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Holiday Retail Round-Up

Glory days return for luxury, pockets of weakness remain in mainstream retail.

The two-month holiday shopping period sees the strongest annual sales gains in four years, but the glee is not universal. Mass market retailers see only weak improvement but luxury names handily surpass expectations.

A 22% gain in the S&P 500 Index during the final six months of 2010 and continued signs of an accelerating economic recovery elevate confidence and send consumers shopping. Comparable sales at retailers industry-wide rose 3.1% in December, according to the International Council of Shopping Centers, and 3.8% over the final three months of the year, making the month and quarter the strongest for retailers since 2006. As has been the trend throughout the recovery, it’s among wealthy consumers where the spending surge was most pronounced. Saks saw same-store sales jump 11.8% in December and Nordstrom’s sales tally from stores open at least a year rose 8.4%, both surpassing forecasts by wide margins. Neiman Marcus notched a 5.5% gain in comparable sales. Compare this to the tepid 0.9% gain for Target and 3.7% increase at J.C. Penney for a clear picture of luxury’s outperformance.

Especially noteworthy for luxury retailers is that recent gains are building on comparable sales that had already turned higher late in 2009 coming out of the recession. The strength and sustainability of the recovery has been remarkable and not driven by discounting. This speaks well to the ability of top-flight luxury firms to preserve their brand status—and premium pricing—through the downturn to capitalize on the upturn. Smart luxury purveyors retain their perception of exclusivity while they focus on finding the middle-class and millionaire consumers who will purchase their wares, wherever they may live. As we show in the next two sections, luxury consumers in the emerging economies of Asia, especially China, are proving to be powerful drivers of growth for global luxury firms, while population trends just released by the U.S. Census show important demographic shifts in domestic wealth distribution that reveal new niche opportunities in the United States.

Luxury Firms Latch On To China Opportunity

Newly minted millionaires love top-flight luxury names; high-end firms cater to the demand. Dynamic economies in Asia create a new class of luxury consumers who demonstrate a willingness to spend lavishly on premium brands that carry prestige. Brand image is very important.

China’s economy has grown at a double-digit pace for nearly all of the past decade. Its luxury market—already the fastest growing—is moving rapidly toward becoming the world’s second largest. Bain & Co. forecasts 2010 sales of luxury goods in China to surge 30% from $10.27 billion in 2009. At this pace, Bain says within five years annual luxury spending in China will top Japan, currently the world’s second largest luxury market behind the U.S., which is forecasted to grow 10% for a $64.3 billion share of the $234.7 global luxury market. Known brands are faring best.
China’s rapidly evolving middle class—along with its growing ranks of the ‘filthy’ rich—are indulging their upscale tastes and newfound wealth with purchases of high-end handbags, autos, apparel, jewelry and watches, as well as travel and financial services. According to Goldman Sachs, middle-income Chinese consumers already spend more than comparably wealthy Japanese consumers on luxury items, owing perhaps to the Japanese economy’s continued lack of growth and the comparative vibrancy in China that has deemphasized conspicuous consumption in Japan and brought it to the fore in China. Goldman looks for China’s luxury market to surpass Japan’s in 2018.

Luxury brands rapidly growing sales in China are penetrating the market on several fronts, from brick-and-mortar stores to compelling e-commerce and web-based branding alternatives. Luxury leather goods maker Coach grew sales 6.3% in the U.S. in 2010. That hardly compares to what’s happening in China, where the company forecasts last year’s sales of $175 million to jump 75% in 2011, aided by a new e-commerce platform to supplement and support its direct retail presence. Coach has a flagship store in Shanghai, where other luxury brands like Louis Vuitton, Ermenegildo Zegna and Tiffany & Co. also feature lavish showplaces. Tiffany saw 31% growth in Asia outside of Japan in its most recent quarter and plans to open four new stores in China in 2011. All three of jeweler Harry Winston’s new store openings this year will be in China.

Combining a carefully controlled physical retail environment with online branding and e-commerce opportunities has been effective in turning surging Chinese demand into new customer relationships. Managing relationships well reaps huge rewards in an economy growing as quickly as China. Wealthy consumers here are making contact with most brands for the first time just as their spending power grows more potent. Online and effective in-store data gathering techniques will allow for turning customer feedback and sales trends into actionable information that fuels higher sales in a market that has become impossible to ignore.

Luxury Institute WealthSurvey:
Wealthy Consumers in the American Community Survey: Growth Trends and Leading Geographic Markets

Details in newly released Census data reveal a lot about high-income households in the United States and where they live. Some big shifts have been underway since 2006.

After nearly doubling between 2002 and 2008, the number of U.S. households earning at least $150,000 per year dropped 7% to 9.2 million in 2009. Despite the drop there are still 223,000 more “high-income” households than in 2007 and 4 million more than in 2002, according to the December release of data from the Census Bureau’s ongoing American Community Survey. If the recovery in the economy and financial markets continue, it’s reasonable to expect a rebound close to 10 million wealthy households above the $150,000 mark in 2010.
Fat cats converge on the nation’s capital as the beltway sees a big influx of wealthy households. Government has certainly been a growth industry in the past several years, including plenty of lobbyists, lawyers and others profiting from the political process. The District of Columbia and Maryland lead the nation, posting 3.4% and 3.1% respective increases in the incidence of wealthy households between 2006 and 2009. With 173 out of every 1,000 households earning at least $150,000, Washington, D.C., has the highest such concentration in the U.S. at more than double the nationwide rate. For metro areas, only Bridgeport, Conn., and San Jose, Calif., had greater concentrations than Washington.

With 440,000 wealthy households, the greater Washington area ranks third nationwide behind greater New York City (1.05 million) and greater Los Angeles (504,000) in terms of total number of high-income households. Washington’s net gain of 80,698 high-income households between 2006 and 2009 ranks it behind only the New York metro area’s increase of 162,913. The energy boom helped the Houston area, which ranked third and saw an increase of 57,760 wealthy households. Los Angeles and Boston rank fourth and fifth, respectively, for absolute growth.

All ethnic groups have experienced a gain in the incidence of high income households from 2006-2009. Asian consumers are still most likely to be wealthy with 15.3% of Asian American households earning at least $150,000, followed by 9.3% for whites, 3.7% for Hispanics and 3.0% for African Americans. In terms of age, 11.6% of households headed by 45-64 year olds are wealthy, compared to 7.4% for those headed by 25-44 year olds and 4.3% of those headed by someone 65 or older.

Members of LuxuryBoard.com have free access to greater details on this WealthSurvey and others via the online Resource Center. To join or learn more about membership benefits, visit www.LuxuryBoard.com.

Luxury Brand Status Index (LBSI) – Women’s Skincare
Bvlgari, Christian Dior earn premium prestige with exclusivity, Kiehl’s and La Mer noted for quality.

Italian luxury house Bvlgari earns top Women’s Skincare LBSI score (7.43) from high-income consumers, followed closely by Estée Lauder’s La Mer (7.38) and Dior Beauty (7.27).

Exceptional quality cultivates a willingness to recommend the brand and the ability to command premium prices. LBSI composite scores account for each brand’s quality, uniqueness, exclusivity and ability to bring self-enhancement to the user. Bulvari and Dior score above average for brand exclusivity and making the user “feel special.” La Mer and Kiehl’s Since 1851 dominate on perceptions of quality, however, and are also the top two brands that wealthy users are most likely to recommend to family and close friends—and the two most likely to be “worth paying a premium price.”

More details from this and other 2011 LBSI Surveys are available upon request.
About The Luxury Institute:

The Luxury Institute is the objective and independent global voice of the high net-worth consumer. The Institute conducts extensive and actionable research with wealthy consumers about their behaviors and attitudes on customer experience best practices. In addition, we work closely with top-tier luxury brands to successfully transform their organizational cultures into more profitable customer-centric enterprises. Our Luxury CRM Culture consulting process leverages our fact-based research and enables luxury brands to dramatically Outbehave as well as Outperform their competition. The Luxury Institute also operates LuxuryBoard.com, a membership-based online research portal, and the Luxury CRM Association, a membership organization dedicated to building customer-centric luxury enterprises.

