

The Wealth Report

Leading Edge Insights into the World of the Wealthy

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Luxury Consumer Spending - Optimism Holds Despite Poor Performance

Consumer confidence is back up to levels last seen in September before Lehman Bros. imploded and the stock market tanked, but luxury shoppers are still buying far less than they were last year. Compared with May 2008, receipts for large national retailers dropped 4.6 percent last month at stores opened at least a year, with the luxury segment continuing to lag the broader group. Saks and Neiman Marcus retain their dubious distinctions as the poorest high-end performers, posting respective same store sales declines of 26.6 percent and 23.3 percent in May. Nordstrom's sales dropped 13.1 percent, Dillard's 12 percent.

Shares of luxury retailers have held their stock market gains, as investors overlook the current funk in luxury and focus on better times ahead. Three months into an explosive stock rally, retailers like Nordstrom and Tiffany are still up 75 percent from March lows; Saks has more than doubled, and Dillard's shares are higher by 170 percent. We could be in for a few more months of harsh headlines, but later in the year, comparable sales numbers for luxury retailers will plateau and then start to look quite impressive due to the weak comparison months beginning with October and November of 2008.

Luxury Retailers – Brand Status

Prestige knows no cycles: Bergdorf Goodman earns top honors from wealthy consumers for delivering the pinnacle of luxury in retail. Wealthy U.S. shoppers with an average income of \$345,000 and average net worth of \$3.2 million rank the Neiman Marcus subsidiary first among eight brands in the Luxury Institute's 2009 **Luxury Brand Status Index (LBSI) luxury retail survey**. Consumers ranked brands on four primary attributes: delivering consistently superior quality; perceived as unique and exclusive; making the customer feel special across the entire experience; and use by people who are admired and respected. Bergdorf parent Neiman Marcus earns a second-place finish, while Nordstrom ranks third for overall brand status.

Wealth Management Firms – Brand Status

Smaller firms shine while Wall Street's household names plummet in prestige. In 2009, Bessemer Trust continues to earn top rankings in the **LBSI wealth management survey**,

finishing comfortably ahead of second-place La Salle Bank Private Wealth Management, and North Carolina-based BB&T Wealth Management, which ranks third among 35 firms evaluated. Wealthy investors also select Bessemer Trust as the firm most deserving of premium fees, citing its "client-centric, long-term focus" and "excellent service and quality research." Reputation counts for a lot. Most of the large national firms in wealth management closely associated with the financial crisis find themselves in the bottom tier of ranked firms. Respondents surveyed had average investable assets of \$6.9 million.

Cruise Lines - Customer Experience Excellence

Learning, leisure and luxury appointments mix well together for top-ranked cruise lines.

Sumptuous cuisine (often from celebrity chefs), sparkling clean quarters and attentive guest service are merely the price of admission for luxury cruise lines hoping to woo wealthy travelers. Owing to its combination of onshore adventures and educationally themed onboard activities, Crystal Cruises earns the highest ranking from wealthy consumers in the 2009 **Luxury Customer Experience Index (LCEI) luxury cruise line survey**. Travelers with a minimum household income of \$150,000, or a net worth of at least \$2 million, evaluated 14 brands along three broad areas of experience: complete satisfaction, brand personnel and cruise line environment. Fans of Crystal rave about its "excellent service, fabulous food, ideal destinations, good passenger to crew ratio and excellent amenities." The Yachts of Seabourn, also known for impeccable service and eclectic ports of call, ranks second, and Regent Seven Seas Cruises finishes third.

Wealthy Consumers - Dining Habits & Restaurant Referrals

The vast majority of wealthy consumers have not allowed the recession to alter the frequency of their dining at restaurants, or how much they spend on meals away from home. A Luxury Institute survey of wealthy consumers with average annual income of \$336,000 and average household net worth of \$2.2 million shows that 72 percent have eaten out the same number of nights per week as they did last year, or even dined at restaurants more frequently. Eighty-two percent are spending the same or more as last year on dining out. More than half (52 percent) say that they eat out once or twice a week and 23 percent choose not to dirty the dishes at least three times a week.

Continued culinary gusto is good news for neighborhood restaurants, particularly the Italian ones. Ninety percent of wealthy diners say they hit local joints regularly or occasionally, and 61 percent identify Italian food as their favorite restaurant cuisine. Three-fourths of the wealthy say that they dine at chain restaurants, with Olive Garden the most popular destination, named by 36 percent of those surveyed, followed by Applebee's (30 pct.), Outback Steakhouse (28 pct.), Chili's (27 pct.), Red Lobster (27 pct.), and TGI Friday's (25 pct.).

