The Wealth Report

Leading Edge Insights into the World of the Wealthy

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Summaries of Recent Research by the Luxury Institute

Luxury Retail – Customer Experience Excellence

Nordstrom continues to dominate other luxury retail firms in its ability to delight wealthy shoppers on a consistent basis, even during tough times. For the fifth year in a row, the Seattle-based retailer earns top honors in the retail category of the Luxury Institute's **2009 Luxury Customer Experience Index (LCEI) survey**. Wealthy consumers with an average income of $325,000 a year and average net worth of $3.2 million (who had visited stores during the past 12 months) evaluated retail brands on complete satisfaction, brand personnel and store environment. Respondents also considered each retailer's ability to resolve problems, its worthiness of a significant price premium and willingness of wealthy customers to recommend the brand to friends and loved ones. Nordstrom's no-questions-asked return policy earns high regard from consumers, as well as the expertise and attentiveness of staff. "Everyone in the store is committed to helping you, even if it is not in their direct department," raves one fan, adding, "Selection is great and quality is never an issue." Nordstrom earns an overall LCEI score of 8.31 out of 10, its closest competition from Neiman Marcus (7.78) and Brooks Brothers (7.76).

Wealthy U.S. Consumers - Wine and Liquor Preferences

Drinks for the wealthy? Margaritas and martinis are likely to make a splash, but not any brand will do. The tequila-based chilled refreshment is the most popular cocktail for wealthy drinkers, singled out by 22 percent of respondents participating in the **Luxury Institute's 2009 Wine and Liquor Preferences of Wealthy Consumers** survey of U.S. liquor drinkers with an average annual income of $336,000 and average net worth of $2.2 million. The martini (usually a vodka libation but sometimes made with gin) is the favorite liquor drink for 15 percent of the wealthy, with fellow vodka derivatives (vodka &

tonic, screwdriver, and bloody Mary) each favored by 8 percent of elite drinkers. About one in four wealthy drinkers say that they like Scotch, bourbon, and gin.

Tequila and vodka, not surprisingly given the popularity of the margarita and the martini, are two of the most popular types of liquors, and they are categories that the wealthy notice most frequently in advertising and promotions. Far and away, vodka is the most popular spirit, consumed by 64 percent of wealthy drinkers, followed distantly by rum (42 percent), tequila (39 percent) and whiskey (31 percent). Tequila and vodka, along with rum, are the three categories of liquors where wealthy drinkers say there is a significant difference in taste and quality among brands. Brand loyalty is strong, with 44 percent of wealthy imbibers always calling for a particular brand of liquor when ordering different cocktails, and 54 percent saying that their relationship with a brand is the most powerful driver of brand choice. Only 20 percent keep it generic.

Most wealthy individuals are drinkers, with 72 percent saying that they enjoy drinking wine and 62 percent enjoying liquor at least occasionally. Wine is more popular for high frequency drinkers, with 40 percent of the wealthy saying that they drink wine "regularly" and 23 percent saying they imbibe cocktails regularly. Fifteen percent drink neither wine nor liquor. Of those who drink liquor, the average number of drinks per week is three, with 31 percent of the wealthy drinking five or more glasses of liquor per week. Even those who do not drink are still potential consumers; 88 percent of the wealthy maintain a supply of liquor and wine in the house for entertaining, with a majority relying on friends and family for advice on what to buy.

With regard to wine, snobbery among the wealthy is not pronounced, with 54 percent saying that they enjoy drinking wine, but that they are not well versed in wine tasting and pairing, and 41 percent confess to asking for help when choosing wines. Thirty-eight percent say that they do not have a "sophisticated" wine palette, but wealthy oenophiles are well represented: 44 percent of respondents say they have gone on wine tasting tours of vineyards and 30 percent collect fine wines.

Wealthy wine drinkers consume four glasses per week on average, with most (52 percent) preferring red wine, while 31 percent lean towards white. Nine percent prefer rose, and seven percent have a penchant for sparkling wines. Most drinkers (81 percent) do not discriminate against screw-top wine bottles but 55 percent would never drink wine packaged in a plastic bottle, and 44 percent will not touch the "bag in a box" wines.