More details at www.LuxuryInstitute.com or contact us.
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Luxury Institute’s Luxury Brand Status Index (LBSI) and WealthSurvey Inventory

2011 LBSI Categories*

- Automobiles (Europe)  
- Handbags (US & Europe)  
- Hotels (US & Europe)
- Make-Up  
- Men's Fashion (Europe)  
- Men's Shoes (Europe)  
- Skin Care  
- Women's Fashion (Europe)  
- Women's Shoes (Europe)

2010 LBSI Categories*

- Automobiles (China & Japan)  
- Handbags (US, China, Europe & Japan)  
- Home Appliances  
- Hotels (Europe & Japan)  
- Jewelry  
- Make-Up  
- Men's Fashion (US, Europe & Japan)  
- Men's Shoes (US, Europe & Japan)  
- Skin Care  
- Ultra Luxury Automobiles  
- Watches  
- Wealth Management Firms  
- Women's Fashion (US, China, Europe & Japan)  
- Women's Shoes (US, Europe & Japan)

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Recently Published WealthSurveys*

- Apple vs. Sony: Brand Face-Off  
- Food and Dining Habits of Wealthy US Consumers  
- In-Store Customer Experiences  
- Luxury Marketing & Sales Practices - Financial Services/Wealth Management Services  
- Multichannel Shopping Habits of Wealthy Consumers  
- Multichannel Shopping Habits of Ultra Wealthy Consumers  
- Search EngineUsage and Shopping Habits of the Wealthy  
- Social Networking Habits and Practices of the Wealthy  
- Sponsored and Paid Search Habits of the Wealthy  
- The Current State of the Luxury Industry – Part 1 NEW  
- The Current State of the Luxury Industry – Part 2 NEW  
- The Luxury Shopping Center Experience  
- The State of the Economy and Luxury Trends-2009  
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- Wealthy Consumers & Mobile Applications NEW

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Leading Edge Insights into the World of the Wealthy

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Luxury Shopping Experience: Saks vs. Company Stores
Mystery shoppers in Manhattan find that luxury brands can come across far differently at their Saks in-store boutiques than they do in their own stores, creating potentially vast differences in value perception. 2

Green Is Good (And Natural) For Luxury
By Jean-Noel Kapferer
Wealthy consumers appreciate and increasingly demand that luxury brands operate in a manner that promotes sustainability and social responsibility. For true luxury firms, it’s part of their core. 4
Retail Brief
Comparative Sales Stay Positive For High-End Stores
A soaring stock market and encouraging economic data extend the yearlong luxury shopping spree but the pace slows. The rebound from recessionary depths has been strong and enduring. How much longer will it last?

U.S. stocks continue to track economic growth and move sharply higher, even though employment gains are still meager with 7.7 million net jobs lost since 2007. The Commerce Department reports that U.S. gross domestic product grew at a 3.2% rate in the final three months of 2010, accelerating from a 2.6% pace in the third quarter, even as the economy added just 36,000 new jobs in January. The recovery has been uneven for investors and workers, resulting in sales numbers that have been largely in favor of the higher end of the retail space since year-over-year changes began turning positive again in late 2009. The Dow Jones Industrial Average jumping 4.5% higher in the first five weeks of 2011 and rising consumer confidence is a decent harbinger that luxury spending is not immediately imperiled.

Cheer was widespread in January, with 32 national retailers tracked by the International Council of Shopping Centers posting an average increase of 4.8% in same-store sales. At the very high end, Neiman Marcus’ sales surged 9.8%, driven by a voracious appetite for precious jewelry and women’s shoes and handbags. Coming off of several months of double-digit gains, Saks and Nordstrom fell more in line with the overall retail sector, reporting respective increases of 4.4% and 4.8% last month. Nordstrom saw strength in its flagship stores but flattish sales at its off-price Rack stores. Saks noted particularly stout gains in sales for the brands of women’s designer apparel it sells in its stores, as well as shoes, handbags and fragrances.

Luxury Shopping Experience: Saks vs. Company Stores
Controlling the sales environment can work to a luxury brand’s favor but sometimes Saks does a better job of producing a superior customer experience and making shoppers want to buy.

Mystery shoppers find that luxury brands often come across far differently in their in-store boutiques at Saks Fifth Avenue than they do in their own stores, creating potentially vast differences in value perception.

Returning to a highly successful data collection methodology and partnership, the Luxury Institute directs college students to visit luxury retailers in Manhattan and quickly note their observations on each occasion via a Web-based survey. Between October 20 and December 23, 2010, 121 students in Prof. Veronica Manlow’s Research Methods class logged 577 visits both to Saks and to ten stores owned by luxury goods makers themselves. The goal was to provide insights into how well luxury brands take advantage of the opportunity to control the environment in which they present their goods to enhance value and brand status through more deliberately managing the customer experience. The findings illustrate that most brands excel in their own stores but a few experience more success at Saks.
Luxury brands’ stores rate notably higher, on average, than Saks across all criteria considered for customer experience and outcome measures except for one that tends to weigh heavily: worthiness of commanding a price premium. Mystery shoppers found company stores to be better maintained (97% vs. 89%), with a more welcoming environment (76% vs. 66%), than the brands’ corresponding in-store boutiques at Saks. Burberry is a standout in this area, helped along by a vast difference in the frequency of shoppers receiving a welcoming smile (89% vs. 63%), a friendly greeting on entry (95% vs. 56%), and a warm “good-bye” when they leave (80% vs. 37%). Also of importance is that only on 78% of visits did shoppers find someone staffing the Burberry boutique at Saks, while someone was always on duty in the company store.

Appealing aesthetics are far more frequently noted in company stores (95% vs. 78%) along with merchandise that the shoppers found appealing (83% vs. 74%). Exclusive merchandise at company stores helps burnish appeal: 89% of mystery shoppers noted the unique selections at company stores, while 55% observed unique items at Saks. Bottega Veneta is a leader in these areas, notching significantly higher marks from mystery shoppers for merchandise exclusivity, appealing aesthetics and creating a “special” experience. Not coincidentally, Bottega Veneta also has a greater propensity to command premium pricing in its stores than other brands do. Says one shopper of the Bottega store compared to the Saks experience: “Store was welcoming. I could take 20 minutes to browse while still knowing I could ask for help. It is a much fuller experience of the brand. Saks is for older people who want to buy something quick.”

As far as encouraging repeat visits, 59% of shoppers on average said they wanted to return to company stores compared to 44% who said they were inspired to come back to the Saks boutiques. One in three shoppers called the retail experience “special” at flagship luxury stores, but just one in five said the same about the brands’ presence at Saks. Bottega Veneta is a standout for making shoppers feel special and want to return to its company store versus those who are eager to get back to Saks or who found the engagements at the boutiques there to be special. Also showing a big advantage over their Saks presence in this regard are Giorgio Armani, Hermes, Prada and Louis Vuitton. Just two brands—Chanel and Dior—had shoppers find the brand experience at Saks to be more special than that at company stores during their visits. About Dior, one student lamented, “The atmosphere, although appropriate, was somewhat cold and uninviting. I felt like I was stereotyped, and then treated accordingly.” More shoppers found Dior’s Saks presence to be a welcoming environment (67% vs. 57%) compared to the Manhattan store.
Burberry and Bottega Veneta excelled far better than other brands at having enthusiastic brand ambassadors in their stores who were interested in helping. Said one shopper of the Burberry store: “There was an air about the place. I loved the layout of the location and the atmosphere of the brand itself….very elegant store and very refined.” Tone of voice helps too. Burberry shoppers noted a vast difference (98% vs. 63%) between the relative frequencies of a pleasant tone at the stores compared to the situation at Saks.

Members of LuxuryBoard.com have free access to greater details on individual brand results across the complete spectrum of criteria from this mystery shopper WealthSurvey and others via the online Resource Center. To join or learn more about membership benefits, visit www.LuxuryBoard.com.

Green Is Good (And Natural) For Luxury
Wealthy consumers appreciate and increasingly demand that luxury brands operate in a manner that promotes sustainability and social responsibility. For true luxury firms, it’s nothing new.

By Jean-Noel Kapferer

Since luxury is based on products and services that deliver satisfaction far beyond mere functionality, it is easy to tag as superfluous and wasteful. In addition, because its consumption is confined to a relatively small slice of the population, luxury is vulnerable to moral criticism that flows from distaste for economic inequality within societies. It’s not a favorite of those who advocate sustainability or a “green” agenda, but true luxury brands often are living business models based on these various progressive ideals.

The luxury sector’s detractors tend to lump together premium brands, fashion brands, glamour brands, mass prestige and true luxury brands as equal offenders in misdirecting society’s resources for frivolous pursuits, but it is important to recall what luxury is about. Unlike mass consumption industries or the fashion industry, whose growth is based on planned obsolescence, pure luxury purveyors stand out for their regard for value, durability and other factors that enhance the customer experience, while also operating businesses with the highest of moral and ethical standards concerning manufacturing, distribution and service.

