase plans have remained relatively stable. AARC reports that 5.9 percent of wealthy respondents say that they are looking to buy a vacation home in the next 12 months, although vacation homebuyers tend to skew sharply toward higher incomes and levels of wealth. For example, 19.1 percent of households with a net worth greater than $6 million are looking to buy or build a vacation home, as are 10.1 percent of households earning in excess of $200,000 a year. But just one percent of households with a net worth less than $1.5 million and 0.4 percent of those with incomes less than $200,000 are planning to buy or build a vacation home in the coming year.

The outlook for home remodeling has also dropped to its lowest point in four years. Twenty-one percent of the wealthy plan to initiate major remodeling projects in the next year, down from 26 percent last fall who said they planned to remodel their homes. Remodeling fever reached its high point in the spring of 2005, with more than one-third (34 percent) of the wealthy saying that they had big remodeling plans in the coming 12-month period.

Only two out of the 17 categories tracked by AARC posted declines compared to last fall in future spending index readings: home furniture and political contributions. Despite the retrenchment in many real estate related purchases since the height of the boom, wealthy consumers do not appear to be making massive cuts in their overall spending. In fact, they expect to boost spending in 12 of the 17 categories.

Premium Credit Card Prestige

When wealthy Americans whip out their credit card to make travel reservations, buy computers, or even make charitable contributions, many will do so with their AmEx "black" cards. According to ultra-wealthy American consumers who have an average income of $775,000 and average net worth of $14.4 million, the American Express Centurion card, known for its distinctive black color, is the clear winner in the Luxury Institute's LBSI survey of premium credit cards. Generally available only to members who spend at least $250,000 per year, the card charges a $2,500 annual fee but provides a number of benefits, including free luxury hotel stays and companion air travel, as well as personal shoppers, concierges, and travel agents. The American Express Platinum Card, which provides benefits similar to the Centurion, ranks second in the opinion of the wealthy; the MasterCard World Elite card finishes in third place.

Most Prestigious Universities

The nation's most prestigious university is in Cambridge, Mass., but not at Harvard Square. A long heritage of innovation and excellence and in engineering edge out the allure of the Ivy League, as wealthy consumers rank the Massachusetts Institute of Technology ahead of Harvard and two dozen more of the nation's top schools in the Luxury Institute's 2007 LBSI survey for elite universities. Harvard University finishes second in overall prestige, with Yale University ranking third. High net worth consumers, the people who write the tuition checks and make donations, call M.I.T. a "cutting edge leader in technology committed to teaching students to think" with an "excellent reputation worldwide." The wealthy describe M.I.T. as "a leading university noted for graduates who attain great goals in academia, industry and science."

Emerging Luxury Concept

Much more than just a ghostwriter, this innovative company is a publisher, a designer, and a family historian. Buenos Aires, Argentina-based My Special Book is the ultimate in vanity publishing. For a fee that ranges between $20,000 and $200,000, My Special Book helps to chronicle family history – or to tell whatever story you want told – and delivers a hardbound "coffee table" quality book. Several billionaires and many a multi-millionaire around the world have been brought to joyful tears when presented with a glossy personal chronicle of their lives as gifts from family and friends. The company dispatches interviewers to gather insights and information, and it employs writers and designers who produce an heirloom quality book in about two to four months from start to finish. Highly personalized and customized products are good for building up cachet and prestige among wealthy consumers. Flawless execution is the way to keep it.

LUXURY INSTITUTE

About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings, reviews and research institution that is the trusted and respected voice of the high net-worth consumer. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.luxuryboard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs. To reach the Luxury Institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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The Wealth Report
Leading Edge Insights into the World of the Wealthy
Vol. 103, No. 7

NEW YORK – July 15, 2007

Ultra-Luxury Automobiles

By obsessing over quality and the customer experience, Maybach attains the apex of prestige for ultra-luxury automobiles – again. Wealthy Americans with a net worth of at least $5 million and minimum household income of $200,000 rank the subsidiary of DaimlerChrysler number-one in the Luxury Institute's 2007 Luxury Brand Status Index (LBSI) survey of ultra-luxury automobiles. Named for Wilhelm Maybach, the man who designed the first Mercedes near the turn of the twentieth century and who later built diesel engines for German tanks and Zeppelins, Maybach has quickly established itself as the most coveted ultra-luxury automobile brand since it began selling its customized creations in the United States four years ago. Rolls Royce, these days a BMW subsidiary, and Bentley, a division of Volkswagen, finish second and third, respectively, in overall LBSI scores. Rolls edged out Maybach last year, after Maybach took top honors in the 2005 LBSI. Respondents, who had an average net worth of $14.4 million and average annual income of $775,000, considered 12 brands that also included Aston Martin, BMW, Bugatti, Ferrari, Lamborghini, Lotus, Maserati, Porsche, and Maybach's sister brand, Mercedes-Benz.

Not coincidentally, the two most prestigious ultra-luxury automobile brands command the highest pricing premiums in the group. The success of Maybach and Rolls Royce in the $300,000-plus ultra-luxury segment is encouraging other automakers to probe the highest end of the high-end auto market. Maybach offers two models with list prices that range from $335,500 to $426,000, and the 2007 Rolls Royce Phantom runs between $333,350 and $385,500. Bentley will get you into a Continental GT for $170,000, but they also offer the Azure convertible for $329,990. Lamborghini's Murcielago crosses the $300,000-threshold, the Aston Martin V12 Vanquish clocks in at $260,000, and the Ferrari 612 Scaglietti sells for no less than $250,000. Topping them all is the Bugatti Veyron 16.4. At its French factory, the Volkswagen subsidiary is stepping up production from 60 cars last year to 75 this year, and buyers – who wait for more than a year for their Veyron – do not balk at paying $1.4 million for the privilege of owning the fastest production car on the planet with a proven top speed of 254 miles per hour.

What wealthy customers crave about Maybach and Rolls Royce is the customization and exclusivity of both brands. Maybach produced only 280 cars last year; Rolls sold 805 of its Phantoms. Buyers of both Maybach and Rolls Royce automobiles are parties to the creations of one-of-a-kind works of automotive art in a process that is more like ordering a yacht than simply picking out options and a trim package on a showroom floor. Maybach buyers, in fact, often visit the automaker's production facilities in Germany or connect with craftsmen via video conference to discuss their vision of their car and then receive updates throughout the building process. The ultra-luxury auto market is not dominated by any one player; each top-tier brand has a legitimate opportunity to make quick progress in raising its brand prestige – as Maybach did – if it is able to deliver consistent quality alongside significant customer involvement in a vehicle's creation.

Customized Luxury Products

High-end automobiles provide just one example, but customizing a product to customer specifications deepens customer loyalty and boosts both overall satisfaction and the willingness to recommend the product. The Luxury Institute asked Americans with household incomes of at least $150,000 ($205,000 median income, $1.4 million median net worth) for their opinions on luxury goods that are made-to-order, one-of-a-kind, and made-to-measure. Limited production cars like those from Rolls Royce and Maybach could legitimately be considered one-of-a-kind although most consumers consider luxury cars as made-to-order. More than one in four (27 percent) of wealthy Americans say that they buy their cars made-to-order, making it the fifth most popular made-to-order luxury category behind home furnishings (57 percent), jewelry (56 percent), homes (42 percent), men's dress shirts (40 percent), and suits (38 percent). The automobile category would rank among the top four if you count the additional 14 percent who say that they purchase *ultra*-luxury automobiles made-to-order.

A luxury brand can inspire its customers with customized products. Forty-three percent of made-to-order buyers say they are extremely satisfied with their purchases. Ninety percent of the wealthy say that they would recommend the brand of their made-to-order products to people close to them; 87 percent say that they would buy the brand again. The overall satisfaction index for customers with their made-to-order products is 8.67 (based on a 1-10 escalating scale). Involvement breeds intimacy with the brand.

Forty-two percent of wealthy men and women overall have purchased made-to-order products, but those with higher incomes and levels of wealth are more inclined to indulge. Better than half (53 percent) of those with a net worth greater than $5 million and 51 percent of those with incomes more than $500,000 buy one-of-a-kind items – compared to about one-third of those with income less than $200,000 and net worth less than $1 million. Interestingly, individuals worth less than $1 million are more likely than those with a net worth greater than $2 million to have purchased made-to-order home furnishings (64 percent – 45 percent) and shoes (81 percent – 70 percent). But it is the wealthiest segment that is much more likely than those worth less than $1 million to buy made-to-order homes, men's dress shirts, suits, tuxedos, automobiles, sweaters, and watches. The $300,000 - $500,000 income group appears to be the sweet spot for made-to-order marketers; this segment of the wealthy population has a greater tendency than other income groups to seek out made-to-order products in every category

Made-to-order is the most widespread form of product customization with the greatest penetration into the wealth market. One-third of wealthy Americans have purchased made-to-measure items like suits, and 26 percent have bought one-of-kind luxury items such as pieces of jewelry. Individuals from the highest groupings of income and wealth are far more likely than those from the lowest groupings to be one-of-a-kind buyers. Forty-three percent of those with incomes greater than $500,000 and 42 percent of those worth more than $500,000 purchase one-of-a-kind products – compared to just 19 percent of those earning under $200,000 and 17 percent with a net worth less than $1 million. Made-to-measure purchases are more evenly distributed, although individuals earning between $200,000 and $300,000 and those with a net worth between $1 million and $2 million are more inclined than the overall wealthy population (40 percent – 33 percent) to lean toward buying made-to-measure luxury items in all categories except for three:

homes, handbags, and belts. An incredible 87 percent of the highest earners have purchased made-to-order shoes, but this well-heeled group is not as particular about their shirts. In fact, the wealthy with incomes greater than $500,000 are only half as likely as those earning between $200,000 and $500,000 (26 percent – 51 percent) to buy a made-to-order men's dress shirt.

Outside of home furnishings, jewelry and homes, women have a greater disposition than men to buy made-to-order items. Notable areas where women are more avid consumers of made-to-order merchandise than men: autos (39 percent – 23 percent) and ultra-luxury autos (22 percent – 8 percent). Haberdashers take note: Wealthy women are nearly three times as likely (16 percent – 6 percent) as men to purchase made-to-order men's ties. They are also much more inclined than men are to buy made-to-order audio and video products, watches, wines, belts and slacks. When it comes to women's formal gowns, however, it is men who are more likely (39 percent – 28 percent) to think of them as made-to-order garments.

