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Marketing

Economy's Spin Is New Twist for the Rich

By Valerie Seckler

The gyrations of the U.S. economy are likely to send even some of the country's millionaires spinning away from robust luxury goods consumption.

The most likely to cut back, luxury marketing experts forecast, are the nine million or so single-digit millionaire households, while those with somewhat lower net worths — say, half a million — are anticipated to trim back still more sharply.

In contrast, the roughly 530,000 households with wealth of $10 million or more, particularly the empty nesters among them, will probably keep spending heartily for premium goods and experiences, including apparel, fashion accessories, watches and jewelry.

"There's no question there's going to be a softening in spending — we've already seen some of this," said Milton Pedraza, chief executive officer of the Luxury Institute. "This is not a time of ostentation. Single-digit millionaires, with maybe $300,000 [annual household] income, will cut back a little more. Younger consumers in their 20s and early 30s, living in places like Manhattan and Los Angeles, with lower net worths — $200,000 to $500,000 plus a mortgage and credit card debt — will cut back sharply," Pedraza said. "They'll be spending on restaurants, entertainment and rent, and sacrificing luxuries like watches and jewelry."

The floor for significant growth in people's expenditures on luxuries will be raised as high as households with net worth of at least $30 million, according to the Elite Traveler/Prince & Associates 2008 Luxury Spending Survey. Eighty percent of the people occupying those homes, a group designated as the super rich, are expected to consume more premium products. This crowd, said Douglas Gollan, Elite Traveler's editor in chief, is likely to be "wondering what life will be like in five years and will want to enjoy life more."

"There is pessimism about the government's ability to fix things," Gollan said of the super rich, who are among the roughly 110,000 households with net worth of at least $25 million.

Higher anxiety is pervading single-digit millionaires, who have indicated they will be trading down in their luxury purchasing during the next two years. "They might be buying more Tiffany merchandise for under $1,000, whereas [previously] they would have been spending more like $3,000 per item," Gollan said.

Worries about the economy may not subside, experts predicted, until summer and could linger until the presidential election in November, because of consumer confidence shaken by stock market volatility, the twin prospects of recession and escalating inflation and jitters over a weakening employment picture.

The net loss of 17,000 non-farm jobs in January was the first such loss since August 2007, when non-farm payrolls contracted by a net of 4,000 positions, said Gary Steinberg, spokesman at the federal Bureau of Labor Statistics. (These figures represent the government's initial reports, which are revised three months later. The August net loss was updated in November to reflect a gain of 74,000 jobs to the pool of 135 million Americans now employed.)

In a global economy influenced by news that is conveyed instantly, too much information can become unsettling — even for the wealthy.

"Most luxury consumers feel the U.S. is going in the wrong direction," said Pamela Danziger, president of Unity Marketing, who does not expect a positive mindset to emerge until there is a new administration in Washington. "They are questioning U.S. leadership at home and abroad, the decline in the U.S. dollar and the [health of the] U.S. economy. It is a painful time."

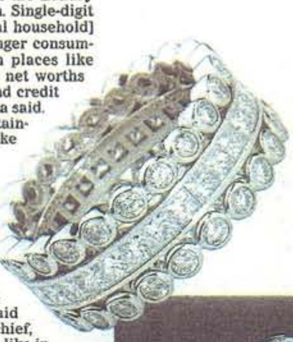
These conditions, said Patricia Pao, ceo of strategic consultant Pao Principal, will wind up "separating the true luxury customer from the pretender." According to the Elite Traveler/Prince findings, for example, just 13.6 percent of the nation's single-digit millionaire households are occupied by people planning to spend more on superpremium goods and services this year.

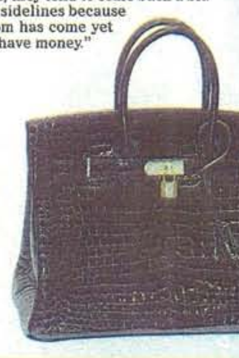
So, while the rich have plenty of cash, it is open to question how willing they will be to part with it.

Luxuries seen as hedges against inflation or as investments that could appreciate might spark spending, experts suggested. "The simple fact is luxury consumers do have cash on hand," Danziger said. "If there are some expensive handbags or jewelry they want, they may make opportunistic purchases before they become even more expensive six to 12 months from now. Certain categories like jewelry, watches and art appreciate in value, and could be viewed as an investment."

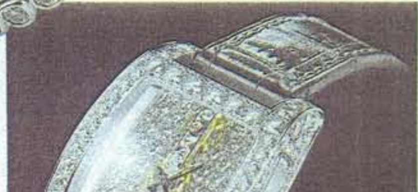
More than one luxury marketing specialist anticipates the nation's wealthiest will keep buying best-quality items, just fewer of them. For example, one central Florida yacht broker told the Luxury Institute's Pedraza in December that demand was "down dramatically" for yachts priced at $1 million to $3 million, while the $10 million to $15 million yacht business was "up dramatically" in 2007. And, according to Gollan of Elite Traveler, there was a 50 percent increase in private jet travel to last week's Super Bowl — round trips that cost $50,000 to $100,000 if departures were from the Northeast.

The rich have no "psychological immunity" to the economics and politics of volatility, Pedraza said. "If the wealthy see others in pain, they tend to scale back a bit. A lot of people are on the sidelines because they don't think the bottom has come yet — not because they don't have money."





The prospect of rising inflation may prompt people to shell out big bucks for status handbags sooner rather than later.



Wealthy consumers may be most drawn to luxuries seen as investments, like jewelry, watches and yachts.

WHICH END IS UP?

With luxury spending prospects waning for all but those with at least double-digit millions, some marketing specialists weighed in with tips for luxury brand marketers in trying economic times.

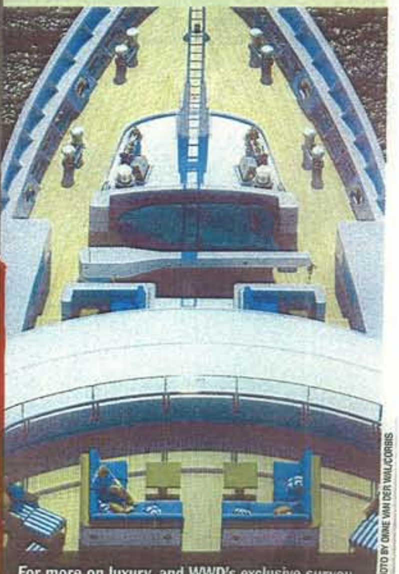
- Go upmarket immediately as Gucci, Louis Vuitton and others have signaled with their pricier spring items.
- Eliminate categories that are not part of a brand's expertise and simply represent a way to license a name.
- Leverage goods and services designed to boost people's comfort, like spa products, personal trainers and high-cotton sheets.
- Dare to be different: Most wealthy consumers feel luxury is being commoditized.

Source: The Luxury Institute; Consumer Eyes

LUXURY SPENDING, HOLIDAY 2007
AVERAGE PER HOUSEHOLD

	Affluent	Rich	Super Rich
Net Worth	$1M-$10M	$10M-$30M	$30M+
Category			
Apparel & accessories	$3,600	$40,600	$82,800
Jewelry	$4,600	$105,200	$236,200
Watches	$2,300	$38,400	$121,700
Spa services	$1,800	$20,200	$49,800
Electronics	$2,900	$29,200	$74,900
Charity	$2,700	$53,300	$148,100

Source: Elite Traveler/Prince & Associates, January 2008 survey of spending by 627 luxury customers from Nov. 22, 2007, through Jan. 1, 2008.



For more on luxury, and WWD's exclusive survey, see pages 22-23.

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