Can a luxury brand consider itself to be “socially responsible?” Quite possibly, yes. Consider these five principles:

1. **Time is the essence of luxury.** Luxury objects incorporate time: they are partly handmade, need specific historical savoir-faire which takes years or generations to master—and they are made to last. People buy luxury objects to keep them. Real luxury brands such as Ferrari, Louis Vuitton or Rolex do propose an eternal after-sales repair service, whatever the age of the car, bag, or watch.
2. **Place is a key constituent of a luxury brand’s identity.** As a rule, they do not wholly delocalize their production, though fashion brands do outsource for there is always a need to reduce production costs or to make products in their local markets. This is why China has become the factory of the luxury fashion world. The same holds true for other product categories: Burberry Brit, a fragrance made under license, has its many constituents made in different countries.

3. **Delocalized production invites brand equity erosion.** Made in the country of origin in Europe or the U.S., luxury products go through highly qualitative processes of production and distribution. Not solely in terms of product quality control, but also by social and humanistic terms. A brand that delocalizes, which uses licenses, has far less control on what happens in the sweatshops where its t-shirts with big logos are made than it does with its own artisans in Italy, France or the U.K..

4. **The entire value chain is a reflection of the brand.** Vertically integrated luxury brands quite rightly are aware of their responsibility to ensure reputation from points A to Z. Tiffany’s website shows how the jeweler takes great care to minimize its reputational risks—from mining conditions where its metals and stones are produced to the types of paper and jewel boxes used in its stores. The major luxury brands should let their customers know about their specific actions toward operating with a greater consideration for the environment and the social good. If the impetus is not genuine, however, the message is likely to come across as insincere “green-washing.” Just giving to some foundation to preserve the rainforest is not enough if the entire business doesn’t maintain high-minded principles.

5. **Wealthy consumers want social responsibility.** Luxury signifies success and should be a reward that delivers both a hedonistic experience and recognition by others. There is no great pride in being recognized as successful by the poor. The real pride comes from peer recognition. These relevant peers, a core reference group because of their cultural capital and their prominent position in society, distinguish those success icons which are made with a lot of collateral damage, either ethical or ecological, from those that are holistically minded. They’ve spurred golf courses in the desert, for example, to reduce their water usage. Doing it right are brands like hotel chain Explora in Patagonia and the Atacama Desert that have fully ecological lodges that are energy autonomous and recycle waste. They also provide rewarding work to the local population and education for their children.

New extremes for quality are always the goal for luxury brands. They set their own standards, superlative ones. These standards need to be high. One dimension of their reputations that luxury brands will be careful to address is their achievement in terms of sustainability. By doing so, they will play a leading role in the redefinition of quality and in redefining the modern “hero.” The rich of tomorrow, by their choice of luxury brands, will demonstrate their sense of discernment in new ways. The quality of a diamond cut should not blind the buyer to the mining conditions or the terms of
the trading with unsavory characters. Conspicuous altruism is becoming fashionable in Hollywood as celebrities are becoming increasingly sensitive to their own social reputation. When asked to become brand ambassadors, they are demanding that their luxury brand sponsors share their ideals. Eco-friendly brands like electric car company Tesla Motors have strong appeal to high-end buyers because of their environmental compatibility. In short, to distinguish itself and to remain competitive against mass goods, luxury must consider the close attention paid by its customers to sustainable social, economic and ecological practices.

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Leading Edge Insights into the World of the Wealthy

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2011 Luxury Consumer Experience Index (LCEI)
Wealthy shoppers evaluate luxury retailers based on store personnel, shopping environment and satisfaction with the overall experience.  

Luxury Institute WealthSurvey: Facebook Usage and Trends
Wealthy consumers embrace the social network for its ability to keep them in touch with friends and family despite privacy concerns.
Luxury Rebound Shows Legs

Optimism for a sustained economic recovery spreads and sales surge across the board in February while the luxury group widens its margin of outperformance versus mass retailers.

Spring arrives early as cold weather across much of the nation last month failed to deter spending. Comparable sales growth averaged 4.2% for 28 national chains tracked by the International Council of Shopping Centers. Several luxury names produced double-digit percentage gains, even as year-ago comparisons get tougher.

Continued economic growth and a seven-month rally in stocks good for a 30% gain in the Dow Jones Industrial Average have buoyed discretionary income of wealthy Americans, giving a big lift to high-end merchants. Saks blew away forecasts for a 4.9% improvement with sales at stores open at least a year jumping 15.3% in February. Neiman Marcus posted a 12.7% increase at its namesake and Bergdorf Goodman stores, online sales rose 13.2%. Both Saks and Neiman noted strength in multiple categories, including designer handbags, shoes and fashion apparel for both men and women. Nordstrom notched a 7.3% rise in same-store sales, far ahead of Wall Street’s 4.2% forecast.

Confidence in the future of ‘pure luxury’ is apparent at luxury powerhouse LVMH Moët Hennessy Louis Vuitton, which is buying a controlling stake in Italian jeweler Bulgari for €4.3 billion, or $6 billion. Under the leadership of Bernard Arnault, LVMH has been an acquisitive company in the past several years, buying Fendi, Donna Karan and a 20% stake in Hermès. Watches are the fastest growing segment for LVMH and it expects to double its watch production with the acquisition of the 127-year old Italian company. Bulgari CEO Francesco Trapani will run the LVMH watch and jewelry division. The Bulgari family will own a 3.3% stake in LVMH and have two seats on its board.

The rising stock market’s positive wealth effect on spending behavior is most pronounced among consumers who have significant financial assets, auguring well for retailers that cater to them. In comparison to financial markets, the U.S. labor market has yet to stage a significant comeback, with wage gains for middle-income workers negligible. Plus spiking gasoline prices will further dampen ebullience in the mass market. The wealthy have the means and propensity to spend and they are not particularly price-sensitive with their purchases. They do demand value, however, and more than just goods or services, they buy “experiences.” Luxury retailers need to identify what drives a superior customer experience and to execute on each point to preserve their ability to charge premium prices and to command customer loyalty. New Luxury Institute research provides a peek into how well the major players are faring.
2011 Luxury Consumer Experience Index (LCEI)

Wealthy shoppers evaluate eight luxury retailers based on store personnel, physical shopping environment and the degree of satisfaction delivered by the overall experience. Neiman Marcus’ Bergdorf Goodman subsidiary earns the top LCEI score for the second consecutive year in the 2011 survey, while Nordstrom leads in loyalty and Brooks Brothers is the best at meeting needs.

With its distinctive New York City flagship building and top-flight selection of items, Bergdorf earns 8.65 out of a possible 10 on the composite score, followed by Brooks Brothers (8.33) and Nordstrom (8.25). Bergdorf also earns top scores for its personnel (8.60) and environment (9.04). On the bottom line question of whether it deserves premium prices for its goods, Bergdorf also comes out on top with 86% of shoppers agreeing that its merchandise is worth the price, putting it far ahead of Brooks Brothers and Barneys, which tied for second place on pricing.

Brooks Brothers earns the second highest LCEI score but ranks first for delivering complete satisfaction of wealthy consumers’ needs. The clothier receives particular kudos for its personnel and pleasing store aesthetics. Nordstrom ranks third in overall LCEI but earns the highest loyalty score, with 98% of shoppers planning to return. Nordstrom also repeats from last year as the most widely-visited luxury shopping destination with 38% of wealthy respondents shopping at Nordstrom in the past year. Survey participants had minimum household income of $150,000, with average income of $271,000 and average net worth of $2.4 million.

Complete results and additional details from this LCEI are available upon request.

Luxury Institute WealthSurvey: Facebook Usage and Trends

Wealthy consumers embrace the social network for its ability to keep them in touch with friends and family despite privacy concerns. Recommendations from friends and family are often the most powerful forms of marketing and widespread usage of Facebook by the wealthy provides luxury firms a powerful medium to cultivate new fans and customers.

From a network of several hundred Harvard undergraduates seven years ago to more than half a billion registered users today, Facebook’s growth trajectory has been more rapid and spectacular than even the rise of the Internet itself in the 1990s. According to iStrategyLabs, 71% of U.S. Web users have a Facebook account, and the latest Luxury Institute WealthSurvey shows that wealthy Americans are Facebook members at nearly the same rate. Two-thirds (64%) of U.S. residents earning at least $150,000 per year are currently on Facebook, while another 4% plan to sign up soon. On average, wealthy users have 145 Facebook friends and 18% of them report 250 or more. The next most popular social networking sites are LinkedIn (54%) and Twitter (22%).
Age is understandably a big factor in adoption rates: 72% of wealthy 21-34 year-olds are currently active members but only 56% of those 65 and older are now on Facebook. Millionaire households were comparatively less likely (60% vs. 69%) than households with net assets of less than $1 million to have a Facebook account, and men are less likely than women (69% vs. 58%) to join. Almost half (48%) report joining Facebook even though they want to restrict their personal information that they post, and 44% fear that information could be vulnerable and lead to identity theft.