Jewelry is the most popular made-to-order luxury category for gifts. Forty-four percent of the wealthy buy made-to-order jewelry for personal use, but 37 percent buy it as a gift. A big difference between the sexes: By a two-to-one margin, women buy made-to-order jewelry for personal use, but men more frequently (38 percent – 29 percent) buy it as a gift rather than for their own use. Following jewelry, glassware and wine are the next two most popular made-to-order gift items, purchased by 11 percent and nine percent of wealthy consumers, respectively. Handbags, formal gowns and men's dress shirts are also fairly popular as gifts, chosen by seven percent of the wealthy.

Among more than 100 brands of made-to-order products mentioned by the wealthy, Tiffany & Co. is the most popular. Six percent of the wealthy say that they have purchased made-to-order items from the New York-based jeweler. Luxury automaker Lexus leads other carmakers, receiving a mention by name from three percent of the wealthy; two percent say they have purchased a made-to-order Mercedes, and one percent say they have purchased such a customized vehicle from BMW. Two percent of the wealthy say that they have bought a made-to-order Rolex watch. Other brands mentioned frequently by name: Armani, Brooks Brothers, Cartier, Coach, Gucci, and Ralph Lauren.

Quality and customer service are the two most powerful factors that drive wealthy consumers to purchase made-to-order luxury goods. On a scale of one-to-ten measuring importance, overall quality (9.61) and customer service (9.09) are very important. Price (7.53) is not especially critical in the decision to buy a made-to-order item, and is particularly unimportant as a factor for individuals earning more than $500,000 or those with a net worth of at least $5 million. The place where an item is purchased is (6.53) is also relatively unimportant as a driver in the purchase decision. The mere fact that the item is made-to-order, however, is crucial in influencing a purchase, scoring an 8.03 on the index of importance.

Far and away, the most common reason cited by the wealthy for choosing made-to-order luxury brands is to "get exactly what I want." Almost one-third of the wealthy surveyed (32 percent) point to this as the chief reason that they buy made-to-order merchandise. Seventeen percent say they prefer made-to-order because they get better overall quality and service, and 13 percent say made-to-order clothing and shoes look and fit better than off-the-rack fare. Thirteen percent say that they like to feel special and to have something that nobody else does, while 11 percent say they cannot find what they want elsewhere.

Purely emotional reasons are also play a role in why wealthy consumers opt for made-to-order items. Six percent like to buy something that reflects their own personal tastes and style, and five percent like made-to-order goods because of the personal treatment they receive during the buying process. In coming editions of *The Wealth Report*, look for more in-depth coverage of made-to-measure and one-of-a-kind luxury products and the motivations that prompt wealthy consumers to buy them. Luxury Board members can access complete findings from the customized luxury goods survey and all other Luxury Institute research at www.luxuryboard.com.

Sporting Events Brand Prestige

Tiger trumps tennis as wealthy consumers rank The Masters ahead of Wimbledon in terms of status. According to the Luxury Institute's 2007 Luxury Brand Status Index (LBSI) survey for sporting events, wealthy sports enthusiasts view Augusta National's annual rite of spring, The Masters Golf Tournament, as this year's most prestigious sporting event, just ahead of the Championships, Wimbledon at the All England Club. The British Open, held this month at the Carnoustie Golf Links in Angus, Scotland, ranks third for overall prestige among the wealthy.

Wealthy men find more prestige in golf tournaments, while women generally rate tennis events higher. Three of the top five most prestigious events are golf tournaments. Respondents, who have an average income of $775,000 and average net worth of $14.4 million, considered 20 events from a wide range of sports, including the Australian Open, America's Cup, Formula One Auto Racing Series, the Kentucky Derby, Tour de France, and the Ryder Cup.

Wealth Demographics

The number of wealthy people in the world, however you count them or define them, continues to grow at a swift pace. The latest well-publicized tally of global wealth and wealthy people comes from Merrill Lynch and Capgemini in their *2007 World Wealth Report*. Merrill and Capgemini figure that the number of high net worth individuals in the world (with at least $1 million in financial assets, excluding equity in their principal residence) grew by 8.3 percent in 2006 and now totals 9.5 million individuals around the globe. Growth in the U.S. was even more robust at 9.4 percent as the number of U.S. financial millionaires grew from 2.67 million in 2005 to 2.92 million in 2006.

Other sources peg the total number of millionaires much higher. In April, TNS Financial Services, which also excludes the value of a primary residence from its net worth calculation, estimated the number of U.S. millionaire households at 9.3 million, just shy of the number of millionaires in the *entire world* according to Merrill and Capgemini.

The disparity in numbers stems at least partly from differences in methodology. TNS conducts surveys and extrapolates sample data across the entire population. Merrill Lynch and Capgemini, on the other hand, gather macroeconomic variables such as stock market performance, economic growth, and interest rate levels to calculate the total increase in a country's wealth, and then make assumptions about the distribution of income and assets (the "Lorenz curve") throughout the population to arrive at their final count. Every three years, the Federal Reserve Board publishes the Survey of Consumer Finances, a detailed demographic breakdown of the distribution of income and assets among the U.S. population. According to the most recent survey in 2004, the Fed counted 9.1 million households in the U.S. with a net worth of at least $1 million, but this figure *does include* the value of a primary residence. Although the Fed selects its sample based on income tax return data, much of the information on wealth comes from in-depth surveys. In light of these peculiarities of methodology, it is likely that the true number of financial millionaires in the U.S. lies somewhere in between the respective figures from TNS and those reported by Merrill Lynch and Capgemini. At www.luxuryboard.com, Luxury Board members may download "A Wealth of Opportunity," a comprehensive 70-page analysis and market sizing of America's wealthy consumers based on Survey of Consumer Finances data.

While American millionaires continue to multiply, the real growth in global millionaires is coming from emerging markets. The countries with the biggest gains in their millionaire populations, according to the World Wealth Report, were Singapore, India, Indonesia and Russia. On a regional basis, Africa (+12.5 percent), the Middle East (+11.9 percent) and Latin America (+10.2 percent) saw robust growth in the number of millionaires.

The big prize for luxury and wealth management firms is still China. Merrill reports that there were 345,000 millionaires in China in 2006, up a surprisingly tame 7.8 percent from 2005. With a communist government in Beijing and local officials constantly asking for "gifts" from well to do citizens, Chinese millionaires have particularly compelling incentives to keep their fortunes hidden from prying eyes and their numbers are likely much higher than published estimates.

The real opportunity in China lies in the burgeoning middle class that will begin to mint new millionaires through greater education, entrepreneurship, and economic advancement the same way that wealth is distributed in developed nations. A recent survey by HSBC and MasterCard forecasts that the number of Chinese considered affluent (annual income greater than $26,000) in just three cities – Beijing, Shanghai and Guangzhou – will more than triple from 1.1 million in 2005 to 3.9 million in 2015. The group's total discretionary spending is expected to grow from about $18 billion in 2005 to $117 billion in 2015.

Wealth Management

It is nice to see financial firms move quickly to offer customers what they want. In the June issue of *The Wealth Report*, we reported that wealthy consumers viewed the American Express Centurion ("black") card as the most prestigious premium credit card. Now we learn that Bank of America and Smith Barney this summer will begin offering the card, offered in titanium rather than plastic, to their top clients. Cardholders are generally expected to spend $250,000 annually on their cards, but perks are plentiful and include concierge services, access to airport lounges, and invitation-only events.

As stocks slipped in June, so did the bullishness of wealthy investors. As long-term interest rates spiked to five-year highs last month, U.S. stocks took a breather from their bull run to close out the fist half with 7.3% gains for both the Dow and NASDAQ.

Chicago-based Spectrem Group reports that its Millionaire Index slipped five points in June to a moderately bullish level of 15. The Affluent Investor Index, based on the outlook of households with at least $500,000 to invest, dropped four points to a neutral reading of seven. Investors take heart: On many occasions, markets have rallied following sharp decreases in wealth investor sentiment. The renewed strength in stocks as of mid-July suggests that this could again be the case.

Luxury Handbags

<u>If exclusivity is what you crave, then capture a creation from an up-and-coming designer</u>. Looking for a unique handbag? Coach, Gucci, and Vuitton are all fine brands, but maybe you should take a chance on Katherine Kwei or Jane August, two independent handbag designers recently featured at the first annual Independent Handbag Designer Awards in New York. For a look at the designs of all of this year's finalists, visit www.handbagdesigner101.com/awards.

LUXURY INSTITUTE

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The Wealth Report

Leading Edge Insights into the World of the Wealthy

Vol. 103, No. 8

NEW YORK – August 15, 2007

Market Corrections and Wealthy Consumers

World credit and equity markets take a hit from rising mortgage defaults in the United States, but panic seems to be a bit premature. Despite good-looking fundamentals, stocks have sputtered since making new highs, weighed down by daily revelations about the depth and breadth of the subprime mortgage meltdown that has already driven several lenders into bankruptcy and threatened to create a global "credit crunch." Aside from the actual exposure of financial firms to subprime investment losses, investors fear that tightened lending standards for all types of loans will bring an end to the private equity buyout boom. Even with a positive corporate earnings season and second-quarter U.S. gross domestic product growing at a respectable 3.4 percent annualized rate, the Dow Jones Industrial Average is down about five percent from its 14,000 high less than one month ago.

Market declines would have to get much worse for wealthy consumers to curtail their luxury spending. Eighty-seven percent of individuals with an average net worth of $3 million and average income of $288,000 tell the Luxury Institute that it would take a decline of 10 percent or more in their stock holdings to trigger a cutback on luxuries. Nearly half (46 percent) say it would take a decline of 10-19 percent and 27 percent can stomach a decline of 20-29 percent before a bear market would cause them to excise indulgences from their spending. Hotels, autos, jewelry, and electronics would be among the first categories to feel the pinch.