The wealthy also do not spend extravagantly on the fruit of the vine. More than one-third (35 percent) spend $10 or less on a 750ml bottle for a regular dinner at home ($20 average at home, $35 at restaurants). Domestic wines are the regular fare for 22 percent of wealthy wine drinkers, 12 percent go for imports only, and two-thirds drink both. France and Italy are the two most popular countries for wine imports, with Italy holding a slight edge in preferred red wine appellations.

Wealthy Chinese Consumers – Luxury Brand Status

European luxury goods firms enjoy a dominant stature among the growing ranks of wealthy Chinese consumers. Continuing to explore the tastes and preferences of wealthy consumers in large and growing markets for luxury goods around the globe, the Luxury Institute surveyed Chinese consumers with minimum household income of one million Chinese renminbi ($147,000) and average income of $381,000. The **2009 China Luxury Brand Status Index (LBSI)** presents rankings of brands in six major categories by wealthy Chinese consumers. Respondents rated brands on four key drivers of brand status: consistently superior quality; uniqueness and exclusivity, a "special" customer experience throughout, and use by people who are admired and respected. Here are the rankings by category with LBSI scores, which can range from 1 to 10.

Women's Fashion (29 brands): Prada-8.77, Yves Saint Laurent-8.75, Hermès, Gucci and Dolce & Gabbana-tied at 8.68.

Women's Shoes (18 brands): Ferragamo-8.69, Gucci-8.66, Hermès-8.64.

Handbags (27 brands): Hermès-8.93, Lulu Guinness-8.77, Ferragamo-8.76.

Men's Fashion (25 brands): Giorgio Armani-8.74, Louis Vuitton-8.68, Dior Homme and Paul Smith-tied at 8.54.

Men's Shoes (25 brands): Louis Vuitton-8.66, Versace-8.51, Giorgio Armani, Brian Atwood and Gucci-tied at 8.48.

Automobiles (20 brands): Porsche-8.79, Mercedes-Benz-8.72, BMW-8.70.

Excellence In Luxury Leadership Interview

Luxury Real Estate: Q&A with Laurie Moore-Moore, founder and CEO of the Institute for Luxury Home Marketing

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

Moore-Moore: Demographics were shifting at the end of the 1990s. The world appeared to be on the cusp of an explosion of wealth. The number of high net worth individuals around the world was growing, and the rich were getting much richer. At the same time, there were growing numbers of what one could call “strained affluents.” These consumers had healthy incomes, access to cheap/easy credit, and voracious desire for luxury products and services. This market segment was focused on stretching to maximize access to luxury.

Given the growth in these two market segments, conditions seemed ripe for an explosion in the luxury residential market, yet in the real estate brokerage space, nothing much was being done to prepare for the coming wave of buyers who would be focused on luxury lifestyle purchases. We created the Institute for Luxury Home Marketing (ILHM) with the mission of helping real estate professionals understand the needs of this unique market niche and deliver quality service to the buyers and sellers of luxury residences. We deliver training, market data, and a full range of marketing tools and services to our ILHM members, making them better able to meet the needs of upper-tier buyers and sellers. Institute members who meet strict performance standards in the luxury home market can earn the prestigious Certified Luxury Home Marketing Specialist designation, a strong indication of competence.

How has the concept of luxury evolved in your career and in your organization, and how does its definition affect your clients?

Like other purveyors of luxury products and services, between 2000 and 2008, we saw the concept of luxury bifurcate into luxury and mass luxury. The housing market reflected this. At the top of the market, the truly wealthy shifted a higher percentage of their investment portfolios into residential real estate – perhaps penthouses in New York and Los Angeles, a townhouse in London, and a get-a-way in the south of France or in Istanbul. The strained affluent stretched to own a resort home or vacation club membership while simultaneously buying the most desirable primary residence possible. Real estate professionals had to learn to work effectively with both the sophisticated citizen of the world and the ultra consumer who wanted to maximize lifestyle.

The benchmark for a luxury home also rose. Trophy homes needed to be bigger and with a longer, more extravagant list of amenities. For some, home buying became a competition. Records were set for largest and most expensive, then broken again, culminating in a $750 million dollar home sale transaction (the buyer has since tried to wiggle out of the deal). Mass-luxury buyers demanded more as well and luxury home sales (as defined by the top 10% of the housing market) boomed.