Social networking proves to be a compelling lure for wealthy Web users who cite maintaining existing personal relationships (49%) and locating and reacquainting with old friends (46%) as the top two reasons for taking the Facebook plunge. About one-third (29%) join Facebook to be able to view photos and read what others have to say. Age is again an influence when it comes to posting content on Facebook rather than just browsing what’s already posted by others. Just 10% of respondents 65 and older were interested in uploading photos, but 25% of those between 21 and 34 reported it as a reason for joining. One-fifth of those younger than 34 turn to Facebook for news and information, but only 12% of the oldest wealthy cohort view Facebook as a news medium.

Facebook is not the first social networking service but it is the first to have succeeded by developing a format that appeals to multiple generations and does so via the latest devices like smartphones and tablets. These new technologies enhance the network’s value by making it ubiquitous, something that’s especially appealing for marketers. Nearly one-third (29%) of wealthy users access Facebook on a mobile device, mostly smartphones, but 10% check-in via their tablets like Apple’s iPad. One in four check in their locations on their mobile devices and 23% use location services to find friends; 21% use such apps to find Groupon type deals in their current area and 16% report redeeming mobile-delivered Facebook deals at local merchants. For luxury firms who advertise with Facebook or simply post news and offers on their Facebook pages, there is clearly rich potential for creating closer relationships with customers—something that inevitably leads to higher sales.

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Luxury Institute’s Luxury Brand Status Index (LBSI) and WealthSurvey Inventory

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Luxury Retail Sales Growth Downshifts

Mainstream retailers pep up in April with a little help from a late Easter while luxury firms take a break from a long streak of outperformance in comparable sales.

Continued economic improvement in the U.S., along with three additional weeks of Easter shopping, help 28 national retailers tracked by the International Council of Shopping Centers post average same-store sales growth of 8.5% in April. For the two-month March-April period, year-over-year comps still rose a respectable 5.3%.

After several months of double-digit percentage same-store sales growth, luxury retail downshifts into the high single-digits. Nordstrom saw sales surge 9.3% at its full-price flagship stores, though the smaller 2.7% advance at its discount division dragged the overall April number down to 7.6%. Neiman Marcus posted an 8.3% monthly gain and Saks slowed to a 5.8% increase in sales at stores open at least a year.

Both Saks and Neiman saw particularly robust sales of men’s and women’s fashion apparel, as well as shoes and handbags. Luxury handbags remain a strong category globally: Coach reports first quarter sales up 15% worldwide, even with revenue in Japan, where seven of its stores are still closed, down 9%. China’s strength picked up Japan’s slack.

2011 Luxury Brand Status Index (LBSI)

High net worth U.S. shoppers rank top brands in watches, jewelry, and ultra-luxury autos.

Consumers earning at least $200,000 a year with minimum net worth of $5 million evaluate quality, exclusivity, social status and overall ownership experience. They also rate each brand’s worthiness of a premium price, their willingness to recommend it and the likelihood they’ll buy it next time they make a purchase in the category.

Based on overall LBSI score (1-10), the top luxury brands in each category rank in the following order:

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**Watches:** Blancpain 8.35; Rolex 8.01; Vacheron Constantin 7.85

**Jewelry:** Graff 8.38; Buccellati 8.19; Asprey 8.05

**Ultra-Luxury Autos:** Maybach 8.44; Bentley 8.32; Bugatti Veyron 8.22

Sample households had median annual income of $647,000 and median net worth of $9.1 million.

*More details from these and other 2011 LBSI Surveys are available upon request.*
Wealth Management: Brand Status & Client Experience

Ultra-high net worth U.S. investors with net assets of at least $5 million rank the best brands among the top 35 national wealth management firms. They also share details on tastes, preferences and loyalty in their own wealth advisor relationships.

Penta-billionaire U.S. investors entertain a dim view of Wall Street but exhibit extreme loyalty to their primary wealth advisors. Boutique firms take top honors in brand status.

In the 2011 Luxury Brand Status Index (LBSI) Wealth Management survey, clients ranked national firms on quality, exclusivity, social status and overall client experience. Atlantic Trust Private Wealth Management earns top honors (6.96), followed by Glenmede Trust (6.78) and Rockefeller Wealth Management (6.67). Only 12% of investors worth at least $5 million use private banks such as these for their primary wealth advisory relationship. More than one-third (36%) use a full-service broker as their primary advisor. Morgan Stanley, Bank of America/Merrill Lynch and Wells Fargo are the three most popular wealth managers for the ultra wealthy. Another 28% of penta-billionaires utilize the services of an independent advisor to help manage their personal investments.

The big Wall Street firms maintain their grip on the wealth management business even though well-publicized misdeeds have tarnished the opinions of wealthy clients. Negative perceptions include widely-held beliefs that the securities industry is reluctant to punish those who commit wrongful acts (43%), driven by greed (38%) and slow to disclose conflicts of interest (32%).

Despite the turbulent ride in financial markets over the past three years and diminished confidence in the financial services industry, there's significant resistance to switching primary advisors. Nearly half (45%) of ultra-high net worth investors polled in the 2011 Wealth Management Client Experience survey say that they have spent at least 10 years with their primary advisors; 37% work only with one advisor. Ultra wealthy investors are certainly open to new ideas, however, with the average number of relationships growing from 1.9 to 2.7 from 2006 to 2011.

More details of the 2011 Wealth Management LBSI and Wealth Management WealthSurvey are available upon request.
Luxury Institute WealthSurvey: Understanding Wealthy Millennials

Comprehensive survey of high-income Americans 35 and younger reveals insights and attitudes on work, family, finances, usage of mobile devices usage and media consumption.

Referred to by monikers such as Generation Y or the “millennial” generation, younger high net-worth individuals are focused on achieving financial success and living digital lifestyles, while mostly tuning out old media.

Wealthy Americans 35 years of age and younger are avid consumers of a wide range of new media on smartphones and tablet computers. Seventy-percent own smartphones (40% iPhone, 24% BlackBerry) and 23% already have an Apple iPad. On average, these younger wealthy individuals spend more time each week sending and receiving email (246 minutes) than they do speaking on the phone (137 minutes). Nearly as many millennials use text messaging (88%) as a frequent means of communication as talking on the phone (91%). Compared to their older wealthy counterparts, millennials spend far more minutes on average each week texting (121-42), instant messaging (89-30) and video chatting (75-9).

Millennials are quickly losing the television, radio and print newspaper consumption habits of their parents. More wealthy Generation Y consumers watch online video (78%) than those who regularly read a printed magazine (76%) or newspaper (68%). Their average of 100 minutes weekly spent watching online videos, combined with 227 minutes spent watching DVR playback, exceeds 289 average minutes watching live television. Internet radio is closing the gap, too, with average listening time of 75 minutes per week, compared to 150 minutes for terrestrial radio.

In terms of what it takes to achieve happiness, millennials assign comparatively greater importance than older wealthy individuals to factors involving outward recognition for personal achievements. Some of the sharpest contrasts where younger wealthy consumers assign more importance as drivers of happiness than those over 35: “having superior intellect” (43% vs. 28%); “being a leader” (36% vs. 25%); “being admired” (36% vs.19%) and “being wealthy” (32% vs. 15%). Along with their competitiveness, however, millennials are also more generous, with 54% saying that generosity is important in achieving happiness; 44% of those 35 and up single out generosity as critical for being happy.

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Luxury Retail & Real Estate Lead The Rebound
You can’t keep the affluent shopper down for long. Data show that not only is the luxury market back, it’s now more diverse than ever. 4
Luxury Retail Outpaces Mass-Market Again In May

While Target and J.C. Penney show stagnancy in comparable sales, Saks posts a 20% surge; Neiman Marcus scores double-digit gains and Nordstrom comes close.

Unemployment rises above 9% in May and other readings on economic growth also point to a slowdown. Despite the downbeat data and the worst month for stocks in two years, luxury retailers continued to show exceptional gains in same-store sales while mainstream retailers’ numbers affirm an economic downshift.