The highest end of luxury goods and services providers and retailers is poised to outperform down-market rivals if economic conditions worsen. Demand from the wealthiest consumers is relatively inelastic, while the gyrations of the economic cycle can wreak havoc on the income and spending power of the merely affluent. Overall, 40 percent of wealthy Americans surveyed by the Luxury Institute say that declines in their wealth would lead to decreases in their luxury spending; just 30 percent of individuals earning at least $500,000, and 33 percent of those with a net worth of $5 million or more, agree that decreases in wealth of any magnitude would prompt cutbacks in luxury purchases.

Investing In Luxury

A new exchange traded fund designed to track the global luxury business provides a vehicle for tapping into a broad swath of companies in the high-end of several sectors. Launched on July 30, the Claymore/Robb Report Global Luxury ETF (trades under ticker symbol "ROB") invests in between 20 and 100 "companies whose primary business is the provision of global luxury goods and services." Current holdings, which are determined by index creator CurtCo Robb Media, number about 40, including BMW, Coach, Porsche, Tiffany & Co., Polo Ralph Lauren, as well as financial services providers such as UBS, Goldman Sachs and Credit Suisse, and hospitality firms like

Wynn Resorts and Starwood Hotels & Resorts Worldwide. The ETF is a respectable attempt to produce a single investment pegged to luxury, although a better investing approach may be to focus not just on luxury – but solely on those firms that are its best practitioners.

During turbulent times in the markets, investors looking for companies with a long-term competitive advantage should consider luxury pure plays that have built well-respected premium brands on consistent execution of fundamentals. Based directly on the experiences and objective opinions of wealthy consumers themselves, the Luxury Institute has identified luxury firms in more than two-dozen industries that are leaders in brand status, customer experience, and website effectiveness. In this issue, learn which firms wealthy consumers rate as the leaders among brokers, casinos, cruise lines and three different categories of wealth managers in commercial, private, and regional banks.

Some recent examples of the strength of these luxury leaders are in the overall weak retail sector. July same-store sales grew 2.6 percent on average at the 48 retailers surveyed by the International Council of Shopping Centers and UBS – down from 3.9 percent a year ago. Bucking the tepid trend was luxury retail brand prestige and customer experience leader, Nordstrom, which blew away forecasts with a 9.4 percent jump in comparable sales. Although it is currently a private company, Neiman-Marcus (which ranks close to Nordstrom for top luxury retail brand status) is also a formidable force in luxury. Neiman posted an 8.3 percent comparable sales gain in July.

Deteriorating credit conditions did not stop Dubai-based Istithmar from paying $942.3 million to acquire another highly ranked brand in luxury retail – Barneys New York. The investment arm of the government of Dubai hopes to build a better scale for the prestigious brand that it is buying from Jones Apparel Group, saying that it has plans to open five new Barneys stores for $100 million – first in the U.S. and then in the Middle East and China. It will also make a major push to boost online sales – the fastest growing channel for sales of all types of luxury goods and services, according to wealthy consumers surveyed by the Luxury Institute earlier this year.

Revisiting Market Risk

The real danger that troubles in the U.S mortgage market pose for world financial markets stems from the multiple layers of leverage that aggressive investors have used to buy mortgage-backed securities. Bad bets have already sunk two of Bear Stearns' hedge funds and caused BNP Paribas to freeze investor withdrawals from several of its funds, bluntly illustrating how a combination of hubris and shifting markets can sink even sophisticated professional risk managers.

Wall Street and Main Street deserve to share the blame for the excesses that fueled the historic housing boom and which now look likely to exacerbate the length and severity of the ensuing – and certainly ongoing – downturn. Far too many homebuyers with far from perfect credit gorged themselves on a smorgasbord of exotic mortgage offerings from eager lenders, including no-money-down "piggyback" loans, ridiculously low "teaser rates" on adjustable rate mortgages, and little or no documentation of income or assets to qualify. Industry estimates are for more than $1 trillion of ARM debt to reset this year at substantially higher rates – resulting in monthly mortgage payments that in many cases no longer fit into household budgets. As home values rose sharply, refinancing was an easy outlet for distressed homeowners, but with prices falling, homeowners are defaulting in higher numbers. Fitch Ratings now says that default rates for all types of mortgages will be 20 percent higher than original estimates, and that those for ARMs resetting in the next two years should be higher by 30 percent.

Before you conclude that the world economy is facing "financial Armageddon," you might want to put these troubling numbers into proper perspective. Delinquency rates (not even as severe as default) on all types of mortgages stood at 3.98 percent in June, according to insurance giant AIG. Subprime default rates were more than double the average at 10.8 percent.

The entire subprime market is estimated to be about $1.5 trillion, so if all of June's delinquencies reported by AIG turn into defaults, total subprime defaults could total upwards of $200 billion. That's a lot of pain, but with securitization of pools of mortgages into marketable securities, the pain is spread out among investors who decided to accept (and hopefully are better able to manage) the risks in exchange for extra yield.

Wealth Management Brand Prestige

Ultra-wealthy investors have a number of firms to choose from when selecting a wealth manager and they are not bashful about sharing their thoughts on which brands they think are best in the business. The Luxury Institute asked individuals with $200,000 minimum annual income and net worth of at least $5 million for their opinions on the wealth management brands of seven commercial banks, 10 regional banks and 21 private banks. These ultra-wealthy investors considered each wealth management brand on the 'four pillars' of luxury brand status: consistently superior quality; uniqueness and exclusivity; use by people who are admired and respected; and self-enhancement, or making the customer feel special across the entire customer experience. Survey respondents have an average income of $775,000 and an average net worth of $14.4 million.

Bessemer Trust remains at the pinnacle of wealth management brand status. Clients of New York City-based Bessemer continue to rave about the 100 year-old firm's service as it earns the highest overall Luxury Brand Status Index (LBSI) score in its segment for the third year in a row. Bessemer's individual scores are the highest not just among private banks, but the highest of any wealth management firm in all three categories, including commercial and regional banks. Philadelphia-based Glenmede Trust earns a second-place overall LBSI score in the private banks segment, while Credit Suisse Private Client ranks third. Notably absent from this year's elite wealth managers is former top-three bank U.S. Trust, which Bank of America purchased in the past year from Charles Schwab and has had trouble integrating smoothly into the BofA corporate fold without angering some of U.S. Trust's long-time clients. U.S. Trust slipped to eleventh place among private banks; Bank of America Private Bank ranks near the bottom among commercial banks.

Among commercial banking wealth mangers, European and Asian banks are succeeding at cultivating the highest level of brand status with their ultra-wealthy clients. Deutsche Bank Private Wealth Management earns the highest score on three of the four pillars of luxury and the highest overall LBSI score. Hong Kong-based HSBC Private Bank finishes a close second in overall brand status. JP Morgan Private Client Services comes in third, but is also the brand that ultra-wealthy clients are most likely to recommend to the people they care about most. Deutsche Bank's Alex Brown subsidiary ranks fifth among the most prestigious private banks.

Atlanta-based SunTrust boasts the highest brand status in Dixie and beyond. Especially popular with younger clients, SunTrust Private Wealth Management earns the highest overall LBSI score in the regional banking category and exceptionally high marks for the social status of its clients and its ability to make clients feel special. Ultra-wealthy clients rank Wilmington Trust Wealth Advisors number two overall in the regional category, and rank the Delaware-based firm tops for "consistently superior quality." Wilmington is also the firm most deserving of a significant price premium and the one that ultra-wealthy clients are most likely recommend to family, close friends and business associates.

Retail Brokerage Customer Experience Leaders

Based on their own investing experiences, high net worth investors rank Charles Schwab and Edward Jones as the top retail brokers. Investors with an average net worth of $3.2 million and an average income of $302,000 are big fans of Schwab's online presence and "reasonable fees" – giving the San Francisco-based broker the highest Luxury Consumer Experience Index (LCEI) score in the premium broker category. Ameriprise Financial, an American Express spin-off, finishes second. Low-key St. Louis-based Edward Jones earns the highest LCEI score among full-service brokers, ranking just ahead of Citigroup's Smith Barney division.

Important Note: A black credit card with the American Express logo does *not* make it a 'Centurion' card. We would like to correct a misstatement from last month's *Wealth Report* about American Express-branded black credit cards being issued by Bank of America and Smith Barney to their top clients. "They don't issue American Express' cards, they issue their own cards with our logo, separate and distinct from our cards," notes Monica Beaupre, public affairs manager at American Express. "Only American Express issues the Centurion Card and only the American Express Centurion Card is made of titanium." Fair enough. A Luxury Institute survey recently found that the Centurion card is the most prestigious in the premium card segment. Success does tend to breed imitation.

Cruise Line Customer Experience Leaders

Despite its substantial size, Celebrity Cruises earns top marks from wealthy cruise passengers for the best overall customer experience. In a crowded field, Celebrity (a division of Royal Caribbean Cruises) earns the highest LCEI score in the cruise line category with what customers call "excellent" food and "lots of little perks" – like champagne on boarding and cool towels when returning from ports. "It's elegant without being stuffy," writes one respondent of the Celebrity experience. Holland America and Princess rank second and third, respectively.

Casino Customer Experience Leaders

Wealthy travelers who gamble prefer tasteful Italian-themed luxury on the Las Vegas Strip. The Venetian and its across-the-strip neighbor, the Bellagio, rank first and second, respectively, for overall LBSI scores in the casino category. Mandalay Bay ranks in third place. “It was a great experience,” writes one consumer about a visit to the Venetian. “The opulence and splendor made me feel as though I was bathing in luxury.” Others cited the “beautiful and elegant atmosphere” with “top-notch dining and shopping” and called the service “stellar.” Outdated décor and large crowds are big turn-offs for wealthy gamblers who considered 30 casino brands for the survey.

Wealth Demographics

<u>What worries wealthy business owners</u>? Spoiled kids and decisions about business succession are two primary concerns, according to a SunTrust survey of businesses owners with enterprises that generate at least $10 million in annual sales. Nearly one third (30 percent) say that transitioning wealth to the next generation is a big issue and almost half (49 percent) worry that their success has spoiled their children. Only 26 percent plan to bring their children into their business.

<u>Good wealth mangers can help business owners decide how best to monetize their businesses as they look toward retirement</u>. Nearly three out of four (71 percent) business owners say that they need between $1 million to $10 million in financial assets to maintain their lifestyle, but 44 percent believe that they will need $10 million or more to preserve wealth for future generations.

