INTRODUCTION & METHODOLOGY

Unity Marketing's Annual State of the Luxury Market Report

This report provides seven years of data about trends in luxury shopping and purchases among the nation's top quintile of affluent high-end shoppers. The report contains detailed statistics covering 2008-2014 calendar years about what luxuries affluents bought; how much they spent including product level detail for seven consecutive years, which provides trend analysis covering the pre-recession and recovery periods; the types of stores that attract the consumers' share of wallet by category; and the brands they support.

The US Luxury Market Dwarfs All Others

The United States is by far the most important market for luxury goods and services. While the emerging luxury markets with their rapid growth, like China, make the news, the U.S. luxury market remains the world's largest many times over. Not only does the U.S. have the greatest number of wealthy, the size of the U.S. luxury market, which reached €64,9 billion in 2014, is more than 3.5 times larger than the next largest market, Japan. This according to estimates reported by Bain/Altagamma in their *2014 Luxury Worldwide Market Study*.

Very simply, the U.S. luxury market dwarfs that of any other market in the world, it is larger than the combined total of the four next largest markets – Japan, Italy (€16.1), France (€ 15.3) and China (€ 15).

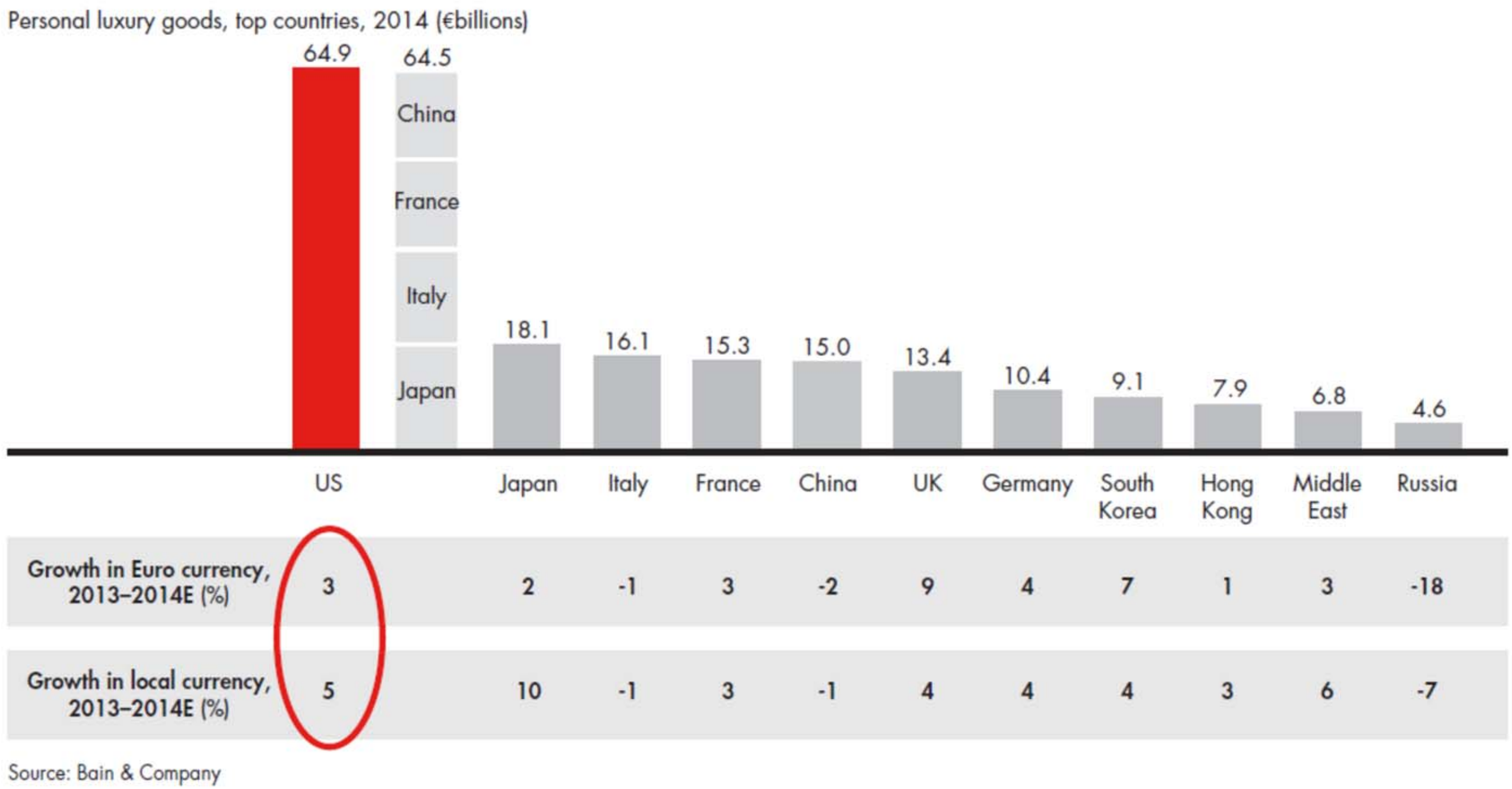

Figure 1: U.S Luxury Market Relative to Rest of World 2014 (Source: Bain & Company)

This is a report for every brand targeting the luxury consumer. It examines in depth the U.S. market for luxury goods and services. *The Luxury Report* reveals:

- Who has the disposable income to buy luxury? Where can you find niches in the affluent market — ethnicities, genders, income levels, wealth – that have the money to spend on what you are selling?

- How does today's affluent define luxury? What positioning works today for a new value-based customer?
- What are the luxury consumers buying today? What luxuries are hot, what not as measured by luxury consumer demand?
- How much do luxury consumers spend on different categories of goods and services? How can you capture a greater share of the affluents' spending within and across different luxury categories?
- Where are today's luxury customers shopping? What are their favorite brands? How are their shopping habits and brand preferences changing and how can you put yourself out in front to be there where the customers are now browsing for new goods and services?
- How can you build connections to the best target customer by hitting the right notes in marketing and branding?