Persistent outperformance by luxury retailers continues and widens in May with Saks leading the way with a 20.2% increase in sales at stores open at least a year. Shifting a promotion into May helped to spike sales across a wide range of goods: shoes and designer apparel for both men and women, as well as handbags, accessories, jewelry, cosmetics and fragrances. The picture was also bright at Neiman Marcus, which reported a broad-based 12% increase in comparable sales. Nordstrom’s year-over-year uptick was less explosive at 7.4% and more robust at the higher end: a 7.9% rise in sales at its full-price stores and 5.9% at its Rack discount chain.

Rising prices of commodities like cotton and crude oil are spiking merchandise and transportation costs and forcing retailers either to sacrifice profit margins or hike prices. Expect luxury retailers to be better able to pass on their higher costs to their affluent customers who make buying decisions based more on considerations of quality, value and uniqueness and are less sensitive to price than the already-strapped mass-market consumer.

Also continuing to post sharp gains in sales are retailers operating in distinct niche markets and who compete less on price and more on overall value proposition. One good example is Lululemon Athletica in yoga fashion and another is Vera Bradley in patterned handbags. Indeed, a new Luxury Institute WealthSurvey of young wealthy shoppers—the so-called “millennials” or generation Y born between 1975 and 1990—shows a broadening of the concept of luxury with names as diverse as Apple and Grey Goose viewed more widely as luxury brands than some old classics.

2011 WealthSurvey: Luxury Brand Marketing To Wealthy Millennials

High net worth millennial consumers define what constitutes a luxury brand and divulge details on dozens of names in 16 categories of luxury goods and services. Is Apple the new Dom Pérignon?

Consumers between 21-35 years of age who earn at least $150,000 per year ($271,000 average) tell the Luxury Institute about top-of-mind brand leaders and what influences their attitudes and loyalty. Among the younger wealthy set, function, form and ease of purchase emerge as potent drivers of reputation and prestige.
High net-worth consumers 35 years of age and younger define luxury brands much more in terms of loyalty programs and unique offers than do their older wealthy cohorts. Craftsmanship and quality still account for a great deal, but loyalty programs, special offers and personalized service rise in importance for younger shoppers. Forty-four percent of wealthy millennial shoppers identify loyalty programs to be an essential component of a luxury brand, but only 14% of older high net worth consumers consider them to be important.

Nearly two-thirds (64%) of wealthy millennial shoppers identify superior quality and design as essential elements of a luxury brand, followed by craftsmanship (58%) and brand heritage (54%). One-half of younger wealthy consumers insist upon exclusivity, superior customer service and one-of-a-kind products. Also important to well-to-do millennials are free returns & shipping (54%), lifetime guarantees (52%) and priority access to “pre-sales” (49%).

Wealthy “Generation Y” individuals born after 1975 are much more likely to have made a luxury purchase in the past year than 35+ wealthy consumers: 83% vs. 66%. The frequency of purchases by younger shoppers quite likely stems from the multiplicity of ways that they like to interact and shop, which encompasses the Web, telephone and increasingly via customized apps on mobile devices like smartphones and tablets. In fact, one-third of wealthy millennials buy spirits and wine somewhere besides a physical liquor store or wine shop: 16% buy on the Web, 11% buy on their smartphones and 5% buy spirits mail-order and over the phone. This contrasts to 87% of older wealthy drinkers who buy exclusively in-store. The most popular liquor brand for under-35 imbibers is the relatively young Grey Goose vodka. Just 5.2% cited the iconic Dom Pérignon as a top-of-mind luxury brand although it’s the favorite brand of older wealthy drinkers, singled out by 12% of those older than 35.

Apple, cited without prompting by 45% of wealthy millennials as a leading luxury brand, tops all other brands, followed by Rolex, Coach and BMW, each offered by 30% of respondents as examples of luxury leaders. The prominence of Apple is suggestive of how wealthy millennials view luxury much more for the experiential factors associated with it, rather than relying excessively on brand heritage or residual prestige earned long ago. The good news for luxury firms is that these tech savvy shoppers want to interact with them, not only in stores but also online and on mobile devices. This interaction leads to richer experiences, deeper relationships and boosts sales on an ongoing basis.

Below are the top three luxury brands identified by wealthy millennials in some of the 16 categories covered in the 2011 WealthSurvey:

**Apparel:** Gucci (12%), Prada (7%), Banana Republic (6.5%)

**Shoes:** Jimmy Choo (13%), Prada (8%), Nike (7%)

**Handbags:** Coach (30%), Louis Vuitton (12%), Gucci (10%)
Luxury Retail & Real Estate Lead The Rebound

By Faith Hope Consolo - Retail Group Chairman, Prudential Douglas Elliman

The verdict is in: You can’t keep the affluent shopper down for too long. As recent sales reports and new leases reveal, not only is the luxury market back, it’s more diverse than ever.

It’s no secret that the luxury sector has seen the strongest comeback of all retail categories, with nearly every major retailer and designer reporting sales gains in the United States. Some argue that the double-digit comp-store increases being posted by major high-end retailers are the result of comparisons to the dramatic drops during the recession. That may have been true in 2010, but sales so far this year have shown that the affluent shopper is back after what ultimately turned out to be a brief hiatus.

For example, Neiman Marcus reported sales of $984 million for its most recent (third) quarter, up 9.7% over the previous year. The third quarter of fiscal 2010 had seen a 9.1% increase over the recessionary 2009 numbers. Saks’ most recent quarter, its first of 2011, saw a comp-store sales increase of 10.2% over 2010, itself an increase of 6.1% over the first quarter of 2009. Nordstrom posted a 6.5% sales increase in its first quarter compared with 2010, which was a 12.5% increase over 2009 figures. On the specialty side, Tiffany’s worldwide same-store sales rose 15% during the quarter, after a 10% increase in 2010 over the year before. Even Tiffany’s sales in Japan rose, particularly surprising in light of the ongoing effects of the earthquake and nuclear disaster earlier this year.

One reason for the uptick is the return of the aspirational shopper, at least to a degree. Even the most affluent of shoppers are not buying sweaters or shoes in every color, but they are buying several items. Those just behind them on the economic scale are buying the occasional item and searching for classic, quality items that will last.

This has certainly encouraged the expansion of luxury specialty chains around the globe. New York City, in particular, has seen the influx of a number of high-end designers and retailers, many of which took advantage of a dip in rents on the
city’s marquee boulevards. A major new presence on Madison Avenue comes from luxury watch merchants, including DeLaneau, Hublot and Breitling, all taking space on or near the thoroughfare.

Judging by recently opened apparel retailers, including Soigne K (Kimaya in India and the U.A.E.) and high-end leather goods from Gioe di Toscana, the city is seeing an increasingly diversified global mix. Outside New York, Vivienne Westwood has re-entered the retail business in Los Angeles, and Scoop NYC, which offers designers including Roberto Cavalli, Burberry, Zac Posen and Helmut Lang, will be opening in Chicago and Boston and is looking at Los Angeles and San Francisco. Polo Ralph Lauren is poised for major international retail growth.

Perhaps most surprising—and fun—is the growth in luxury children’s apparel. Bonpoint has just come to Manhattan. MonnaLisa has expanded from Milan to Madison Avenue to Chicago to Los Angeles, while L.O.L. Kids carries that brand, Miss Grant and other thousand-dollar frocks for the little girls of the rich, famous and not-so-famous.

Another factor that’s boosting luxury retail is e-commerce. Contrary to conventional wisdom that the luxury shopper, usually older, would be reluctant to buy online, many retailers are finding that their websites are major generators of income and profits. Neiman Marcus reports that its recent initiatives to drive online sales, which include iPhone, iPad and Android apps, have resulted in e-commerce becoming its top sales channel. Fashion shows are live-streamed, resulting in major sales even before the merchandise has hit the sales floor.

The world of luxury retail is changing: it’s younger, not necessarily European, and definitely more tech-savvy. All of those factors are major reasons why luxury is leading the retail recovery in the United States.