LUXURY INSTITUTE

About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings, reviews and research institution that is the trusted and respected voice of the high net-worth consumer. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.luxuryboard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs. To reach the Luxury Institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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Women's Shoes Brand Status

The subtle yet striking red soles of Christian Louboutin shoes convey status as well as style – and they stay one step ahead of high-end competitors in cultivating an image of exclusivity and prestige with wealthy women. According to the Luxury Institute's 2007 Luxury Brand Status Index (LBSI) survey for women's shoes, Christian Louboutin – whose bold shoes frequently feature bright colors and patterned fabrics, in addition to their signature scarlet red soles – is the most prestigious brand in feminine footwear. Louboutin ranks ahead of 30 other women's shoe brands, including Manolo Blahnik and Jimmy Choo, which finish a respective second and third in the rankings of overall brand status by 715 American women respondents who, on average, earn $291,000 annually and have a net worth of $2.2 million.

In addition to overall prestige, Louboutin finishes in first place in categories that augur well for future sales. Wealthy women identify Louboutin as the brand that is most worthy of a significant price premium (average retail price is about $800) and those who recommend the brand to family and close friends rave about its style. "This is the gold standard of beautiful, stylish, high-end designer shoes," gushes one wealthy fan of the French footwear brand. Louboutin also walks away with honors as the brand worn by people who are admired and respected, and the brand that makes its customers feel special across the entire customer experience.

Understandably, Christian Louboutin is eager to defend his carefully cultivated air of exclusivity against interlopers and he is turning to the U.S. Patent and Trademark Office to do so. Louboutin has applied to trademark the "lacquered red sole on footwear" as his own in the U.S., but New York-based Deer Stags, Inc., which sells the oh…DEER! line of women's shoes, is opposing the application. It's a battle well worth fighting for Louboutin, regardless of the outcome. Hard-earned brand status deserves needs to be defended (see "Luxury Brand Protection" on page 5).

Men's Shoes Brand Status

Though less notorious than women for their competitive fervor in footwear, wealthy men know their brands and rank Berluti as the most prestigious. The 112-year old brand of fine leather boots and shoes earns top honors from wealthy men in the Luxury Institute's LBSI Survey for men's shoes. Among the 18 luxury shoe brands considered, Ferragamo and Prada ranked second and third, respectively, according to a national sample of more than 880 wealthy American men with average annual income of $310,000 and average net worth of $3.7 million.

Wealthy men also rank Berluti ahead of rivals for uniqueness and exclusivity of the brand, and they give it top honors as a shoe that is worn by people who are admired and respected. Men who would recommend Berluti to people close them say they would do so because of the brand's innovative design and styling – long, slender shoes with an exceptionally shiny patina over vivid and varied colors of fine leather uppers.

Berluti earns the highest ranking from wealthy men for making the customer feel special across the *entire* customer experience. Small gestures speak loudly to Berluti customers, like a complimentary new patina (which can change the color) after the shoes have been broken in, or fine coffee and champagne in sales salons. Like many powerful brands whose customers bond with each other because of their purchases, Berluti is no exception. Customers of its Paris store formed a club so they could meet regularly to eat, socialize, and polish their shoes (ready-to-wear models retail between $800 and $1,400 and made-to-order shoes can run $4,000 and higher). Founded in Paris by Italian émigré Alessandro Berluti in 1895, Berluti is currently run by his great niece, Olga, though it has been a subsidiary of LVMH since 1993.

Home Appliance Brand Status

Wolf repeats last year's win of top honors for prestige among home appliance brands. As the weakness in real estate spreads to luxury homes, the quality and reputation of the appliances, like ranges and refrigerators, might just be the difference between a sale and no sale. Just as they did in 2006, wealthy consumers rank the Wolf brand (a subsidiary of the Sub-Zero Freezer Company) number one in the Luxury Institute's 2007 LBSI survey for home appliances. Viking improved its ranking to a close second in overall LBSI score, followed by 99-year old Paris-based La Cornue. Wolf and Viking share first place for delivering consistently superior quality, while Wolf narrowly edges out Viking for social status – being a brand used by people who are admired and respected.

Wolf earns the highest overall ranking of 20 brands considered despite its relatively low 27-percent brand awareness among wealthy consumers. Even more remarkable are La Cornue and Bertazzoni. Both brands have two percent awareness, but La Cornue garners top rankings and Bertazzoni finishes second in both exclusivity and the ability of the brand make customers feel special throughout the complete customer experience. Furthermore, 83 percent of wealthy consumers familiar with La Cornue say it is a brand they would recommend to people they care about, making it the brand that the wealthy are most willing to share with those close to them. Italian Bertazzoni is the brand most deserving of a significant price premium, followed closely by La Cornue and Wolf. Respondents have an average household income of $301,000 and average net worth of $3.1 million.

Wealth Demographics

The number of wealthy households grows at its second fastest pace in the past four years. On August 28, the U.S. Census Bureau began to release income data from its 2006 American Community Survey (ACS), showing that nearly 7.8 million households earn at least $150,000 in annual income. That's 12.9 percent growth in the number of wealthy households from the 2005 ACS, just below last year's 13.3 percent gain, but well above the four-year annualized growth rate of 10.9 percent. Based on the latest 2006 data, seven percent of the 111 million households in the U.S. earn could be considered wealthy based on the $150,000 income threshold criterion.

Baby boomers in their peak-earning years help to account for the high concentration of wealthy households among the middle-aged. Annual income totals at least $150,000 at more than 4.3 million households (10.2 percent) headed by someone between 45 and 64 years of age. The next highest concentration (6.4 percent) of high-income households is among those headed by 25- to 44-year-olds, followed by 3.4 percent of those headed by someone 65 years of age or older.

With regard to ethnicity, the ACS finds that households headed by Asian Americans are most likely to earn at least $150,000 per year. Although the absolute number of wealthy Asian American households at 527,000 is far fewer than the 6.5 million headed by white non-Hispanics, Asian American households are more than one and a half times as likely as white households are to earn at least $150,000 annually. The 2006 ACS finds that 3.1 percent of Hispanic households and 2.4 percent of African American households reach this income threshold.

How do you improve your odds of being wealthy? Get married and have kids. Nearly one-in-eight households (12.3 percent) with a married couple and kids younger than 18 at home earn at least $150,000 a year; 10.8 percent of households with a married couple and no children do the same. For single parents, the odds are not good; just 1.3 percent of single-parent households earn $150,000 or more. Similarly, only 2.9 percent of people living alone or with unrelated individuals earn as much.

California and New York are home to more than 25 percent of all wealthy households in the United States, but D.C. and New Jersey have the highest concentrations of high-earners. Thanks in part to the large size of the federal government and the small size of the District of Columbia, 14 percent of households in the nation's capital earn at least $150,000 a year. New Jersey (13.3 percent) and Connecticut (12.5 percent) rank second and third for incidence of wealthy households. Despite having the most wealthy households (1.3 million), California ranks fifth in incidence at 10.7 percent; New York, ranks ninth at 9.4 percent (668,000 households).

Hedge funds and high technology help make suburban Connecticut and San Jose, Calif., the two metro areas with the highest concentration of wealthy households. According to the ACS, 22.1 percent of households in the Bridgeport-Stamford-Norwalk area of Connecticut (which includes Greenwich) earn a minimum of $150,000 annually, followed closely by 20.3 percent of households in San Jose, which benefits from wealth creation and high-paying jobs in Silicon Valley. The New York metro area (including northern New Jersey and Long Island) ranks seventh, with 13.2 percent of its households considered wealthy.

Breaking the data down to the local level, Los Angeles County, Calif., has the greatest number of wealthy households (310,000) in the nation, but Fairfax County, Va., has the highest concentration (28 percent). In fact, five out of the top ten counties with the highest incidence of wealthy households are suburbs of Washington, D.C., including Loudoun (25.6 percent) and Arlington (22.5 percent) in Virginia, and Montgomery (22.8

percent) and Howard (22.5 percent) in Maryland. Hunterdon County, in western New Jersey, is home to both New York and Philadelphia commuters and enjoys the second highest incidence of wealthy households in the nation (27 percent). Westchester County, N.Y., is the only county from the Empire State to pierce the top ten, with a 22.3 percent incidence of wealth; Marin County, Calif., with 23 percent of households earning at least $150,000, is the sole California entrant among the top ten counties for concentration. Cook County, Ill. (164,000); New York County, N.Y. (150,000); Orange County, Calif. (149,000), and Santa Clara County, Calif. (121,000), round out the top-five counties nationwide with the greatest absolute numbers of high-income households.

Individual Excellence In Marketing

Listen more closely to your customers and exceed their expectations while you make memories. These are just some of the keys to successful luxury marketing from Bruce J. Himelstein, senior vice president of sales and marketing at the Ritz-Carlton Hotel Co., LLC. Himelstein recently received the "Hall of Fame" award from the Washington, D.C., chapter of the American Marketing Association, recognizing his distinguished and consistent contribution to the marketing profession and his inspiration of others as a leader and mentor in the marketing community. Past inductees have included Marriott International chairman and CEO J.W. Marriott, and AOL vice chairman and Washington Capitals majority owner Ted Leonsis. We had an opportunity to interview Himelstein about his achievements and find out how he sees the concept of luxury in flux.

Wealth Report: Share with us the evolution of your career and the critical junctures in your ascent at Ritz-Carlton?

Bruce Himelstein: I started as a bellman and was bitten by the hotel bug. I carried bags so well that they put me into sales, and it really just took off from there. I was director of sales, director of marketing and regional vice-president at many different properties. Before joining Ritz-Carlton five years ago, I was senior vice president of sales, North America for Marriott International.

WR: How has the concept of luxury hospitality evolved throughout your career?

BH: It used to be easier spotting the luxury consumer. They fit the stereotype by shopping at Neiman Marcus, pulling up to the hotel in a Rolls-Royce and wearing tuxedos. I just returned from Monaco, where 26-year-olds were driving Bentley convertibles and wearing ripped jeans. We find the generations of guests at Ritz-Carlton have become more casual, but they still seek authentic – yet relevant – luxury.

WR: From your experience, what are the critical factors that luxury brand executives need to know to create great customer experiences for high net-worth consumers?