For Luxury Brand Marketers: *The Luxury Report USA* is an ideal research tool for luxury brand marketers that need to understand not just their core customers, but also the target customers that they haven't yet met in their stores, online or on social media. It includes brand tracking, as well, so you can see where your brand stacks up against the competition.

For Advertising Agencies: *The Luxury Report USA* is a powerful desk reference for advertising agencies preparing a pitch to a new luxury client. It provides the research foundation that demonstrates your agency knows and understands who the luxury customer is and how to reach them. And it covers 21 luxury goods and services categories, so you are ready today to pitch to a fashion brand, tomorrow to a home furnishings client, and next week to a prospective hospitality client.

For Retailers: *The Luxury Report USA* is for retailers who are challenged by intense competition coming at them from all different directions. Nobody needs to tell retailers that they face a rapidly changing selling environment where the old tricks no longer work. Retailers need the kind of intense research-based look at the potential customers that walk by their door. *The Luxury Report USA* reveals how you can attract them into your door, rather than walk on by.

This report includes eye-opening statistics, plus case studies and advice that turn research findings into actionable marketing strategies and tactics. Unity Marketing has done the important research work for you to gain critical market intelligence about your customers and target customers.

Success in the luxury market begins with understanding the needs and desires of the affluent customers. Get an edge on your competition with *The Luxury Report* by the luxury consumer experts at Unity Marketing.

More about the *Luxury Report*

The Luxury Report USA provides research analysis and data about trends in the affluent luxury consumer market. It gives marketers three key perspectives about this customer:

- Demographics of the affluent, which tells us more about the customers who can afford to buy luxury and high-end goods and services;
- Purchase behavior over the past seven years which tracks what luxuries they have bought, how much they spent, where they made their purchases and the brands that they have bought; critical since past consumer behavior often predicts future behavior; and
- Affluent Consumer Psychology or psychographics which tells about the attitudes and values and how marketers can tap the psychology of those who have the willingness to spend.