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### 2010 LBSI Categories*

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**Available for Purchase:**

**Luxury Institute’s Luxury Brand Status Index (LBSI) and WealthSurvey Inventory**

**Recently Published WealthSurveys***

- Apple vs. Sony: Brand Face-Off
- Facebook Marketing [NEW]
- Facebook Usage and Trends [NEW]
- In-Store Customer Experiences
- Luxury Brand Marketing to Wealthy Millennials [NEW]
- Luxury Brand Stores vs. Saks In-Store Boutiques
- Multichannel Shopping Habits of Ultra Wealthy Consumers
- Multichannel Shopping Habits of Wealthy Consumers
- Search Engine Usage and Shopping Habits of the Wealthy
- Sponsored and Paid Search Habits of the Wealthy
- The Current State of the Luxury Industry – Part 1
- The Current State of the Luxury Industry – Part 2
- Understanding Wealthy Millennials [NEW]
- Wealthy Consumers and Mobile Applications
- Wealthy Consumers in the American Community Survey

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Luxury Retail Sales Resilient in Stormy August
Neither inclement weather nor wealth destruction deters wealthy shoppers from stepping up the pace of their purchases at luxury retailers in August. 2

Compared to 2009 or 2010, fewer high net worth U.S. consumers have plans to curtail spending this year and many expect to spend much more. 3
Luxury Retail Sales Resilient in Stormy August

Neither inclement weather nor wealth destruction deters wealthy shoppers from stepping up the pace of their purchases at luxury retailers in August, as high-end merchants fare better than most.

Hurricane Irene left a trail of damage and power outages from North Carolina to Vermont in the last week of August. In stocks, the S&P 500 index plunged more than 15% from its July high after Standard & Poor’s downgraded U.S. debt and economists slashed forecasts for second-half GDP growth. In the face of these obstacles, monthly same-store sales at Nordstrom and Saks continue to outpace mainstream retailers.

Sales at stores open at least one year were up 7.7% in Nordstrom's full-price stores and 6.1% higher at Saks Fifth Avenue. Neiman Marcus stopped reporting monthly sales and will now do so only on a quarterly basis. Saks saw particular strength in women's shoes, handbags, fashion jewelry, cosmetics and fragrances, as well as in clothing, shoes, and accessories for men. For Nordstrom, comparable sales gains at its flagship stores were double the 3.8% growth at its Nordstrom Rack discount outlets. This month, the Seattle-based retailer plans to open two full-line Nordstrom stores in Nashville and St. Louis, as well as six new Rack locations. It's also burnishing its reputation for customer service, offering free shipping and free returns with no minimum order size for all items purchased on its website.

The European debt crisis continues to act as a drag on world stock markets, while reduced expectations for GDP growth in 2011 and 2012 raise the likelihood of another recession. In the U.S., the unemployment rate remains at 9.1% after the economy created no net new jobs in August. Fortunately for purveyors of luxury goods and services, recent history indicates that it is possible to thrive in an economy growing slowly or not at all. Aside from a few months when comparable sales tumbled in late 2008 and early 2009 at the onset of the financial crisis, percentage gains in same-store sales have run in the double-digits for most of the past two years.

There will always be people with money and the key is to focus on catering to them. Moody's Analytics estimates that the wealthiest 5% of households in the U.S. account for 37% of overall consumer spending, with the top 20% accounting for almost 60% of the spending. The good news for luxury retail is that job losses and economic hardship in the overall population are far less likely to impact the ability or willingness of the wealthy to spend. Furthermore, a new Luxury Institute WealthSurvey (detailed on page 3) shows that spending plans of wealthy consumers and attitudes towards luxury brands point to continued strength for the sector in the months ahead.

Compared to 2009 or 2010, fewer high net worth U.S. consumers have plans to curtail spending later this year and many expect to spend much more, especially on travel and technology gear.

The Luxury Institute surveyed wealthy U.S. consumers earning at least $150,000 per year about attitudes toward luxury goods and services and future spending plans in more than two dozen categories. Results paint a far brighter picture than previous State of the Luxury Industry reports in August of 2010 and 2009, and January 2009.

Although nearly one-third of wealthy consumers (32%) report spending less on luxury purchases recently due to the economic situation, that’s down from 37% in August 2010 and 42% in August 2009 who reported cutting back. In fact, 10% of respondents reported boosting their luxury spending in recent months, up from 7% who said the same one year ago. As for future spending, the urge to cut back is also becoming less widespread with 32% of wealthy shoppers planning to trim luxury expenditures in the months ahead—down from 36% last August and 45% in August 2009. Six percent—same as last year—say that they plan to increase luxury spending in the coming year.

Good news for hotels and Apple: the top two luxury categories in which the wealthy indicate plans to spend more are travel (18%) and technology (16%). Driven by the success of the iPad and numerous smartphones, plans to boost tech spending are up from 13% who indicated they would be spending more last year. Despite the optimism, 20% of wealthy respondents say they plan to trim expenditures in both categories in the coming year. Categories seeing notable turnarounds include automobiles, where 11% of the wealthy plan to spend more, up from 8% in 2010. Private jet travel is taking off again, too, with 12% of respondents planning to boost spending, compared to 9% in 2010.

Although plans for spending retrenchment have decreased across the board, there are some categories that stand out as especially susceptible for cutbacks. Jewelry (39%), antiques (37%), custom apparel (34%), art (34%), handbags (33%) and watches (33%) top the list of likely areas for cutbacks by wealthy consumers. More than half (52%) of high-income shoppers report an overall tendency for spending more practically on luxury items, down slightly from 55% who indicated greater practicality last year. Many (39%) still report buying what they need instead of what they want, but that’s down from 55% who were similarly cautious two years ago.

Wealthy consumers are inclined to have generally more favorable opinions regarding the luxury industry as a whole compared to the past two years, even though the undesirability of conspicuous consumption remains at elevated levels that reflect the economic downturn. On questions from craftsmanship to customer service and the commoditization of luxury, wealthy shoppers entertain a far more charitable view than they did in 2009 or 2010. Pricing remains a top complaint, however, with 64% of the wealthy saying that luxury brands’ prices are too high relative to the
value they deliver.

Rather than being the bane of a luxury brand, discounting in many cases is helping to boost luxury purchases by wealthy consumers. Although 25% of respondents say that discounting has diminished their perceived value of luxury goods and services, 19% say it’s improved their opinions. Furthermore, 28% say that heavy discounting has boosted their spending on luxury, while only 12% spend less as a result of discounting. In the near future, 16% of wealthy shoppers say that they will be spending more on discounted luxury items—far ahead of the 6% who plan to increase spending on full-priced luxury goods and services.

*Members of LuxuryBoard.com have free access to greater details on this WealthSurvey and others via the online Resource Center. To join or learn more about membership benefits, visit www.LuxuryBoard.com.*

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More details at [www.LuxuryInstitute.com](http://www.LuxuryInstitute.com) or [contact us](mailto:contactus@LuxuryInstitute.com).
Available for Purchase:

Luxury Institute’s Luxury Brand Status Index (LBSI) and WealthSurvey Inventory

2011 LBSI Categories*

Automobiles (Europe)  
Cruise Lines  
Handbags (US, China, Europe & Japan)  
Hotels (US, China, Europe & Japan)  
Jewelry
Make-Up  
Men’s Fashion (US, China, Europe & Japan)  
Men’s Shoes (Europe)  
Skin Care  
Ultra Luxury Automobiles  
Watches  
Wealth Management Firms  
Women’s Fashion (US, China, Europe & Japan)  
Women’s Shoes (US & Europe)

2010 LBSI Categories*

Automobiles (China & Japan)  
Handbags (US, China, Europe & Japan)  
Home Appliances  
Hotels (Europe & Japan)  
Jewelry
Make-Up  
Men’s Fashion (US, Europe & Japan)  
Men’s Shoes (US, Europe & Japan)  
Skin Care  
Ultra Luxury Automobiles  
Watches  
Wealth Management Firms  
Women’s Fashion (US, China, Europe & Japan)  
Women’s Shoes (US, Europe & Japan)

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• Multichannel Shopping Habits of Wealthy Consumers  
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• The State of the Luxury Industry According to US Consumers 2009-2011 NEW  
• Understanding Wealthy Millennials NEW  
• Wealthy Consumers and Mobile Applications  
• Wealthy Consumers in the American Community Survey

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*All research is conducted with U.S. consumers unless otherwise indicated
Luxury Institute will be releasing the following 2012 surveys: *Luxury Brand Status Index (LBSI)*, *Luxury Customer Experience Index (LCEI)*, and *Luxury Online Experience Index (LOEI)*. For additional information about our research or Luxury Institute, please contact Martin Swanson at 914-909-6350 or mswanson@luxuryinstitute.com.

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**Luxury Retailers Again Show Strength In September**

Despite another 10% drop in the S&P 500 stock index, high-end retailers post increases in monthly comparable sales nearly double the growth seen in the overall retail universe in August.  


Luxury spending surge picks up strength in China even as wealthy consumers report plans to throttle back on purchases in Europe, Japan and the U.S.
Luxury Retailers Again Show Strength In September

Despite another 10% drop in the S&P 500 stock index during September, high-end retailers post increases in monthly comparable sales nearly double the growth seen in the overall retail universe.

