The Silver Word

The Luxury Market
Key Findings

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Why the Luxury Market Continues To Roar in the US[1]

- The luxury market has been the most robust market of any business sector. In the U.S. luxury is a $400 billion market. Authorities estimate that it will grow at a rate of 15% a year and will become a $1 trillion market by 2010.

- There are 1.2 million U.S. households with a net worth of over $5 million, up from 300,000 in 1983. Real household income for the top 20% of households is up 70% in the last 20 years.

- 215 million people will be over 50 by 2010 and $12 trillion in inheritance will change hands in the next 20 years.

- The top 5% are richer. In the early 1980s they accounted for 16% of the income earned. Today they account for 27%. The rich are definitely getting richer.

- The best customers, the 2.7 million in the U.S. with liquid portfolios of $1 million or more, are changing in a number of ways. They want sophisticated marketing.

- It used to be that the luxury buyer was an old Protestant white guy. Now it is much more diverse. Women who have left the corporate world are the fastest growing group of entrepreneurs in the country. Ten million of them are successfully growing businesses in the U.S.

- Luxury brands no longer live by brand image alone because the customer has become increasingly value-driven and more and more demanding of superior service, intelligent communication and a personalized understanding of their desires.

- The biggest trend of all is the rise of connoisseurship and the hunger to know. Never before has the luxury market seen an audience and community of highly affluent buyers as interested as today's luxury consumers in learning what constitutes the best of the best.

- What has happened is that a lot of the Boomers who spent most of their careers to accumulate that incredible nest egg are reinventing themselves. They now have enough time to do what they didn't have time to do before, which is understand, savor and sample the best of the best, whether it be wine, travel, apparel, yachts, cars, fine jewelry or cultural experiences. This community of soon to be 200 million (by 2010) is hungry to learn, and wants to be educated, in a sophisticated fashion, about what constitutes the best.

[1] http://www.nucifora.com/art_272.html

The New Affluent Market[2]

- The ranks of US millionaires surged 33% to a record 8.2 million households in mid-2004 from a year earlier. That means an additional two million households joined those with more than $1 million in net worth.

- The Boston Consulting Group valued the market for luxury goods and services in 2004 at $400 billion, or 12% of all retail sales. They also compute the luxury sector to be growing at a rate of 15% a year, heading toward $1 trillion by decade's end.

- Sellers of luxury items have become ever more profitable and prosperous. But these same providers and suppliers also continue to launch more affordable lines, introducing and inducing the affluent-minded to their wares by making the luxury life accessible. Luxury today is defined more broadly.

- Hence, it's not only the rich who are driving the luxury market to such unprecedented heights. Unity Marketing, an observer of the affluent sector, defines the luxury market as the top 20% of households with incomes of $75,000 and up. But American Express Publishing defines the "new affluent market" as encompassing the 47 million US households with average annual income of a mere $50,000 or more. Clearly, the expectation of luxury has now become a mass phenomenon. Luxury consumers are very diverse, are coming into the category from all different points of entry.

[2] http://www.findarticles.com/p/articles/mi_qa3908/is_200502/ai_n9521515#continue

The Luxury Phenomenon in Europe[3]

- The market for the U.S. "new luxury" products and services was $440 billion in 2003 and an additional $400 billion, primarily in Japan, UK and other Western European countries.

- The New Luxury phenomenon is increasingly a global story. It's apparent and growing throughout Western Europe, Japan and Australia, and will certainly emerge among the rising middle class in mega markets like China.

- European household income has increased steadily over the past 30 years. Household wealth in Europe has also increased, buoyed by a steady rise in property values.

- Today there is far more consumer credit extended and used by European consumers.

- European women, who are significant drivers of New Luxury spending, are working more, earning more and playing a more influential role in purchase decisions.

- The number of singles, who spend much more on discretionary items, is increasing dramatically across Europe.

- Europeans are marrying later, having fewer children and divorcing more frequently.