Even more important than the concept of luxury has been the changing reality of the luxury market. In 2008, luxury demographics shifted again. The number of wealthy and the amount of total wealth declined rather dramatically worldwide. As a result, demand for luxury homes declined and many luxury-home owners (at all price points) have found themselves “underwater,” owing more on their residences than the homes are worth. Cheap and easy money is a thing of the past and fewer buyers can qualify for luxury home purchases. Currently there are several years worth of inventory of luxury homes-for-sale in the U.S. with more coming on the market. Many of these properties are selling for less than the seller owes, or are in foreclosure and owned by the mortgage lender. Given today’s economic environment, many luxury buyers have shifted away from ostentation. Privacy, safety, comfort, and the experience are still important motivators. With the percentage of short sales and bank-owned (REO) properties growing, luxury agents must learn new skills.

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?

The secret to success is simple, but the implementation can be a challenge. At ILHM, we believe the most important factor for success is in research, understanding the demographics and psychographics of the luxury consumer. Who are they? What are their desires and expectations? How can we best serve them? We teach our members how to position themselves as unique and better able to meet the needs of the affluent and then how to deliver on implicit promise by being unique and better. Oftentimes the natural reaction to that is skepticism. Innovation is profoundly disorienting and inherently disruptive to conventional wisdom. Anyone who pursues something radical must confront this reality. 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.

What have you found to be the critical skills and attributes that luxury executives need to develop in order to lead their companies?
It seems to me that the luxury executive's necessary skills and attributes don't differ from those of other business executives. A good manager adapts to different marketplaces. Certainly you need knowledge specific to your market niche, but key management and marketing principles are consistent across industries.

Our guiding principles are to have a clear vision; stay close to what we know; broaden the base of income; balance profit and growth; strengthen internal operations; change with the market, and to leverage our strengths.

What has been one major challenge in your career and how did you overcome it?
This is the second time I've faced the challenge of starting a new business and building a brand. Success before and now depends on being able to execute on three primary fronts: providing an exceptional customer/member experience (delivering value); putting the right people in the right positions in the organization; and projecting a clear, consistent brand message.

The Rise Of The Legacy Brand In The "New Economy"

By Mathew L. Evins, chairman & CEO, Evins Communications, Ltd.

Many economists, marketers and pundits alike firmly believed that luxury and luxury brands were, for the most part, recession proof. They believed luxury was a "state of wealth," and that the wealthy were far more resilient in a challenging economy. Indeed, the wealthy are far more resilient but, as a result of the economic downturn, these high net worth individuals have become far more discerning and demanding, and have higher expectations than ever before. The "New Economy" has transformed luxury from a "state of wealth" into a "state of mind," meaning that they think and feel differently about luxury brands and products.

As a result, there are a number of luxury brands and products that are particularly excelling and thriving as a result of the "New Economy," and exceptionally outperform the sector, both in good times and in bad. We have termed these "Legacy Brands" and "Legacy Products," for they represent an enduring cachet, deliver a compelling brand/product promise, embody a consistently exceptional and defining brand/product experience, and represent an enduring value that transcends cost. Legacy brands and products have the perception of being inimitable and irreplaceable, extraordinary and exceptional, intimate and personal, possess heirloom and folkloric attributes, characteristics and qualities. Legacy brands and products do not merely satisfy – they inspire, they do not merely exceed expectations – they transform them. They represent a "shared passion" and engage on both a visceral and an emotional level.

Recession-Proof Legacy Branding in the "New Economy"

Legacy brands are leaders in their respective industries; they engage consumers because of their emotive, enduring and enriching qualities. They possess a storied, rich history – a cultural folklore that can be shared and repeated by their constituency as if it were their own. As a result, their stories catalyze a conversation, create a shared experience and an enduring engagement which transforms an audience into a constituency of empowered advocates. Legacy brands and products set the standard by which all others are judged.