BH: Regardless of your listening skills, make sure they improve. A mass-service philosophy is not as effective as listening to each customer's needs and surpassing their expectations. Ritz-Carlton strives to surpass expectations and create memories for all of our customers. The brand equity allows our customers to expect excellence, so there is no wiggle room. I am amazed that some luxury retailers haven't grasped the significance of first-class service. While branding, merchandizing and distribution are critical, if I am not greeted with a smile and an enthusiastic service delivery, the overall experience goes downhill fast.

WR: What are the critical skills and attributes that luxury executives need to develop to lead a luxury firm in the twenty-first century?

BH: Resiliency and leading by example. Customers' tastes and expectations are changing rapidly and the true leaders take the time to be in their 'shops' and to listen carefully. They don't just rely on formal focus groups and research.

WR: What has been one major challenge in your luxury career, and how did you overcome that challenge?

BH: Internal selling. Our recently relaxed service values allow our ladies and gentlemen to be more themselves when delivering world-class service and to be less scripted. We knew it was time to blow the dust off of the lion and crown (Ritz-Carlton's logo) without blowing up the brand. When you are responsible for the marketing of a global, iconic brand like Ritz-Carlton, the exposure of every detail is front and center. You must create a coalition of support to move forward. We made a conscious effort to shift our communications strategy that, at the time, was considered a major departure from past strategies. When you bring the voice of the customer and a little gut check into the discussion, anything is possible.

Luxury Brand Protection

<u>Building a successful luxury brand takes considerable time and effort, but in the digital age, criminals can destroy brand equity relatively quickly through online scams, selling counterfeit goods, and otherwise "hijacking" a brand for their own illicit gain</u>. Enter MarkMonitor, a San Francisco-based business that helps more than half of the Fortune 100 to defend their brands against multiple online risks, including counterfeiting, gray markets, illegitimate auctions, exploitation of trademarks, and traffic diversion. MarkMonitor says it shuts down between 4,500 to 7,500 "phishing" sites (which attempt to extract personal data from customers by posing as a legitimate bank or brokerage) every month for leading financial institutions. With counterfeiting and cyber-crime persistent worries for luxury firms, outfits like MarkMonitor should be busy – and prosperous – in helping companies combat multiple threats to their finances and reputations.

Lifestyle Consulting

<u>While most concierge services help wealthy individuals with isolated tasks like booking travel and taking care of dry-cleaning, some specialists are adopting a more holistic approach to personal service</u>. New York City-based Quincy Consulting Group is a "lifestyle management consulting firm" that caters to "the discerning professional executive and the sports and entertainment elite." The goal is to build relationships with clients to drive positive personal and professional change that will improve their lifestyles. Quincy does this by providing access to the finer things in life – from sporting events to luxury vacations, and even access to key contacts for personal or professional development. Most professional services targeted at wealthy individuals are financial in

nature. Quincy aims to provide this level of professionalism to boost the quality of life for its clients. Think of Quincy as a McKinsey or KPMG of luxury services for the wealthy.

About the Luxury Institute

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Corporate Social Responsibility

Wealthy consumers tell luxury firms that corporate social responsibility is not just trendy; it also makes good business sense. Essentially the alignment of business operations with social values, corporate social responsibility (CSR) can have a demonstrable impact on bottom line results by delivering a better brand image, improved employee morale, and the ability to charge higher prices. In fact, a majority (57 percent) of 950 high-income adults (with an average household net worth of $3.1 million and average annual income of $307,000) recently surveyed by the Luxury Institute say that they would give greater consideration to purchasing a specific brand that they perceive to be socially responsible. Boomers are particularly keen to do business with companies that have a good track record of social responsibility; almost two-thirds (62 percent) of wealthy consumers between the ages of 45 and 64 say that they give preference to firms with solid CSR credentials.

Fifty-seven percent of wealthy consumers also say that they would pay higher prices for a brand that is recognized for socially responsible practices. Ten percent even say that they would pay a *significant* price premium for such brands – a tendency that grows greater with wealth and income. One out of six (17 percent) wealthy consumers with annual income greater than $500,000 and net worth of at least $5 million say that socially responsible brands deserve significant price premiums, compared to just seven percent of those with income less than $200,000 and net worth less than $1 million. Wealthy consumers between 21 and 44 years of age also have a strong penchant for being willing to pay significant premiums for socially responsible brands, with 14 percent of the younger wealthy indicating that they would do so.

Even though a luxury firm's perceived corporate social responsibility ranks behind other attributes in driving actual consumer purchases, it can still be a deciding factor for wealthy consumers choosing between competing brands. On a scale of 1-10 for importance, wealthy consumers rank overall quality (9.23), customer service (8.74), return policy (8.05), price (7.78), and place of purchase (6.19) ahead of the brand's perceived social responsibility (5.99) when deciding on which luxury brand to buy. Women are slightly more likely than men to find a brand's CSR practices important competitive attributes.

Three-fourths of wealthy consumers agree that a company can improve its image in the marketplace through socially responsible activities. Other leading benefits that accrue to successful practitioners of CSR, according to the wealthy, are improving employee morale (60 percent); improving sales (43 percent); and improving profits (34 percent). Most wealthy individuals do not see a positive role for CSR with shareholders; just 29 percent say that it will improve a company's stock price or that it is what shareholders want. Interestingly, older and wealthier individuals (those with a net worth greater than $5 million and annual income of at least $500,000) are significantly more inclined to believe that social responsibility brings about greater improvements in sales, profits, and share price performance. In addition, men are more likely to see a strong correlation between CSR and a higher share price than women (32 percent vs. 23 percent).

Corporate governance, cited by 87 percent of wealthy consumers, is the most important component of what constitutes "social responsibility" in the minds of the wealthy. Corporate governance encompasses a company's overall business ethics, values, policies and practices. Good governance and business ethics resonate more strongly with women than with men (90 percent vs. 84 percent) and more so with older wealthy Americans 65 and up than they do with the wealthy younger than 45 (94 percent vs. 83 percent).

What does it mean to have good business ethics? According to 82 percent of wealthy consumers overall, companies with good business ethics provide fair wages and benefits to employees – although wealthier and older individuals place less emphasis on wages and benefits. Seventy-nine percent of the wealthy look for a company to state clearly and to demonstrate its business ethics, something that is a particularly important component of overall CSR for 86 percent of wealthy consumers 65 years of age and older. Nearly three-fourths of wealthy consumers (74 percent) see effective corporate governance policies that protect shareholders (such as independent directors and transparent reporting) as crucial elements of good business ethics. Men show a greater interest in a company's corporate governance than women do (79 percent vs. 67 percent).

Product safety is very important for the wealthy in judging overall business ethics. Perhaps spurred by the recent spate of dangerous products imported from China and the ongoing desire of the wealthy to drive safer cars, 69 percent of wealthy Americans say that ethical companies sell products that *exceed* consumer protection safety guidelines. Those 45 and older and those who earn at least $500,000 a year are especially adamant about product safety.

Just one in five wealthy consumers says that all products must be made in the United States if a company is to be ethical. However, 31 percent of the highest income earners say that they want an ethical company to produce all of its products domestically. Similarly, 40 percent of the wealthy say that ethical companies do not outsource back office functions overseas. Half of wealthy women (versus one-third of men) and 47 percent of wealthy Americans, age 65 and up, say the same.

There is greater agreement among the wealthy that if companies operate overseas, they must uphold the human rights of foreign workers. A majority (58 percent) see this as essential in maintaining good ethics – although older, wealthier and higher income individuals are not as insistent on the rights of workers overseas.

Another popular criterion for getting a sense of a company's business ethics is its commitment to local development. More than half (55 percent) of the wealthy overall and 61 percent those worth at least $5 million demand this of an ethical firm. Local development is an especially important contributor to a company's ethical reputation for wealthy individuals younger than 45. About one third (30 percent) of the wealthy say that diversity and minority representation in senior management are the marks of an ethical enterprise. Older Americans (38 percent) are especially interested in seeing diversity in upper management at ethical firms.

<u>Lexus earns the highest accolades from wealthy consumers of any brand for its business ethics</u>. When wealthy consumers were asked which luxury brand they admired most for its business ethics, 25 percent named Lexus, 18 percent named Mercedes, and 13 percent named Tiffany. Rounding out the top five is another automaker, BMW, receiving mention as the most admired brand for its ethics by 10 percent of the wealthy.

<u>Perceptions of business ethics can have a big impact on sales, especially if a company is perceived to be unethical</u>. While 65 percent of wealthy individuals say that they would seek out and purchase brands that excel in business ethics, values, policies and practices, 78 percent say that they would *not* buy a brand they perceive not to have a passing ethical grade. Women are especially strident in avoiding ethically challenged brands; 83 percent say that they would not purchase them. Seventy-one percent of women and individuals worth at least $5 million seek out brands specifically because they admire their ethical reputations; 77 percent of respondents earning $500,000 or more do the same.

<u>High ethical standards can also bring higher selling prices for luxury firms</u>. More than half of wealthy consumers (56 percent) say that they would pay premium prices for brands with admirable ethical reputations. Especially willing to pay up for outstanding ethics are women and $500,000+ earners.

<u>Concern for the environment is the second most popular way for a company to flash its CSR credentials to wealthy consumers</u>. Nearly two thirds (64 percent) of those surveyed say that socially responsible firms demonstrate their environmental concern, a belief especially prevalent among wealthy consumers 44 and younger. Showing a commitment to fighting global warming is the most popular way that a company can beef up its environmental image, something cited by 81 percent of wealthy consumers overall. Those earning between $300,000 and $500,000 are near unanimous (97 percent) in demanding that environmentally friendly firms take steps to combat global warming; 91 percent of wealthy older Americans (65 and up) agree. Additional ways that companies can gain environmental credibility: using biodegradable packaging materials (76 percent), exceeding Environmental Protection Agency standards (71 percent), not harming animals in the making of products (64 percent), and having "green" office space (37 percent). Women are more insistent in their opposition to harming animals than men are (72 percent vs. 58 percent), while the wealthiest individuals (and those with highest incomes) are particularly interested in green office spaces.

<u>Lexus and Patagonia are the most respected firms for their environmental records, both cited by seven percent of wealthy individuals as examples of excellence in environmental leadership</u>. Lexus builds a number of hybrid models and Patagonia, the outdoor clothing and equipment company, has been an outspoken corporate advocate of environmental causes for two decades. Mercedes and Cadillac both earn mention by six percent of wealthy respondents; Aveda and Volvo receive mention from four percent. Rounding out the brands with the best environmental reputations are Coach, Estee Lauder, and Tiffany.