For example, Unity Marketing's tracking of affluent consumer behavior highlights that in today's luxury market, consumers' income demographics (i.e. who has the most money to spend) are less important than psychographics that describe one's willingness to spend. Further, people's willingness to spend today is more influenced by the customer's age, i.e. younger, rather than income. High income ($250k+) and young age (under 45 years) are the highest-spending customers in the luxury market today. The question for marketers is how are you positioned to capture this customer?

The Luxury Report USA examines consumers' buying behavior and spending habits in 21 important categories in the luxury market. Specifically:

Home Luxuries

- Art & Antiques;
- Home Electronics;
- Furniture, Lamps & Floor Coverings;
- Garden & Garden Products;
- Kitchenware, Cookware and Cooks' Tools & Housewares;
- Major Home Appliances, Bath, Window Coverings & Building Products (including brands);
- Linens, Fabrics and Soft Goods;
- Mattresses & Sleep Systems; and
- Tabletop (including brands).

Personal Luxuries

- Clothes & Apparel (w/brands);
- Cosmetics, Beauty & Fragrance Products (w/brands);
- Fashion Accessories (w/brands);
- Jewelry (w/brands);

- Watches (w/brands);
- Personal Electronics; and
- Wine & Spirits (w/brands).

Automobiles, including automobile brands

Experiential Luxuries

- Luxury Dining (w/brands);
- Travel (w/brand);
- Spa, Salon, Massage Services; and
- Physician Services.

This report doesn't stop with the data — It pushes further to help marketers and retailers put the information to use

The Luxury Report USA translates data into information and insights that marketing executives can use to make critical strategic decisions. It makes the research data and findings accessible and useable. It provides marketers with three powerful perspectives: "The What", "So What" and "Now What." This report contains advice and guidance for luxury marketers to take action on the research findings revealed.

AFFLUENT CONSUMER TRACKING STUDY (ACTS) METHODOLOGY

Unity Marketing tracks purchases and spending on luxuries among affluent consumers every three months

This report summarizes the results of the Affluent Consumer Tracking Study (ACTS) recording luxury goods and services purchases throughout 2014 in two survey waves among 1,200+ affluent purchasers of one or more luxuries in the study period. The results for 2014 are compared to surveys conducted throughout 2013, 2012, 2011, 2010, 2009 and 2008.

Unity Marketing's Affluent Consumer Tracking Study (ACTS) is intended to keep luxury brand marketers' and retailers' fingers on the changing pulse of the luxury market. Through regular quarterly surveys, companies will better understand the shopping and buying habits of their affluent customers and anticipate how they will be spending their luxury budgets in the coming months.

Two Segments of Affluents based upon Income Are Surveyed

To enable luxury marketers to understand variations within the affluent market, perspectives of two different segments of the affluent market were gathered, based on household income. These segments correspond to the top 20 percent of U.S. households based upon income:

- **HENRYs (High Earners Not Rich Yet),** who earn between $100,000 and $249,999 (~66 percent of the 2014 sample) the mass-affluent consumer segment;
- **Ultra-affluents,** with incomes $250,000 and above (~33 percent in 2014), the traditional customer target for luxury brands.

The primary objective of surveying affluents regularly is to alert luxury marketers to shifts and changes in consumer choices that will affect their business in the future

The results of the quarterly Affluent Consumer Tracking Study (ACTS) gives luxury marketers early warning of changes and shifts in their marketplace. It helps them monitor brand awareness and purchase so that they can measure the success of new marketing communications programs. It provides a view ‘over the horizon’ of what trends are coming and how they will affect the luxury consumer. Through this tracking service, luxury marketers will remain up to date and in direct “contact” with their affluent customers.

Compilation of Affluent Consumers’ Luxury & High-End Purchases

This report summarizes the results of the Affluent Consumer Tracking Study (ACTS), recording luxury purchases as well as planned purchases rolled up across the surveys tracking purchases during the three-month study period. This provides marketers with both a backward and forward look at the spending behavior and attitudes of luxury consumers:

Unity Marketing’s Affluent Consumer Tracking Study is intended to keep luxury brand marketers’ and retailers’ fingers on the changing pulse of the affluent consumer market. Through regular surveys, companies will better understand the shopping and buying habits of their affluent customers and anticipate how they will be spending their luxury budgets in the coming months. The following report compiles the results of the ACTS Product & Services Track survey conducted in two waves during 2014, as compared with results from four quarterly waves in 2008-2013.