Consumer confidence stabilized in September near two-year lows, even as the European debt crisis continued to roil global financial markets. U.S. stocks are still lower by 15% since May, although the market decline has yet to have an appreciable effect on the spending behavior of wealthy U.S. consumers. Unemployment in the U.S. remained at 9.1% in September, even as the economy created a better than expected 103,000 new jobs.

Nordstrom reported a 10.7% gain in sales at stores open at least one year, and Saks saw comparable sales pick up by 9.3%. Those results topped analyst forecasts for increases of 5.2% and 6.5%, respectively. Same store sales at Nordstrom's full-price flagship stores rose 11.1%, while its discount Rack stores posted an 8.7% increase. Neiman Marcus, which releases only quarterly sales, reported an 11% increase for the three months ended July 30. The average monthly gain in September for the 25 national chains tracked by the International Council of Shopping Centers was 5.5%, up from 4.8% in August.

While luxury firms continue to post solid sales gains in the U.S., the most robust growth is happening overseas, particularly in China. Gross domestic product in China is on pace to grow 9.4% in 2011, according to Goldman Sachs. By contrast, the U.S. Department of Commerce reports that U.S. GDP grew at an annualized rate of 1.3% in the second quarter. Rapid growth is producing a burgeoning crop of millionaires in China, with the number of millionaire households compared to 2010 up 31% to 1.1 million, says the Boston Consulting Group. The U.S. still has the most millionaire households at 5.22 million, followed by Japan with 1.53 million. Underscoring the opportunities presented by the burgeoning wealthy population for luxury firms is a new Luxury Institute global WealthSurvey showing a voracious appetite for luxury goods by wealthy Chinese consumers, while restraint is evident in Western economies.


Luxury spending surge picks up strength in China even as wealthy consumers report plans to throttle back on purchases in Europe, Japan and the U.S.
The Luxury Institute surveyed wealthy shoppers from seven countries around the globe (U.S., U.K., Germany, France, Italy, China and Japan) earning at least $150,000 in local currency, revealing candid attitudes on luxury brands and personal spending plans among the top 10% of highest-earning households.

More than half (57%) of wealthy Chinese shoppers say that the economic environment has prompted them to spend more on luxury in the past year, and 50% plan to boost spending in the next 12 months. Restraint is more evident in the U.S., where just 10% of the wealthy stepped up luxury spending in the past year and 6% plan to spend more in the next 12 months. U.S. consumers are twice as likely as those in China (32% vs. 16%) to have trimmed luxury spending last year.

European woes did not stop 14% of wealthy shoppers in France and 17% of those in Italy from boosting luxury spending this year, although 38% of high-income shoppers in both countries plan to cut back in the coming year. In Japan, the March earthquake and tsunami dampened enthusiasm for luxury shopping, with only 7% of wealthy Japanese consumers reporting higher levels of spending and 34% cutting back. The most widespread retrenchment comes in the U.K., where 38% of wealthy shoppers have pared back luxury spending, and 41% plan reductions in coming months. Germany shows more stability compared to other rich nations: Only 17% of wealthy German consumers say that they are spending less on luxury now and 29% plan to trim luxuries in the coming year.

Across all seven markets, luxury travel is the category in which most wealthy consumers anticipate stepping up spending, with China far and away showing the strongest appetite. In China, 58% of the wealthy plan to spend more on leisure travel, followed by 28% in Italy and 22% in Germany who say the same; 16% of wealthy travelers in the U.K., and 18% in the U.S., Japan, France, and Italy, plan to spend more on travel. Spending plans across the board in each of the 26 luxury categories were substantially higher in China than in Europe and the U.S., with some of the biggest disparities showing in apparel, watches, jewelry and gifts where Chinese consumers were six to seven times more likely to boost spending. Also strong in China are luxury auto sales, with 43% of the wealthy planning to spend more on cars, compared to 11% in the U.S., U.K. and Japan.

Attitudes towards luxury are far more positive in China than they are in other rich nations. Nearly four out of five (78%) wealthy Chinese consumers say that luxury goods and services are more important in today's economy, although the reverse is true in the U.S. where 80% of wealthy shoppers say that luxury has become less important. Three-fourths (76%) of Chinese say that luxury expenditures are prudent purchases, while 78% of wealthy consumers in the U.S., U.K., and Germany find them to be an extravagance. Similarly, 78% of China's wealthy shoppers say that luxury goods and services are an important part of their lifestyle in today's economy, compared to 25% in U.S. and Germany and 20% in France who agree that luxury remains central in their lives.
Wealthy Chinese consumers are also highly inclined to place a premium on exclusivity and quality, and discounting turns them off. More than half (51%) of wealthy Chinese and 49% of Japanese say that brands that discount their merchandise are not truly luxury brands. In the U.S. and Germany, one-third of wealthy consumers share the same dim view of discounting, as do 40% of wealthy shoppers in the U.K, Italy and France. Despite the dour attitude towards discounting, 56% of wealthy Chinese say that discounting has increased their overall spending on luxury and 50% plan to spend more on discounted luxury items in coming months.

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**2012 LBSI Categories***
- Automobiles (Europe)
- Cruise Lines
- Handbags (US, China, Europe & Japan)
- Hotels (US, China, Europe & Japan)
- Jewelry

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<thead>
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- Automobiles (Europe)
- Cruise Lines
- Handbags (US, China, Europe & Japan)
- Hotels (US, China, Europe & Japan)
- Jewelry

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- Sponsored and Paid Search Habits of the Wealthy
- The State of the Luxury Industry (US Consumers 2009-2011) *NEW*
- The State of the Luxury Industry (A Global Comparison of Consumers in Top Markets) *NEW*
- Understanding Wealthy Millennials *NEW*
- Wealthy Consumers and Mobile Applications
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WealthSurvey: Luxury Clienteling and Personalized Service 2010-2011
U.S. consumers with minimum annual income of $150,000 express opinions and experiences with personalized service features of luxury brands in 16 categories. 4
Luxury Retail Cools Off In October

After posting robust increases in monthly same-store sales throughout a tumultuous summer in financial markets, high-end retailers saw more moderate—though still positive—gains last month.

The debt crisis in Europe and the downgrade of U.S. government debt in August helped drive the S&P 500 stock index 14% lower in the third quarter of 2011. Comparable sales at luxury retailers like Nordstrom and Saks ticked higher at double-digit percentage rates, suggesting little negative wealth effect from the stock market’s tumble. Enthusiasm finally ebbed in October but the market's recent rebound hints at a strong holiday shopping season.

Nordstrom’s same-store sales rose 5.4% in October, down from a gain of 10.7% in September; Saks' uptick in comparable sales dropped to 1.8% from 9.3% in September. Results from both luxury retailers fell short of forecasts. Saks attributes some of the slowdown to an October promotion that did not include cosmetics, causing customers to defer purchases—or to visit Nordstrom. The Seattle-based luxury department store saw strength in cosmetics sales last month, as well as in designer items and dresses. Its discount Nordstrom Rack stores posted a 7.4% same-store sales increase, higher than the full-price flagship stores. Saks saw brisk sales of handbags and men's shoes and clothing. Neiman Marcus’ reported comparable sales grew 6.4% for the three months ended October 30, noting exceptional strength also in handbags and men's items, as well as accessories and precious jewelry.

Political and financial dramas in Greece and Italy continue to buffet financial markets but economic data in the U.S. show evidence of a strengthening recovery and stocks have rebounded sharply since early October. U.S. gross domestic product grew by 2.5% in the third quarter, up from a 1.3% pace in the second quarter. Also in October, the unemployment rate dropped to 9% from 9.1%, putting recession fears on hold in the U.S. In Europe, however, turmoil surrounding bailouts of Greece and Italy, as well as the impact of sovereign defaults on France and Germany, has boosted the likelihood of a European contraction in 2012.

Despite the macroeconomic headwinds, the Luxury Institute has identified several pockets of strength in luxury goods and services categories where wealthy European consumers plan to make purchases in the coming year. A recently conducted series of Luxury Brand Status Index (LBSI) surveys details brand rankings and future spending plans of wealthy consumers in the U.K., France, Germany and Italy in hotels, handbags, and luxury men's and women's fashion brands. A separate Luxury Institute WealthSurvey presented in this Wealth Report ranks brands in 16 luxury categories based on the effectiveness of their personalized service features in cultivating loyalty and boosting spending by wealthy consumers. The top practitioners of ‘clienteling' have continued to grow sales even in a stagnant economy.
Luxury Brand Status Index Surveys: Europe

Wealthy consumers from the U.K., Germany, France and Italy rank the status of luxury brands in men's and women's fashion, handbags and hotels. They also reveal the brands they plan to buy, which deserve premium pricing, and those they would recommend to friends and family.