Good news for these companies: 70 percent of wealthy consumers seek out brands with superior environmental records. The penalty for failure to uphold high environmental standards is also high—75 percent of the wealthy say that they would not buy a luxury brand that did not show concern for the environment. Some standouts: 40 percent of individuals older than 65, and 32 percent of those earning at least $500,000, say that a brand's bad environmental record would not deter them from purchasing it. These same two groups, however, are most willing to pay a price premium for an environmentally friendly brand. Overall, 59 percent of wealthy Americans are willing to pay a premium for a luxury brand whose environmental policies they admire. Women are more likely than men are (65 percent vs. 54 percent) to award premium pricing to an environmentally exemplary brand. And Americans earning at least $500,000 a year are more willing to pay a premium price for environmentally-aware than those who make less (67 percent vs. 57 percent).

The final piece of the luxury CSR triad is philanthropy, although it trails the other two categories in relative importance to the wealthy. Sixty percent of wealthy Americans say that they seek out brands with out brands that encourage and support philanthropic activities. Among the wealthy who key in on philanthropy, 79 percent want to see a company's commitment to community development, and 75 percent believe that a philanthropic company should donate a percent of profits to charity (especially popular among women, younger respondents and those earning more than $500,000). More than seven out of ten wealthy Americans say that philanthropic leaders should sponsor fund-raising events like walk-a-thons and provide employees with time off for charitable work. The least popular way for a company to express its philanthropy is through automatic employee payroll-deductions that go to charity. Just 24 percent view this as a positive philanthropic activity.

In the philanthropic category, Lexus wins again. Seven percent of respondents identified the luxury automaker as the luxury brand with the most admired philanthropic record. American Express and Polo Ralph Lauren both received mention as most admired brands from four percent of the wealthy. Estee Lauder, Cadillac, Goldman Sachs, Mercedes, and Rolex all earned recognition from three percent; BMW and Nordstrom both received philanthropic plaudits from two percent of those surveyed.

Fifty-nine percent of the wealthy seek out brands to purchase because of their philanthropic activities. Higher levels of income and net worth tend to accentuate the importance of philanthropy—nearly two-thirds of those earning more than $300,000 a year and those with a net worth of at least $2 million seek out philanthropic leaders. On the other hand, 56 percent of the wealthy say that they would *not* buy brands of companies that do not participate in philanthropic activities.

Philanthropic works do not always translate into a price premium. In fact, a majority (55 percent) of wealthy consumers say that even though they may admire a company's philanthropic track record, the goods or services must still be price competitive. Women and high-income earners are the two groups most likely to pay a premium for a brand with a respectable philanthropic history.

Because companies can benefit from CSR initiatives, they need to make sure to communicate with their customers to make them aware of their strides toward social responsibility. Nearly two-thirds (64 percent) of the wealthy rely on magazine, newspaper and web articles to learn about a company's efforts; 48 percent learn of initiatives through conversations with friends and family. Forty-five percent learn about CSR efforts through advertising, and 38 percent do so via company press releases. Being more proactive in getting the word out will help companies reap the rewards of their efforts.

Women's Fragrance Brand Leadership

Wealthy consumers rank the classic scent of Chanel number one in ladies' perfumes. According to the 2007 Luxury Brand Market Analysis (LBMA), Chanel finishes ahead of all other women's fragrances for overall brand leadership. Estee Lauder and Ralph Lauren are ranked numbers two and three, respectively. A total of 18 brands received mention from at least two percent of wealthy consumers in an unaided recall. Chanel is the most often recalled brand and earns the highest ranking for market share, purchase consideration and most recent purchase.

Luggage Brand Status

Italian leather goods maker Tod's is the most prestigious brand of luxury luggage. Exclusivity, status and the ability to make customers feel special set Tod's ahead of 14 competitors in the 2007 Luxury Brand Status Index survey for luxury luggage. Coming in second and third, respectively, are Longchamp and Zero Halliburton. "It represents top quality, durability, and fashion," says one wealthy fan of Tod's.

Mutual Fund Family Brand Status

Bigger is not always better when measuring prestige of mutual fund families. In the 2007 LBSI for fund families, wealthy individuals rank Dodge & Cox as the most prestigious brand in mutual funds, followed by Blackrock and Columbia. Wealthy investors say that Dodge & Cox delivers consistently superior quality in its investment products, and that people who are admired and respected hold their funds. Those with incomes of $300,000 and higher, and those worth at least $5 million, are especially big fans. Says one happy investor: "Excellent investment strategy and wonderful returns over good and bad years." Wealthy consumers considered 23 fund families overall.

Luxury Real Estate Brand Status

Even though it is a publisher rather than a broker, the *duPont Registry of Fine Homes* earns honors as the most prestigious brand in luxury real estate. Wealthy consumers give the duPont Registry high marks for its unique and exclusive properties and for being a real estate company used by people who are admired and respected. It is also the brand that they are most likely to recommend to people close to them. Luxuryrealestate.com and the Luxury Collections rank a respective second and third place. Especially during the real estate downturn, wealthy homebuyers and home sellers clearly prefer the benefits of aggregated listings over the exclusive nature of a broker relationship.

Luxury Retail

As expected, retailers of all types had a tough time in September, but don't expect the weakness at the high-end to persist. According to the International Council of Shopping Centers, same store sales grew by a weak 1.7 percent in September at retail chains, likely impacted by weather and a volatile stock market. Retail sales at luxury department store Nordstrom grew 3.2 percent, but were shy of estimates for five percent growth. The Seattle-based retailer also warned that discounted merchandise will negatively impact profits for the rest of the year. Saks posted a 7.7 percent gain, but it, too, fell short of forecasts for 9.9 percent growth. Keep in mind that stocks rallied sharply in the month of September after a month of turbulence in August. In addition, recent reports on employment and production suggest that the economy, while growing at a slower pace, is still basically healthy. The holidays will not be spectacular for luxury retailers, but they should not bring with them a big bust either.

Individual Excellence in Luxury Leadership

Caroline Brown is CEO of Akris, U.S., a Swiss-based luxury apparel brand. In this role, the native New Yorker of Argentine heritage oversees all areas of the company in the United States, which includes an extensive wholesale market, retail stores, marketing, infrastructure and all operational aspects of the business. Prior to joining Akris in December 2006, Caroline spent more a decade at Giorgio Armani Corporation, where she oversaw all Armani divisions in the U. S. Recently, we had a chance to speak with Caroline about her career and the evolution of the luxury business.

Q: Share with us the evolution of your career and the critical steps to your role today.

A: My career started in retail on the selling floor, which was an experience that has proven invaluable throughout. From there I grew up through the marketing and communications side of the business and had the opportunity to learn from exceptional people and great companies at periods of significant growth. There have been two constant elements for me in my career growth. The first is being at companies that always offered new challenges which allowed me to take on new areas and grow as a business person. The second is that I have worked for extremely smart and talented people who supported me and taught me a great deal along the way. Their mentoring has been a very powerful tool for me.

Q: How has the concept of luxury evolved during your career and what does this mean to your consumers today?

A: The whole use of the word "luxury" has changed completely. When you can refer to a coffee drink as a luxury product, it changes the whole meaning of the category. Luxury used to include certain basic assumptions—about quality, about lifestyle and frankly about price structure. Those characteristics are no longer applicable to many products that are described using this word. Our client has to differentiate this type of new luxury with the attributes they seek in a product. For Akris, this means that every client knows they are getting a truly extraordinary piece, one that makes them feel both special and unique regardless of how it's labeled.

Q: Based on your experiences, what are the critical factors that luxury brands need to know to create great customer experience for high net worth consumers?

A: company should always remember how many outstanding products are available in the market now. A real luxury brand has to go above and beyond this benchmark. In our business this means elements of the production still being done by hand. There is also consideration not only for what a garment looks like, but also how the inside is finished—to address how it feels to the wearer and the constant use of innovations in both fabric and design. Also in line with this is the expectation on the experiential side. A few years ago this industry talked a lot about building the customer experience; today this is something to be taken as a baseline. Every interaction with the client must reflect an appropriate level of intimacy on par with your product, or you will disappoint the client.

Q: What critical skills and attributes do luxury executives need to develop to lead a company?

A: The ability to attract and retain talent is absolutely critical in any industry that deals directly with the final consumer. Building the right team of employees who can reflect the brand in every interaction and who live the message every day creates the whole experience. Also, it's important to keep an eye on every single variable in your business. For example, you can't create the perfect marketing campaign without the store experience and product to back it up. The ability to balance the timing and consistency of all these factors is a key factor in whether they succeed or not.

Q: What has been one major challenge in your luxury career and how did you overcome it?

A: The challenge that lives in the back of my mind constantly revolves around the training of employees in a business with our broad distribution to be consistently knowledgeable and clear in their client interactions. In an industry where the touch point for the client has significant turnover, this is a constant challenge and an area that must have significant focus. I can't share the success story or resolution on this yet, but I am looking forward to the day when I am able to say this has been accomplished.

Fashion & Image

It's a luxury service that makes the well-heeled feel truly unique and special. In 1992, Audrey Beaulac founded her Seattle-based company, AudreyBeaulac / Style, as an outgrowth of her lifelong love of style and fashion. What does she do? She is a fashion and style consultant, working with men and women in a highly individualized process to analyze, define and evolve their style. This is not just personal shopping; Beaulac uses her background in color and fashion to help someone define a style that works, including hairstyle, wardrobe, and make-up. She translates each client's wants, needs and desires into a personalized wardrobe plan and shopping strategy. Her clients have called the results transforming. One of her services is called the "closet transformation," in which she spends 10 hours over three appointments to help you "edit" the contents of your closet. Services like Audrey's are the essence of the personal attention and exclusivity that wealthy consumers crave. There are a growing number of bright and service-oriented entrepreneurs around the world who are serving and educating wealthy consumers in specific lifestyle skills. Look for that trend to escalate.