Legacy brands and products are promulgated through word-of-mouth proliferation and peer-to-peer recommendation. Advertising and marketing serve to define the image and the audience, as well as set the stage, while Public Relations optimizes brand/product mindshare, catalyzes conversation and validates choice, but it is the consumer who must have reason to become part of and to perpetuate the conversation. Legacy brands and products engage, or "pull" the consumer into their métier. They understand and embrace the philosophy and the practice that brand/product preference is far more powerful and enduring than brand/product promotion. What matters most is not promotion but perception and what the consumer feels rather than what the consumer thinks.

Legacy brands and products possess the following fundamental characteristics; benefit, cachet, experience, inspiration, passion, performance, pleasure, promise, uniqueness and a value that transcends cost. They create and sustain an interactive "passion dialogue" with the consumer. They understand that consumer adoption is far more powerful and enduring than consumer incursion.

Think Evolution, Not Revolution, In Legacy Branding

Legacy brands and products must also consistently connect with consumers on their singularity in order to create a strong and lasting value proposition. For the first time, consumers are redefining for brands what they believe to be "customer value." Through their own, inspiring voice, consumers today are telling brands how they feel about them and what they expect from them. If companies listen carefully enough and engage the consumer in an interactive dialogue, as opposed to a brand monologue, anything is possible.

Legacy brands engage consumers and invite them to participate in their evolution, which fosters the necessary seeded organic self-discovery for their target audience. Legacy brands involve evolution, not revolution. They don't embrace radical change as a function of the economy. They develop strategies with a vision for the long term. As always, the key is to engage your audience and transform customers into advocates who share a passion for the brand.

Today, a legacy brand's success must also be measured by the level of engagement and transparency the brand takes with its consumers in the ever-changing landscape of social media. Brands that create an enduring conversation that supports the values of both the brand and their consumers will augment the brand legacy and relevancy both for the moment and for the future. Tapping into the intrinsic value of the brand, the engagement with consumers represents a challenge to listen more and talk less.

Providing relevant and appropriate information and resources for the consumer where they exist online requires a narrowcast approach to developing their brand dialogue online.

While luxurists often shun technology as faddish, the speed at which we communicate today and the ease of use that technology has allowed us must not be ignored. Successful brands are able to utilize appropriate means of technology and communication to convey their messages directly and indirectly to their core constituents. Luxury brands have allowed high-tech to sublimate high-touch, while legacy brands have used high-tech to facilitate high-touch. The advent of broadband, for example, has allowed short form film to evolve as an excellent means to tell a brand story in subtle and engaging ways. Evidence of the cultural value of well-produced vignettes has become de rigueur, as will be seen at the upcoming style lounge at the Palazzo del Cinema at the Venice Film Festival.

For consumers, the New Economy has brought to light the true values of a legacy brand. Brand legacies are not born overnight but are crafted over time; they are meaningful and evolve with the times and their passion for perfection remains constant. Legacy brands have embedded culture in an organic way, while luxury brands incorporate culture in an overtly commercial way. In today's economically uncertain times, luxury brands must take a long-term view in order for their legacies to endure and evolve into a legacy brand. Understanding the evolution of the perception of luxury in the marketplace will allow luxury brands to better understand where they sit amongst a cadre of competitors. Legacy brands that excel in communicating their core values, in engaging consumers and empowering their constituents to become inspired advocates will endure.

A Culture Of Service: Becoming A Client's Trusted Advisor

By Robert C. Elliott, Senior Managing Director, Bessemer Trust

Recently, a longtime client of Bessemer's called to tell me the awful news that she had just been diagnosed with lymphoma. While obviously concerned about the cancer, she was almost equally anxious about the cost of health care. She wondered: Could she afford the proper treatment? Did she really need 24-hour nursing care? What was the cost? Which home care service should she use?

One of the most interesting parts of this story was that the call to Bessemer was her first after she had contacted her family. While these weren't easy conversations, they illustrated for me the essence of a trusted advisor and one of the chief principles on which we base our business: that the best client relationships are those built on superior service and a deep level of personal trust.

For us, superior client service means being what family wealth expert Jay Hughes calls a *personne de confiance*—one who demonstrates the highest level of integrity in becoming a family's most trusted advisor. We can glean several common elements of superior service from the most exceptional companies. We'll focus on the five most important.