New ACTS Shopper Track Survey Adds Additional Perspective on Affluent Shopping Behavior

In 2014 an additional survey was added to the ACTS program. In alternative quarters, the Shopper Track survey was fielded. Shopper Tracks focuses specifically on where affluents shopped in the three month period, and then what products or services they bought. The Shopper Track study captures details about affluents’ most recent shopping occurrence, giving another perspective on their behavior in the luxury market. The compiled results of the Shopper Track study are published separately as "Luxury Shopping Report."

Major retailer and service categories included in the quarterly Shopper Track survey:

- **General Merchandise Retailers:** In-depth details about the most recent shopping experience in Department Stores and Luxury Department stores and their associated websites are gathered. In addition, topline incidence and usage data gathered for Discount Department Stores and Warehouse/Club Stores.
- **Internet and Direct-to-Consumer Channels:** In-depth details about the most recent shopping experience with an Internet-online retailer are gathered, with topline incidence and usage data only collected on Direct Mail/Catalog and Television Shopping.
- **Specialty Retailers:** In-depth details about the most recent shopping experiences is collected for these types of stores or their associated websites: Luxury-Branded Boutiques; Clothing & Fashion Accessories Stores; Home Specialty Stores; Jewelry Stores; Personal care beauty stores; Liquor and/or Wine stores; Kitchenwares and Tabletop Stores; Art Galleries, including custom framing shops; Major Appliance Stores; Sunglass or Optical Specialty Stores. In addition topline incidence and usage data is collected for these specialty stores: Book, Record and Video stores; Craft & Hobby Stores; Electronics and/or Computer Specialty Stores; Gift Specialty Stores; Toy Stores; and Home Improvement Stores.
- **Experiential Luxuries and Services**: In-depth details about the most recent service experience are gathered on Fine Dining; Travel; Spa, Salon, Massage Services; and Physician Services. Basic usage data is also collected on interior decorator, architect and contractor services.

SAMPLE DEMOGRAPHICS

Every quarter we survey not just people with high incomes, but affluents who buy luxury goods and services

The survey sample is recruited based upon high income ($100,000 or more which corresponds to the top 20 percent of U.S. households) and purchase of one or more luxury goods or services in the three month study period. Respondents are also qualified by age, from 24 to 70 years old.

In 2014 a total of 5,166 affluent luxury consumers were surveyed, including n=2,400 in the Product/Services Track and n=2,766 in the Shopper Track; the comparable sample totals are listed in the chart below.

Income Demographics

The income distribution from the last seven years of affluent consumer tracking is as follows:

Income	*2014 (n=5,166)*	*2013 (n=5,001)*	*2012 (n=5,221)*	*2011 (n=5,424)*	*2010 (n=5,195)*	*2009 Weighted (n=4,739)*	*2008 Weighted (n=4,609)*
$100,000 to $149,999 (HENRYs)	33%	33%	33%	33%	32%	32%	31%
$150,000 to $199,999 (HENRYs)	24%	23%	24%	24%	23%	23%	23%
$200,000 to $249,999 (HENRYs)	10%	10%	10%	10%	12%	12%	12%
$250K+ (Net Ultra-Affluents)	33%	33%	33%	33%	32%	33%	66%
$250,000 to $499,999	26%	25%	23%	20%	17%	18%	16%
$500,000 to $999,999	5%	5%	7%	9%	7%	6%	3%
$1,000,000 or more	2%	2%	3%	4%	8%	9%	4%
Average	**$264.9k**	**$266.1k**	**$277.0k**	**$288.6k**	**$311.4k**	**$331.5k**	**$272.3k**

Figure 2: Income Sample

Because Unity Marketing increased its sampling of the ultra-affluent consumer segment in 2010 to comprise 33 percent of the overall sample, as compared with the natural distribution of only 10 percent, the income samples for 2009 and 2008 were statistically weighted to match the income distribution for 1Q2010.