About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings, reviews and research institution that is the trusted and respected voice of the high net-worth consumer globally. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.luxuryboard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs. To reach the Luxury Institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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Solve Problems, Keep Customers

Even the best run businesses will occasionally encounter a situation that arises with a dissatisfied customer. Left to fester or solved in an unsatisfactory manner, these problems can result in massive customer defections and loss of goodwill. But, if properly resolved, they actually represent opportunities to build closer bonds with customers, according to a recent Luxury Institute WealthSurvey™ of Americans with minimum annual household income of $150,000 ($3.1 million average net worth, $307,000 average annual income).

Rather surprisingly, nearly one-third (29 percent) of these wealthy consumers report experiencing a problem with a luxury firm in the past year. But 70 percent say that they were satisfied with the way the company resolved the problem. In fact, 42 percent of those who enjoyed a successful resolution say that the experience has made them more loyal to the guilty brand – and 91 percent are still willing to recommend it to people they care about. More than four in ten (43 percent) wealthy consumers have actually repurchased the brand since their issues were resolved – and of those who have not bought again, 88 percent say it is simply because they have not had the need for the good or service.

The genesis of problems usually has to do with products that did not function properly, cited by 58 percent of wealthy consumers who had problems with luxury firms. Just five percent of disputes arise from problems with luxury services. Fifteen percent of wealthy consumers say that their problems with luxury firms stemmed from poor product quality.

The vast majority (84 percent) of wealthy consumers have not repurchased a luxury brand's goods or services after experiencing dissatisfaction with the problem resolution process. Middle-aged wealthy individuals between 45 and 54 years of age (94 percent), those earning in excess of $500,000 (90 percent) and those who have a net worth between $2 million and $5 million (90 percent) are particularly likely not to have made a new purchase from an offending luxury firm that has failed to bring the problem to a successful resolution. Thirty-eight percent say they will not do business with firms that do not resolve their problems because dealing with them is simply too much trouble; 14 percent say that the brand is not worth the price. Loss of trust and loss of appeal are other reasons that wealthy consumers cite for no longer doing business with troublesome firms.

Wealthy men are more likely than women to have an issue with a luxury firm, but men who have their problems resolved satisfactorily are more likely to become more loyal customers. On the other hand, nearly one out of seven wealthy consumers younger than 55 years of age and those earning $200,000 or more say that their problems, although resolved, will make them less loyal to the offending brand.

Customers who are not satisfied with how their problems are resolved can turn from brand advocates into sources of negative feedback that threaten to sour the opinions of potential and existing customers. Would someone who is dissatisfied with how their issue was handled recommend the brand to friends and family? Eighty-one percent say "no." Wealthy boomers 45-54, those earning more than $500,000 a year, and those worth between $2 million and $5 million are especially unwilling to recommend a brand after an unresolved bad experience.

As a credit to luxury firms, the slice of wealthy customers who remain dissatisfied with the resolution of a problem they have had in the past 12 months is only eight percent. Younger wealthy consumers and those with a net worth between $1 million and $5 million, however, are significantly less likely to experience satisfaction with the resolution of their problems.

How a firm responds to a problem situation is often the critical difference between keeping and losing a customer. Nearly one out of five (18 percent) wealthy consumers mentions enthusiastic pursuit of a resolution as a key factor in their eventual satisfaction with the results. One out of seven says that a successful resolution depends on a quick response, and a similar number say that a free-of-charge or well-priced resolution was an important component of a company taking care of a problem they had. Eleven percent received compensation from the company for inconveniences and damages as part of a resolution that made them happy.

Customers pleased with the way their problems are handled also mention that it helps when companies make reasonable exceptions to established "rules" to accommodate them. Eight percent cite being impressed with a company's professional expertise or the quality of a repair as factors that contributed to their satisfaction. Personalized service, honest admission of fault, and obviously exhaustive efforts to resolve the problem are other things a company can offer customers to help boost satisfaction with the problem resolution process.

What should a company *not* do when a problem arises? One thing not to do is to deny fault or warranty obligations; 21 percent of still-dissatisfied customers cite this type of response as a factor in keeping them unhappy. Other examples of bad ways to deal with customer issues: charging extra costs; putting customers through exhaustive and unpleasant discussions; and taking too long to respond and fix the problem.

Customers are saying, "Listen to me!" When asked for suggestions on how companies could improve problem resolution, 22 percent said that treatment in a personalized manner would be a big gesture. Just as many wealthy consumers say that companies should just fix the problem. Responding on time to customer complaints and accepting responsibility for damages are other popular recommendations from the wealthy.

Luxury automakers have a high incidence of problems but have shown themselves to be adept at resolving them. Automobile brands account for 46 percent of problems that wealthy customers report being resolved to their satisfaction but just 25 percent of unresolved problems. The wealthy cite fashion (25 percent) and electronics (19 percent) as two industries with a high degree of unsolved problems.

Lexus is the most often cited brand for satisfactorily resolving problems with customers, earning mention from eight percent of the wealthy. Fellow luxury auto brands BMW (seven percent) and Mercedes (six percent) also received frequent mention from the wealthy for being good problem resolution firms, along with Coach (six percent), Cadillac (five percent), Sony and Rolex (both at three percent).

Luxury Retail Braces For a Chill

The slowdown in residential real estate accelerates into a full-blown retreat, stoking fears that the economic fallout from the weak housing market will crimp luxury spending this holiday season. To the degree that you believe the stock market efficiently discounts the near future, those fears may be well founded. Shares of Nordstrom peaked in February and have since dropped by more than 40 percent, as investors fret the high-end retailer's exposure to exceptionally weak real estate markets. Coach hit its high in April and has fallen almost as much as Nordstrom. More recently, Tiffany & Co. has tumbled nearly 20 percent after announcing plans to add 70 new stores in the U.S. – more than doubling its number of domestic retail locations just as the health of some its more upward reaching customers is called into question.

For all luxury retailers, the challenge is somehow to maintain solid bottom line growth when the top line is flat to lower. Recent data confirm the weakness. Though perhaps depressed by unseasonably steamy weather nationwide (often a convenient canard for masking a genuine slowdown) same-store sales at major retailers grew 1.6 percent in October—the slowest pace of year-over-year growth for October since 1995 and well below the average 2.2 percent monthly gain so far this year, according to the International Council of Shopping Centers. ICSC forecasts retail sales for November and December to grow 2.5 percent – the worst in three years; National Retail Federation is calling for the slowest growth in total holiday sales (through January) since 2002-2003.

Affluent Consumer Expectations

The wealthiest Americans still have a mildly positive outlook in most economic measures of sentiment, but confidence in business conditions one year from now is negative. According to the Fall 2007 Affluent Market Tracking Study from the American Affluence Research Center, the wealthiest 10-percent of households ($828,000 minimum net worth) have positive views of current business conditions, and in their outlook for 12-month stock market direction and growth in personal savings and income. While positive, all of these readings of sentiment are down slightly from last fall's report.

Some positive news from the top for cruise lines: 22 percent of the wealthiest 10-percent of Americans – and 28 percent of those 60 and older – say they plan to take a cruise in the next 12 months. That's up from 15 percent one year ago. In fact, both domestic and international travel look to make gains this year with more than one in four wealthy individuals saying they plan to spend more this year than last. Twenty-seven percent plan to buy a new automobile, up a bit from 25 percent who had designs on a new auto last year. The proportion of the wealthiest who will be getting major remodeling done on their homes dipped a bit from 26 percent last year to 24 percent now.

Plans to buy or build a house dropped slightly, although plans to acquire an existing vacation home remain near five-year averages, with 3.6 percent of the wealthiest indicating plans to do so. Powerboats and sailboats could be in for a rough outing, though; just 2.3 percent say they have plans to buy a boat, down from 3.7 percent in the springtime survey.

Other areas of potential weakness: jewelry and watches; designer apparel, cameras, and collectibles. Nearly two out of five (38 percent) of the wealthiest households plan to spend less on jewelry this year, while nearly one-third plan to cut spending in apparel, cameras and collectibles. Reflecting next year's presidential election, political contributions are the only category outside of travel to see major increases in planned spending.

Luxury Handbag Brand Status

Among handbags, Leiber earns the highest ranking from wealthy consumers for overall brand status. The American brand founded 44 years ago by Hungarian emigrant Judith Leiber ranked ahead of 25 other brands in the Luxury Institute's Luxury Brand Status Index (LBSI) survey for the luxury handbag category. It is especially popular among women 45 and older and those with a net worth north of $5 million. Finishing second and third, respectively: Hermès and Prada.

Individual Excellence in Luxury Leadership: "The Queen of Retail"

Have you noticed how luxury retailer stores tend to form in clusters? Just look at the "Magnificent Mile" along Michigan Avenue in Chicago or the rows of luxury retailers on Fifth or Madison Avenues in New York? Such luxury "districts" are hardly the stuff of happenstance.

More often than not, there is a busy real estate broker named Faith Hope Consolo responsible for making the real estate deals that bring luxury tenants together in a critical mass that creates the right retailing atmosphere to attract an upscale clientele. As chairman of Prudential Douglas Elliman's Retail Leasing and Sales Division in New York City – and during her nearly 20 years as vice chairman of Garrick-Aug Worldwide, Ltd – Ms. Consolo has been instrumental in revitalizing retail corridors across the U.S. and overseas, transforming lackluster neighborhoods into sought-after shopping districts.

As director of retail operations for the 50 Prudential offices nationwide, Ms. Consolo has completed deals in every key market across the United States and she counts Cartier, Versace, Jimmy Choo, Manolo Blahnik, Giorgio Armani, and dozens of other luxury firms as clients. She has received numerous professional awards and she sits on a number of civic and philanthropic boards.

Recently, Ms. Consolo spoke with us about the transformations underway in luxury and some of the key challenges her luxury retailer clients are facing today.

Share with us the evolution of your career and the critical steps to your role today.

My career began 20 years ago and has changed with the industry's many transformations. Through traveling and studying abroad, I developed an expansive view of economic markets. In returning to the States, possessing a breadth of knowledge about the luxury industry helped me gain insight into the elite players in the commercial market. By aligning myself with the niche I know and love – retail – my task is to sculpt avenues into spectacular shopping thoroughfares. The perfect positioning of shops that complement each other appeals to shoppers with exquisite taste and lifestyle.