1. ***<u>Put the clients' interests first.</u>***

Years ago, one of our clients who was traveling on a yacht charter throughout Europe experienced horrible weather that prematurely sapped the yacht of its fuel. To make matters worse, once the boat arrived in a Spanish port to refuel, the client had issues paying for the fuel using his credit card from another bank. So he called us. His Client Account Manager responded by arranging a translator to coordinate payment logistics with the port manager, and then wired and tracked funds as they went from the client's Bessemer account to another U.S. bank to a Spanish bank and finally into the port's account—all within 24 hours. The yacht returned to the seas.

As this example shows, a culture of service means putting the client's goals first and going to extraordinary lengths to help achieve them. Wealth management isn't a pre-defined set of responsibilities but a philosophy—a willingness to assist clients whenever they need it.

2. ***<u>Understand the client's total situation.</u>***

Recently, one of our younger clients became interested in buying a second home but had no previous experience in real estate. Her Client Account Manager, understanding how confusing the process can be, offered to accompany her one day in looking at potential houses. He lined her up with a real estate agent that we had vetted, picked her up, and spent the day helping her weigh which homes would fit her lifestyle best and accommodate her children. In other words, he recognized that, aside from the financial nuances of evaluating real estate, this client appreciated having someone to be with her to navigate a new experience.

As this illustrates, it's important to take a holistic approach in order to grasp the wide spectrum of a client's concerns: their families, their businesses, their health, and their values. Advisors need to devote sufficient time to truly understand these needs and goals—financial and non-financial alike.

3. ***<u>Be honest and transparent.</u>***

Dishonesty and subterfuge by a few financial firms recently has intensified the need for truthfulness and transparency by financial advisors. For firms like Bessemer, this includes acknowledging investment decisions that haven't always performed well. We make it a point to articulate our failures along with our successes. Frequently, in our Quarterly Investment Perspectives to clients, we detail investment decisions that have detracted from performance. That principle is also why we make it very clear to clients precisely how we charge for each of our services.

4. ***<u>Deliver truly proactive client service.</u>***

Years back, a prospective Bessemer client agreed to fly into New York for a meeting at our headquarters; he wanted to discuss what we had to offer before catching another flight to Europe immediately afterwards. So we arranged for a driver to pick him up from the airport, as is customary. Less customary was his (potential) Client Account Manager's decision to accompany the driver and greet him in person once he arrived. Not only did it convey to him our sense of great care and preparation, but it also showed him from the onset that we were interested in cultivating a personal relationship. He was appreciative: He has become a valuable client and friend of Bessemer's for many years.

The most important thing to remember about communication with clients is that it is not a monologue but a dialogue. Listening to a client's concerns and being alert to any change of circumstance will help Advisors better serve them. The recent market turmoil has pushed many investors to reassess their risk tolerance; Advisors who listen to clients' concerns—about changes to cash flow and philanthropic estate plans or new appetites for risk—will be better able to assess their goals and achieve them.

5. ***Maintain absolute confidentiality.***

While it may be obvious that a client's personal and financial information is confidential, it's imperative that wealth managers and their advisors continually reaffirm their commitment to keeping it that way. In many of the family meetings we facilitate, we make it clear to parents and children what information we can provide them about each other (for instance, how certain funds are spent) and we delineate what information they can expect to stay confidential. We find that they appreciate our pledge to safeguard their most critical or private information.

Trusted advisors create a wealth of opportunity for their clients.

Superior client service is one of those rare commodities that benefits *all* constituents: the client, the staff, and the company. Clearly, the client benefits from the peace of mind that a trusted advisor brings; the company benefits from excellent client loyalty and referrals; and the staff are fulfilled when their jobs become not merely a matter of delivering services but truly helping families achieve their long-term goals.

Camper & Nicholsons International – The (Super) Yachting Index

Last May, luxury yachting leader Camper & Nicholsons International (CNI) released the first worldwide (Super) Yachting Index, an in-depth look at the state of the global superyacht market. The Luxury Institute assisted CNI in the index's initial conceptualization. The 2nd edition of the (super) Yachting Index is now available for viewing. This edition comes as an e-book so that you can flick through the pages at your leisure.

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