In the survey analysis two income segments are the most important for luxury marketers:

- HENRYs (High Earners Not Rich Yet) with household incomes from $100,000 to $249,999. These households represent the top 18 percent of all households by income. They are the mass-affluent segment and an important consumer segment for both mass-marketers and luxury brands.
- Ultra-Affluents with incomes of $250,000 and above which represent about the top 2-3 percent of households by income. Ultra-affluents are the traditional customer targets for luxury brands.

Overall, the income of the top quintile consumers has not yet recovered from its pre-recession high of $191,513 in 2006, nor has that of the top 5% reached its $338,636 high in 2006 (values in 2012 dollars). The average American household has been even more profoundly affected by the recession, having lost over $4,500 of real income. We can continue to expect variability in affluent household income to grow, especially those dependent upon investments, bonuses, commissions.

Net Worth

After falling from a high in 2010 of $866,000, the median net worth of a survey respondent rose to $838,000, but still below 2011 levels

How much are your personal investible assets, including investments, cash value insurance policies, retirement accounts, etc.?	*2014 (n=5,166)*	*2013 (n=5,001)*	*2012 (n=5,221)*	*2011 (n=5,424)*	*2010 (n=5,195)*
Less than $1,000,000 NET	55%	***56%***	***55%***	***54%***	***51%***
$100,000 or less	12%	11%	12%	11%	11%
$100,000 to less than $250,000	10%	12%	11%	11%	10%
$250,000 to less than $500,000	15%	16%	16%	16%	14%
$500,000 to less than $1 million	19%	18%	16%	16%	16%
$1 million or more NET	31%	**32%**	**34%**	**35%**	**36%**
$1 million to less than $2.5 million	15%	15%	14%	12%	12%
$2.5 million to less than $5 million	8%	9%	7%	6%	6%
$5 million to less than $10 million	4%	3%	4%	3%	3%
$10 million to less than $25 million	2%	2%	3%	4%	4%
$25 million to less than $50 million	2%	2%	3%	4%	4%
$50 million to less than $100 million	1%	1%	2%	4%	4%
$100 million or more	0%	0%	1%	1%	3%
Refused/Don't Know	14%	11%	12%	11%	13%
Median (in 000's)	$838k	$797	$814	$846	$866

Figure 3: Net Worth

While the survey analysis typically is based upon the average or mean measurement in various numerically-reported scales, for net worth a better measure of the true wealth of the affluent consumer tracking sample is the median value (i.e. the middle value when all net worth values are ranked from highest to lowest and which is far less influenced by extreme highs as is averaging) which was $838,000 in 2014, and which declined from $866,000 in 2010 when this question was added to the survey.

Gender

Women respondents comprised a greater share of luxury survey respondents than men

Gender	*2014 (n=5,166)*	*2013 (n=5,001)*	*2012 (n=5,221)*	*2011 (n=5,424)*	*2010 (n=5,195)*	*2009 (n=4739)*
Male	37%	41%	42%	46%	44%	40%
Female	63%	59%	58%	54%	56%	60%

Figure 4: Gender distribution

As a rule women are more modest luxury spenders, yet they represent the majority of the luxury survey sample year-in and year-out.

Age Distribution & Cohort

Luxury consumers are middle aged ~ Just over 45 years of age

Age	*2014 (n=5,166)*	*2013 (n=5,001)*	*2012 (n=5,221)*	*2011 (n=5,424)*	*2010 (n=5,195)*	*2009 (n=4,739)*	*2008 (n=4,609)*
Young affluents (24-44)	**42%**	**44%**	**53%**	**54%**	**53%**	**38%**	**38%**
24-34 years	17%	17%	23%	24%	25%	22%	22%
35-44	25%	26%	29%	29%	27%	28%	27%
Mature affluents (45-70)	**58%**	**56%**	**47%**	**46%**	**47%**	**62%**	**62%**
45-54	31%	30%	26%	23%	25%	29%	28%
55-70	27%	26%	22%	23%	22%	22%	23%
Average Age	47.4 yrs.	47.1 yrs.	45 yrs.	45.1 yrs.	45.2 yrs.	45.3 yrs.	45.3 yrs.