As a shopping connoisseur, I am at home everywhere from Fifth Avenue and Rodeo Drive to Michigan Avenue, Worth Avenue and beyond. A background in design allows me to create a vision for a particular location and bring it to fruition.

How has the concept of luxury evolved during your career and what does this mean to your clients today?

It seems as though the concept of luxury has evolved more than the real estate market itself! The word has always connoted a high level of quality and lifestyle, as well as a certain price point. In the past decade, brands have applied the term to a wider variety of goods, causing shoppers to demand that a distinction be made between "luxury" and "affordable luxury." As designers unveil more dramatic and higher-priced goods, a third category has emerged: "über-luxury." We are seeing this term being redefined primarily by jewelers, although apparel, footwear and accessories designers are beginning to purvey "über-luxury" goods. For most retailers, New York is the pinnacle in achieving real luxury status.

Based on your experiences, what are the critical factors that luxury brands need to know to create great customer experience for high net worth consumers?

Real estate plays an integral role in the capacity for luxury brands to reach their high net worth consumers. Having a store in New York City has become a prerequisite for a company to be a "luxury player." A presence along famed European streets is equally necessary. For a jeweler, that means investing in retail space on the Place Vendome in Paris and Bond Street in London, while fashion designers may choose Milan's Via Montenapoleone or Ginza in Japan.

However, it is not sufficient simply to maintain a store along these avenues; luxe companies are expected to expand and reinvent themselves constantly, and that includes their retail locations. Graff and Chopard are poised to unveil grandiose emporiums on Madison Avenue; Gucci and Armani have both leased expansive spaces on Fifth, all following the trend set by Tom Ford.

What have you found to be the critical skills and attributes that luxury executives need to develop to lead their companies?

Companies must continue to listen to their customers, understanding the elements people look for in a product. Concepts and design are important, but both need to be consistent with consumers' ideals. In addition, stores must strive to reinvent themselves on a regular basis, ensuring a unique shopping experience for each return visitor. To create base of loyal costumers, each retail location has to be "fresh." As the "ultimate consumer," I have extensive practice in shopping throughout the luxury industry. In working closely with luxury executives, I am somewhat of a messenger for my fellow shoppers.

Given the current tendency in the market to label everything "luxury," executives need to set their company's brand apart from lesser labels. Coach is experiencing this dilemma right now, as the company is trying to target marketing specifically towards its upper echelon clients.

Another attribute crucial for luxury executives is an understanding of neighborhoods and the willingness to expand into "up-and-coming" areas. For instance, Marc Jacobs is lauded for being the first to open on Bleecker Street, now one of New York's most desirable corridors. He has since launched more stores on Bleecker, earning a bevy of loyal followers.

What has been one major challenge in your career and how did you overcome it?

With a strong presence in shopping corridors around the country, I am continually challenged to reinvent neighborhoods. My charge is often to transform troubled neighborhoods into sought-after shopping districts. Introducing retailers that will appeal to the consumer is as important as pushing boundaries and building potential for growth. To overcome the challenge, we consider retail brokerage not only site selection and negotiation but also an involvement in community creation. Neighborhoods are constantly changing, and I infuse streets with retailers that will serve as catalysts.

Luxury Institute Trends – 2008 and Beyond

In recognition of your busy holiday schedules that hopefully include lots of family time, this will be the final Wealth Report for 2007 – and an appropriate time to share with you another installment of what we view to be some significant trends in the world of luxury that will take shape in the coming year.

1.) The Old Guard of Luxury Passes the Baton to a New Generation. Are They Ready for a Flat World?

Throughout Luxurydom the founders, family members and their trusted lieutenants who built the grand luxury behemoths and boutiques alike have begun to retire, to sell, and consider family legacy and philanthropy. The new generation of leaders who will inherit these brands must not seek to merely replicate old business models. Attend luxury conferences and you hear the same old messages, tired strategies and tactics, with lively debate on whether or not to sell to the masses, or on the Internet. Attend a Silicon Valley conference and you will understand that the luxury industry lives in another galaxy, detached from its consumers, who have already moved beyond Web 2.0 and into community. Either the new leaders are being reserved, or they do not yet fully understand how technology, globalization and commoditization are transforming their world. Either way, look for innovative luxury leaders to emerge from the chaos.

2.) Luxury Rediscovers Great Service as a Differentiator

As economic slowdown in the U. S. impacts the luxury industry, particularly firms who sell to the affluent masses, luxury firms will rediscover, or perhaps discover, that mainstream millionaire consumers, not just celebrities and heirs, require great service to earn their loyalty. With so many "luxury" categories inundated with brands vying for the attention of the same consumers, luxury CEOs will begin to allocate resources to continuously train their well-intentioned, but generally unskilled, salespeople and customer service representatives who must prove competence and trustworthiness to discerning customers. Luxury Institute surveys show that 29 percent of wealthy consumers have had a problem with a luxury firm that required resolution in the past year. Ironically, getting luxury firms to admit to problems was one of the biggest problems. Seller, beware.

3.*) The Luxury Access Revolution, Phase Three*

A few years ago, the Luxury Institute was the first to predict the advent of the "Luxury Access Revolution," an accelerating phenomenon at every price point on the luxury-spend spectrum. Jets, yachts, vacation homes, autos, vineyards, golf clubs, even typically less pricey items such as handbags, jewelry and watches, were embracing membership - selling variety, convenience and utility, without the hassles of ownership.

We also predicted that brash entrepreneurs would drive the first phase of innovation to be eventually overrun by better-capitalized luxury brands. Right on cue, in 2007, we saw many entrepreneurial providers of these membership models merge, consolidate, or disappear. Next, top luxury brands and original manufacturers will take over, leveraging their trusted brands, synergistic offerings, fixing flawed business models, providing direly-needed transparency, and using vast resources to legitimize these access models for the mainstream affluent and the wealthy. For all those savvy millionaires waiting on the sidelines, it may finally be time to become a member.

4.) Beyond Concierge Services

It seems that these days everyone provides concierge services, along with their product or service. From credit card companies to private banks, concierge services are the rage. Well, expect these commoditized, low-margin services to begin to morph into high-fee, high-value consulting services, worthy of the name.

Companies, such as Quincy Consulting Group, are reshaping the industry, applying a McKinsey-like model to serving the seamlessly personal and professional needs of the wealthy. While they will not manage your assets, they will handle many critical needs beyond the basic restaurant and theatre reservations call-center model. They will, for example, plan a wedding, charter a mega-yacht; find a trained nanny, a competent wealth manager, a trustworthy art dealer, and perform many more niche services. They will bring in specialists to help execute each task, and manage the project. Most importantly, they will do so in an objective, independent manner not been typical of most concierge firms, which have created conflicts of interest by steering clients to "preferred" suppliers. Concierge services will never be the same again.

5.) Philanthropy Industry Shakeout-Phase Two

Bill Gates' and Warren Buffet's entry into big-league philanthropy did not just create the "alms race" we predicted. Their participation, and the trend they started, have brought with them great media attention, and a level of accountability, that has lifted the veil to expose the incompetence and, sometimes dishonesty, that plagues a large segment of this tax-sheltered industry. What these icons of efficiency have done is to bring upon charities a level of scrutiny and transparency that will force out bad apples and eliminate conflicts of interest. New transparent models of philanthropy, often web-based, will accelerate the trend so that the neediest can benefit from this generosity. It cannot happen soon enough.

6.) Luxury Brands Will Embrace Communities of Raving Fans

If any brands have truly devoted, emotionally invested fans, it is Luxury brands. However, luxury firms, many of which are trapped in traditional media, have failed to listen to, engage, and create a community dialogue among their most ardent fans (read: customers - current and future). Could it be because when you inspire fans to have a sincere dialogue online, and make it transparent and public, you lose control?

You have to earn the right to facilitate a community dialogue with good, old-fashioned trust. Giving up control to communicate honestly with the customer community is exactly what leading luxury brands will do. By creating a community of fans, and listening to the good, the bad, and the ugly, and then acting on it, the best luxury brands will begin to enhance the experiences of their customers in ways loyal customers want, and will begin to co-create products that their customers desire. That will be extremely hard for many luxury brands to do. Expect more than a few to wither into irrelevance.

7.) Luxury Discovers Mass Scalability is Hard When You Leave Out the Customer Service Experience

Oops. Looks like all those luxury brands racing to transform themselves into affordable luxury (a contradiction in terms) by making deals with mass retailers, forgot the business model is not just about stamping out more luxury widgets. Quality production (never mind the quality of raw materials, that's a detail) may be scalable when you serve the masses, but has anyone noticed that part of the experience of luxury is great, over-the-top, personalized service? Just walk into any mass retailer and indulge yourself in the service levels they provide (you do get what you pay for, though). That may not be the service level you want your luxury brand name to be associated with because in a transparent world consumers will share and rate their experiences and define your brand for you. Look for some luxury brands to head back to Madison Avenue in a hurry, albeit not with reputations intact.

8.) Luxury Retailers Eliminate Marginal Brands

Top luxury retailers like Nordstrom, Neiman Marcus, Barneys, Bergdorf Goodman, and Saks have long prided themselves on being expert guides to luxury for their wealthy customers. But brands such as Vivre have created inroads by becoming curators, delivering connoisseurship, and a higher level of consistently unique and exclusive offerings. Now look for retailers to go up-market and start to eliminate marginally luxurious product lines as they embrace and experiment with unique, new designers who wish to remain bespoke. Luxury retailers will earn their curatorial stripes with their wealthy customers once again.

Best wishes to you and your family, and may you have best of luck and enjoy true fulfillment in all of your pursuits in 2008. Happy Holidays and we'll be back in January.

– Milton Pedraza, CEO, Luxury Institute

About the Luxury Institute

The Luxury Institute is the uniquely independent and impartial ratings, reviews and research institution that is the trusted and respected voice of the high net-worth consumer globally. The Institute provides a portfolio of proprietary publications and research that guides and educates high net-worth individuals and the companies that cater to them on leading edge trends, high net-worth consumer rankings and ratings of luxury brands, and best practices. The Luxury Institute also operates the Luxury Board (www.luxuryboard.com), the world's first global, membership-based online community for luxury goods and services executives, professionals and entrepreneurs. To reach the Luxury Institute, please call 646-792-2669 or go to www.luxuryinstitute.com.

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