Frequency of visit does not equate to a corresponding level of perceived quality, except for Outback. The Australian-themed steakhouse ranks fifth for food quality among the top 20 national restaurant brands, earning a rating of 8.21 out of a possible 10. Ruth Chris earns the highest rating (8.98) for the quality of its food, trailed by Maggiano's Little Italy (8.53), and PF Chang's China Bistro (8.52). McCormick & Schmick's ranks fourth in food quality (8.37) and first in restaurant decor, with the Portland, Ore.-based seafood restaurant edging out Maggiano's for most appealing interior.

High prices and top-notch service combine to produce a favorite. Orlando, Fla.-based Ruth Chris ranks at the bottom of 20 chains when evaluated on price, but it comes out on top for service, and it earns the highest overall ranking from wealthy diners. On service, McCormick & Schmick's and Maggiano's finish a close second and third, respectively, with the order reversed, but similarly tight, for overall rankings. Outback Steakhouse and Cheesecake Factory are ranked fourth and fifth in service, respectively, and both are just behind number-three in the overall rankings, PF Chang's China Bistro.

Word-of-mouth referrals from friends and family are the dominant source of information that wealthy diners turn to when deciding on a restaurant. More than half (54 percent) of respondents say that they rely most heavily on people close to them when it comes to dining decisions; and 75 percent find out about new restaurants from friends and family. Advertising is rather effective, with 40 percent of the wealthy getting information on new restaurants via ads; 36 percent turn to old-fashioned newspaper reviews, and 34 percent consult restaurant guides for new ideas.

Two in five wealthy diners go online for restaurant reviews, and Zagat is by far the most popular destination. One-third of respondents say that they use the Zagat website for reviews, far ahead of its nearest rival Dine.com (17 percent). Zagat also publishes the most popular printed restaurant guides, with 44 percent of the wealthy peeking beneath the crimson covers for candid culinary advice; 15 percent go with the Michelin Guide.

A majority (54 percent) of wealthy consumers read magazines for restaurant reviews. As far as favorites, *Food and Wine* (32 pct.) and *Bon Appetit* (30 pct.) are the two most popular titles. *Gourmet* (22 pct.) and *Wine Spectator* (15 pct.) also have respectable readership for their culinary reportage.

To purchase the complete Luxury Institute WealthSurvey, "Food and Dining Habits of Wealthy U.S. Consumers," go to the "[New WealthSurveys](#)" section of our ONLINE STORE. Members of [LuxuryBoard.com](#) have free access to these reports via the Resource Center. Visit www.LuxuryBoard.com to join.

Vacation Homes - Wealthy Homebuyers' Outlook

Evidence is mounting that a pickup in home sales is clearing inventory and leading to a possible bottom in real estate values, but luxury homebuyers so far show little interest in picking up vacation properties. The just released [American Affluence Research Center \(AARC\)](#) survey of the most affluent 10 percent of U.S. households shows that only 4.1 percent of respondents are seriously considering the acquisition of a second home during the next 12 months, versus 9.8 percent who were looking to buy in 2007. The wealthy have seen the value of their vacation homes decline substantially in the past two years, from an average of \$ 1,033,000 in 2007 (for seasonal use homes) down to \$667,000 in 2009. There is also tepid interest in destination clubs and private residence clubs, with many wealthy homeowners opting to trade down to traditional time shares for vacation needs. Younger homeowners and those with a net worth of at least \$6 million and annual income of \$200,000 or greater are substantially more inclined to be shopping for a second home.

To purchase the complete AARC Spring 2009 Study, *“The Affluent Market for Vacation Homes: Full and Fractional Ownership & Destination Club Memberships,”* visit the [“Research From Partners”](#) section of the Luxury Institute’s ONLINE STORE.

Luxury Brand Status – Wealthy Japanese Consumers

Mired in a prolonged period of economic stagnation for most of the past 20 years, Japan nonetheless continues to be a top-three market for many luxury firms, with per-capita consumption of luxury goods double what it is in the U.S. In Japan, perhaps more than anywhere else, maintaining or improving brand status is essential for luxury providers hoping to remain competitive. The Luxury Institute surveyed wealthy Japanese consumers with a minimum income of ¥50 million (\$525,000) to determine LBSI rankings in six luxury categories:

Women's Fashion: It's a triple crown for France. Hermès earns the top spot among 29 brands considered, Chanel finishes second, and Louis Vuitton ranks third.

Women's Shoes: Manolo Blahnik is the clear winner, with Jimmy Choo and Hermès ranking second and third, respectively among the 18 brands.