Figure 5: Age Distribution

The average age of the luxury consumers surveyed has been remarkably consistent over the past seven years, averaging just slightly over 45 years in age. This is not unexpected as the age window of affluence, when people reach their highest level of income and earnings, ranges from 35 to 54 years

Throughout the Affluent Consumer Tracking Study (ACTS), young affluents (defined as those under 45 years of age) have consistently spent more on luxury. This is owing to the fact that young affluents are at a more acquisitive lifestage associated with people forming families, having children, moving up into larger houses, and simply acquiring the various luxuries of life. As people age and mature, they have already made those investments in their luxury lifestyles and so have less need to make new purchases. Further, as people age their interests turn more experiential and less materialistic.

That is why it is interesting to note that in 2010 through 2012 the share of the young affluent consumers participating in the Affluent Consumer Tracking Study (ACTS) rose to make up a majority of respondents, but their participation declined sharply in 2013 and 2014. The drop in participation of millennial-generation young affluents, aged 24-34 years, in particular drove this trend, as participation among the GenXer young affluents, aged 35-44 years, has been more or less on an even keel.

Luxury Marketers>> Take Action

While the typical profile of a luxury consumer is a middle-aged, HENRY female, the best prospects for luxury brands is a young, ultra-affluent male

Typically the most active luxury consumers are women, but, as this report will reveal, the biggest spenders in Unity Marketing's Affluent Consumer Tracking Study (ACTS) are men, young affluents (24-44 years) & ultra-affluents. Luxury brands need to develop strategies that tap the strong potential of these young affluent men who are their best prospects, such as Suitsupply.

Luxury Marketers>> Get Inspired by Suitsupply

Suitsupply creates a special in-store shopping experience designed for young men's fashion needs today & tomorrow

Suitsupply sells high-quality, well-designed men's suits at affordable, even reasonable prices, with off-the-rack suits starting under $500 and made-to-measure up to $2,000. Suitsupply is an international retailer with six US stores and seven more slated to open soon to make 46 stores worldwide.

Besides attractively priced clothes, Suitsupply provides exceptional service, which includes highly-trained sales associates that take the guesswork out of the equation by fitting a customer into the suit that works best for him; and on-site tailors who do basic alterations while one waits — all for the thrill of immediate gratification.

But it's not just the clothes and shopping experience that sets Suitsupply apart. Suitsupply's marketing strategy makes it an important retailer. Suitsupply is a retailing concept that is designed to grow and evolve with its core customer base. Suitsupply knows its customer – young, ambitious professional men – and his needs today, but is positioned to meet those needs in the future, as he advances in his profession and his ability to trade up. It's the affordable front door to a bespoke haberdashery experience that today's young and less affluent HENRY (high-earners-not-rich-yet) customers will ultimately grow into.

Suitsupply looks to be a sustainable brand with a powerful target market – young men with ambition and incomes destined to rise year-over-year with a need for professional suiting and appreciation for high levels of service. The brand's future is virtually guaranteed because Suitsupply has ticked off all the most important boxes to succeed.

- Identifying the customer: Young men on the road to affluence who need professional suiting
- Defining what he needs: Fine quality suiting at reasonable price today with offerings that can grow with his ability to pay in the future

- Delivering a WOW factor that will hook him and keep him coming back: Service levels that exceed what he would expect and probably has ever experienced. By providing instant alterations, Suitsupply builds a level of trust and loyalty that will bring him back again and again.