The Luxury Institute surveyed wealthy consumers with minimum annual incomes of €50,000 in France, Germany and Italy, and £60,000 in the U.K. Belt-tightening is evident in the data, as brands with the highest overall status rankings in a category are rarely the same ones that most respondents plan to purchase in the next year.

Tastes and brand preferences vary across national boundaries in Europe, but several brands achieve top-three overall LBSI rankings in multiple countries. Composite LBSI is an average of 1-10 scores on the four pillars of brand stature: consistently superior quality; uniqueness and exclusivity; ability to elevate social status as a brand purchased by people who are admired and respected; and the degree to which the brand makes consumers “feel special” across the entire customer experience.

Following are the top three luxury brands based on overall LBSI scores, along with some market observations and insights in each category:

**Luxury Hotels (26 brands):** Taj Hotels Resorts and Palaces (7.61); Mandarin Oriental (7.60); Ritz-Carlton (7.56)

Ritz-Carlton (58%) and Club Med (52%) enjoy the highest familiarity across Europe, while Small Luxury Hotels of the World (78%) and Mandarin Oriental (72%) are the two brands most widely viewed as deserving a price premium. Club Med ranks last among hotels for worthiness of premium pricing, but it is the brand most popularly cited by wealthy Europeans (8.8%) as their next choice for luxury lodging—particularly among wealthy French (14.7%) and Italian (13.6%) travelers. Also named frequently as the preferred option for next bookings: Sofitel (6.5%), J.W. Marriott (6.2%) and Ritz-Carlton (6.1%).

**Luxury Handbags (39 brands):** Hermès (7.50); Tod’s (7.38); Chanel (7.33)

These same three brands are also the top three recognized for superior quality. Hermès (60%), Chanel (59%) and Lancel (58%) are most cited as deserving premium pricing. Lancel (68%) and Tod's (67%) stand out as the two brands that wealthy Europeans are most likely to recommend. Louis Vuitton (8.8%) is the luxury handbag brand most frequently cited as the next to be purchased, followed by Gucci (5.7%) and Longchamp (5.5%). Vuitton's bags are interestingly more likely to be purchased by wealthy shoppers in Germany (12.2%) or Italy (14.4%) than by those in its home country of France (5.3%). Louis Vuitton (7.55), Tod's (7.54) and Chanel (7.54) rank behind category leading Hermès (7.91) as
handbag brands that are unique and exclusive.

**Women's Fashion (44 brands):** Loro Piana (7.51); Brunello Cucinelli (7.37); Hermès and Chanel (both 7.13)

Quality and exclusivity drive overall status in women's fashion, with Loro Piana (7.89) earning the top ranking for superior quality, trailed by Brunello Cucinelli (7.65) and Hermès (7.58). Those three also sweep the top three LBSI exclusivity scores, with Cucinelli earning the highest. Chanel is the brand most widely (62%) regarded as deserving premium pricing, with Hermès (57%) and Christian Dior (56%) also viewed as worth the price by a wide swath of wealthy Europeans. Despite the high esteem shown for European brands, the brand that wealthy European consumers are most likely (5.9%) to be buying this year is Calvin Klein, an iconic American brand. Giorgio Armani (4.7%) and Chanel (4.0%) are also likely purchase targets. Italians are adamant about Armani; 14.4% plan to buy women's fashion items from the Italian designer.

**Men's Fashion (35 brands):** Loro Piana (7.30); Michael Kors (7.20); Brioni and Marc Jacobs (both 6.89)

Loro Piana sweeps the top rankings across three of the four pillars of brand stature, with Michael Kors edging it out for the highest ranking as a brand purchased by people who are admired and respected. Loro Piana is the men's fashion brand that Europeans are most likely to recommend and is also most widely recognized (67%) as deserving of premium pricing. Wealthy Europeans also view men's fashions from Michael Kors and Hermès (both 56%) as worth the price. Hugo Boss emerges as the brand most likely (8.8%) to be purchased in the next year, thanks to strong support in Germany, where 38% of wealthy shoppers plan to buy Boss. Armani is the next most likely men's fashion brand to be bought this year, with 6.5% of Europeans and 14.4% of Italians indicating plans to pick up new Armani items.

*For greater details on LBSI rankings in each category and other purchase considerations of wealthy European consumers, visit LuxuryInstitute.com.*

**WealthSurvey: Luxury Clienteling and Personalized Service 2010-2011**

U.S. consumers with minimum annual income of $150,000 express opinions and rank experiences with personalized service features of luxury brands in 16 categories.

Wealthy shoppers want to engage with luxury firms. A vast majority (86%) does not mind providing personal information to luxury firms if the result is a superior experience. More than three-fourths (77%) are happy to give their email address; half are willing to share product preferences, as well as birthday and anniversary dates.

Most high-income consumers view superior service as an essential requirement for luxury brands. Seventy percent say that luxury firms should reward frequent or big-ticket shoppers, a view held most widely by shoppers earning less than $200,000 a year. More than two-thirds (68%) of respondents refuse to return to a luxury boutique that fails to...
provide superior customer service and 69% say that outstanding service and experience drives their propensity to recommend luxury brands to family and friends.

Despite strong demand for more customized email communication and more appealing loyalty programs from luxury firms, these are two areas where wealthy consumers have seen a drop-off in the past year. Notifications by email of early sales went out to 39% of wealthy shoppers this year, down from 45% in 2010; 31% said they received new product emails in 2011, notably lower than 38% last year. The prevalence of experiencing special events for VIP customers and priority access to pre-sales have also decreased compared to last year.

One type of personalized service that has picked up is the availability of free shipping on purchases and returns—a feature experienced by 34% of respondents in 2011, up from 29% in 2010. Consumers view free shipping as the single-most important "special touch" offered by luxury firms. Lifetime product guarantees are also widely demanded by consumers and provided by merchants.

Below are the top-ranked brands for delivering "over the top" experiences in each of the 16 luxury categories:

Leisure Travel: Hilton, Marriott, Four Seasons and Ritz-Carlton  
Private Transportation: NetJets  
Wine/Spirits: Grey Goose, Dom Perignon and Mondavi  
Jewelry/Watches: Rolex  
Home Appliances: Viking, LG, GE, Bosch and Subzero  
Home Furnishings: Ethan Allen  
Health & Fitness: Bally’s  
Beauty/Skincare/Grooming: Clinique and Sephora  
Designer Shoes: Gucci and Jimmy Choo  
Designer Handbags: Coach  
Fashion Apparel: Nordstrom, Gucci and Ralph Lauren  
Fashion Accessories: Gucci, Coach and Oakley  
Autos: Mercedes, Lexus and BMW  
Technology: Apple  
Personal Finance: Fidelity  
Real Estate: Century 21

Members of LuxuryBoard.com have free access to greater details on this WealthSurvey and others via the online Resource Center. To join or learn more about membership benefits, visit www.LuxuryBoard.com.
About The Luxury Institute:

The Luxury Institute is the objective and independent global voice of the high net-worth consumer. The Institute conducts extensive and actionable research with wealthy consumers about their behaviors and attitudes on customer experience best practices. In addition, we work closely with top-tier luxury brands to successfully transform their organizational cultures into more profitable customer-centric enterprises. Our Luxury CRM Culture consulting process leverages our fact-based research and enables luxury brands to dramatically Outbehave as well as Outperform their competition. The Luxury Institute also operates LuxuryBoard.com, a membership-based online research portal, and the Luxury CRM Association, a membership organization dedicated to building customer-centric luxury enterprises.

More details at www.LuxuryInstitute.com or contact us.
Available for Purchase:

**Luxury Institute’s Luxury Brand Status Index (LBSI) and WealthSurvey Inventory**

### 2012 LBSI Categories*

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<th>Category</th>
<th>Subcategories</th>
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<tr>
<td>Hotels (US, China, Europe &amp; Japan)</td>
<td>Skin Care</td>
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<tr>
<td>Jewelry</td>
<td>Ultra Luxury Automobiles</td>
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<td>Watches</td>
<td>Wealth Management Firms</td>
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### 2011 LBSI Categories*

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[Click here for more details about the LBSI](#)

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*All research is conducted with U.S. consumers unless otherwise indicated*