Handbags: Again, Hermès earns a resounding top ranking for brand status, topping 29 other brands, including runner-up Louis Vuitton, and Chanel, which ranks third in the handbag category.

Men's Fashion: Ermenegildo Zegna earns the top spot; Giorgio Armani comes in second place, and Louis Vuitton third of the 22 brands evaluated.

Men's Shoes: Italian soles are the heart of prestige. Japanese consumers rank Salvatore Ferragamo highest among the 18 brands considered. Versace and Giorgio Armani rank second and third, respectively.

Automobiles: There is not much loyalty for the home team in luxury autos, as Mercedes-Benz earns the highest rating of 20 brands evaluated by Japanese consumers, followed by fellow German nameplate Porsche in second. Lexus ranks third in overall brand status.

Excellence In Luxury Leadership – Membership Clubs

Jennie Saunders is known as a visionary with a gifted practical imagination and relentless discipline. In 2000, she founded CORE: – a membership-based lifestyle company that provides access to individuals, experiences, properties, services, insights, culture and entertainment. CORE: members include leaders in the fields of art, architecture, business, entertainment, fashion, media, politics, sports, science and technology. CORE: encompasses three platforms each of which offer a distinct cultural sensibility and personally relevant experiences.

Following post-graduate studies at the London School of Economics, Saunders graduated from Fordham Law School, where she developed the conceptual and business model for what would later become Reebok Sports Club in 1991. Most recently, she hosted and executive produced a successful TV series in a strategic partnership with Plum TV, bringing together guests who have prominence in their respective fields, a curiosity about life and an eagerness to engage. CORE: exemplifies Saunders’ expertise in creating communities and experiences, programming traditional and new media, developing

luxury service environments, rapidly driving new business ideas from concept to execution, building strong brand identities, and establishing infrastructure platforms on which to develop high-growth ventures.

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

Saunders: There has always been a select community of transformative people who effect change in the world. This presented an opportunity to create a brand that would achieve global relevance by catering to the lifestyle needs of that community. This vision of a community-based lifestyle membership was refined over several decades, initially at Fordham University in the form of “The Other Place,” a membership business that endured for many years, and later at Reebok Sports Clubs. In 1990 the “lifestyle” business category didn’t really exist. By blending real estate, sports club services and other amenities, Reebok Sports Clubs demonstrated demand for a service that would curate unique experiences and deliver highly personalized notions of luxury.

These experiences set the stage for launching CORE: Since opening, we have grown to 1,200 members including leaders in the fields of art, architecture, business, entertainment, fashion, media, politics, sports, science and technology.

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

We are serving a psychographic of extremely accomplished, transformative people. Luxury to them is all about an experience that they cannot get anywhere else. CORE: provides multi-dimensional lifestyle experiences from social to artistic to culinary, so that each member can find exactly what they are seeking. We operate three experiential platforms: a physical property platform, an online platform and a media platform. Being multi-dimensional and experiential lets you to stay relevant as tastes and desires change.

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

It is absolutely critical to develop a unique vision and not to be afraid to stretch the boundaries of convention. You need to remain absolutely true to your vision by focusing obsessively on execution, and you need recruit and inspire a passionate and disciplined team of talented people to take the journey. If you do that, something magical happens.

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

We set out to do something that hadn’t been done before and do it at the highest level. Oftentimes the natural reaction to that is skepticism. Innovation is profoundly disorienting and inherently disruptive to conventional wisdom. This is a reality that anyone who pursues something radical must confront. To overcome it you need courage and a clear, consistent and unwavering point of view about the vision and strategy. It also needs to be backed by intellectual, creative and financial integrity.

Luxury Institute LBSI and WealthSurvey Inventory All Available for Purchase

All research is conducted with US consumers, unless otherwise indicated

2009 LBSI (Luxury Brand Status Index) Categories

Automobiles	Handbags Europe	Scotch
Automobiles Europe	Handbags Japan NEW	Table Wines
Automobiles Japan NEW	Home Appliances	Ultra Luxury Autos
Bath Fixtures	Hotels	Vodka
Business Publications	Jewelry NEW	Wealth Management Firms NEW
Business Websites	Liqueur	Whiskey
Champagne & Sprklg Wines	Men's Fashion	Women's Fashion
Cognac	Men's Fashion Japan NEW	Women's Fashion Europe
Consumer Publications	Men's Shoes	Women's Fashion Japan NEW
Consumer Websites	Men's Shoes Japan NEW	Women's Shoes
Gin	Retailers	Women's Shoes Europe
Handbags	Rum	Women's Shoes Japan NEW

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Secondary Sources:

"Same-store Sales Results for May, by Sector." Associated Press, June 4, 2009



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