Occupation & Employment

The largest percentage of affluents surveyed are employed in professional or managerial/executive occupations --

Women make up the bulk of those not currently employed

What is your occupation?	***2014 (n=5,166)***	***2013 (n=5,001)***	***2012 (n=5,221)***	***2011 (n=5,424)***
Managerial, executive	22%	23%	23%	23%
Professional (medicine, law, etc.)	22%	22%	22%	20%
Not currently employed	21%	20%	17%	14%
Engineering, technical	8%	8%	9%	8%
Teaching, educational	8%	7%	7%	7%
Administrative, clerical	7%	5%	6%	6%
Entrepreneurial, Self-Employed	5%	5%	5%	8%
Marketing, sales	3%	4%	4%	3%
Skilled craft or trade	1%	2%	1%	2%
Other	4%	5%	4%	8%

Figure 6: Occupation

Of note, ultra-affluents tend to be more highly represented in professional occupations, while HENRYs are more highly represented in the managerial or executive ranks. This question was added to the survey in 2011.

Other Demographic Variables

Luxury consumers are highly educated with over 80 percent having a college degree or more –

Ultra-affluents are even more highly educated with over 90 percent having a college degree and 48 percent having some graduate school or more

Educational Attainment	***2014 (n=5,166)***	***2013 (n=5,001)***	***2012 (n=5,221)***
High school or less	3%	2%	2%
Some college	14%	13%	13%
Bachelor's Degree	36%	36%	37%
Elite Bachelor's Degree (Elite Colleges & Universities, such as Ivy League schools, "Little Ivy's", "Public Ivy's", and other prestigious universities, including U.S. military academies, such as West Point)	4%	6%	8%
Masters/some graduate school	30%	31%	30%
Doctoral and/or Professional Degree (e.g. Ph.D. JD, MD)	14%	13%	12%

Figure 7: Educational Attainment

This is a new question added to affluent consumer tracking in 2012.

Over 80 percent of the luxury consumers are married

Which of the following best describes your marital status?	***2014 (n=5,166)***	***2013 (n=5,001)***	***2012 (n=5,221)***	***2011***	***2010***
Married	82%	82%	83%	84%	84%
Single	7%	8%	8%	7%	7%
Couple living together	6%	6%	6%	6%	6%
Divorced	3%	3%	2%	3%	2%
Widowed	1%	1%	1%	1%	1%
Separated	0%	1%	1%	0%	1%

Figure 8: Marital Status

On average ~3 people live in the luxury consumer household in the current year, about the same as found in previous tracking studies, which typically includes one child under 18 years of age.

Most luxury consumers are in mature-family or young-family lifestage

Which of the following describes your stage of life?	***2014 (n=5,166)***
Mature Family, junior-high, high-school or college-aged kids	31%
Young Family, pre-school or elementary-aged kids	22%
Empty nester	19%
Single	11%
Young Married	11%
Retired	7%

Figure 9: Life Stage

A new question about luxury consumers' life stage was added to the ACTS survey to provide additional perspective on this customer.

Most own their own home – Young affluents more likely to rent or own an apartment/condo

Please indicate whether you rent or own your primary home:	***2014 (n=5,166)***	***2013 (n=5,001)***	***2012 (n=5,221)***	***2011 (n=5,424)***	***2010 (n=5,195)***
Own home	82%	82%	79%	80%	81%
Own Apt/condo	9%	9%	12%	11%	12%
Rent	8%	8%	8%	8%	7%
Other	1%	1%	1%	1%	1%

Figure 10: Home Ownership

Affluents surveyed are mostly white

Which of the following best describes your ethnicity?	***2014 (n=5,166)***	***2013 (n=5,001)***	***2012 (n=5,221)***	***2011 (n=5,424)***	***2010 (n=5,195)***
American Indian, Eskimo, or Aleut	1%	1%	1%	2%	2%
Asian or Pacific Islander	7%	8%	7%	7%	7%
Black or African-American	4%	4%	4%	3%	4%
Spanish/Hispanic/Latino	5%	5%	5%	7%	10%
White or Caucasian	86%	86%	86%	89%	84%
Other	1%	1%	1%	2%	3%

Figure 11: Ethnicity

Hispanic and Black/African American ethnicities have lower overall incomes and, as a result, are less likely to meet the income criteria for this survey of $100,000 and above. For these two ethnicities the top 20 percent of income starts at around $70,000, significantly lower than the population as a whole.