- European consumers have a higher level of education than ever before, and are traveling more internationally, imbuing them with more diverse material appetites.

- Over the last few decades in Europe, income growth has been more evenly distributed. In France, Italy and Germany, growth of family incomes has been more pronounced among the middle- and lower-income brackets. This means that there are now many more middle-market European households, with greater access to consumer credit, who are trading up in a limited number of consumer categories, while trading down in others.

- As a percentage of the population, there are many more seniors in Europe. People age 60 and older make up nearly a quarter of the European population, compared with 16% in the U.S. And European seniors wield considerable economic influence and have a propensity to spend more on New Luxury goods.

- All across Europe, waves of immigration have diversified the ethnic make-up of local populations. This backdrop creates a fertile breeding ground for New Luxury brands to emerge.

[3] http://retailindustry.about.com/od/seg_luxury/a/bl_bcg071304.htm

Why the Luxury Market is Growing[4]

- High Net Worth Individuals (HNWI) are defined as those who have more than $1 million of investible assets. There were an estimated 7.7 millions HNWI's in the world in 2003 and 8.3 million in 2004, representing a growth of 7.3%.
- The growth of the luxury market is fueled by three factors:
    - The disposable income now available to the middle class in western societies
    - The creation of a rich class in the so called BRICK economies (Brazil, Russia, India, China, Korea)
    - The emerging markets and the greater facility to travel around the world.
- The real revolution that has started the revival of the luxury industry comes from so-called "democratization". It does not mean that the entire western middle class has access to the same life style as the wealthy class, but it means that they can afford to indulge themselves with occasional luxury purchases.
- The wealth which is now available to a new rich class of entrepreneurs in emerging economies also explains this incredible growth. Japan, the US and Europe are still the driving forces of the luxury market and China is catching up fast. Goldman Sachs analysts estimate that the Chinese will account for 20% of total sales in 2008 and become as important as the Japanese by 2015.

[4]http://www.beyondluxury.com/theluxurymarket.htm

The Rich Get Richer[5]

- The word from the Fed's new Survey of Consumer Finances: The rich are doing extremely well.

- All totaled, American families had net worth (defined as the value of houses, cars, 401(k) plans, stock portfolios and saving accounts minus mortgages and other debts) of $50 trillion in 2004.

- Nearly 70% of that $50 trillion is in the hands of the richest 10% of American families.

- The typical family in that top tenth enjoyed a 4.5% gain since 2001 and a 71% gain since 1995.

- The top tenth held 69.5% of household net worth in 2004, up from 67.4% in 1989.

- One caveat: This is generalizing about the merely rich, not the super-rich. The Fed survey explicitly excludes folks on the Forbes 400 list of the very wealthiest Americans.

- The Fed hasn't yet broken out the latest numbers on the richest one million families which represent the 1% upper crust. Past Fed surveys find that this top 1% holds about one-third of the wealth and the next 9% hold another third.

- While the super-rich Forbes 400 crowd are enjoying a bigger slice, the share going to the broader class of rich Americans has been stable for the past couple decades. One reason for this is that those getting fat paychecks and stock options are spending the money on fine wine, travel and skybox seats so they're not accumulating wealth. Another reason is that people like John D. Rockefeller had handsome incomes not because they drew large paychecks or bonuses, but because they collected interest, dividends, capital gains and rents on their fortunes.

- But many Americans with big incomes today aren't simply clipping coupons or selling empires. They're cashing huge CEO- or quarterback-size paychecks and collecting bonuses, commissions and stock-option windfalls. They simply haven't had time to turn those big incomes into big wealth -- yet.

[5] http://online.wsj.com/public/article/SB114126217049687080.html?mod=todays_free_feature#WEALTH

2004 US Income Distribution

Income	Percent
Under $19,999	22%
Under $39,999	24%
Under $59,999	18%
Under $79,999	13%
Under $99,999	8%
$100,000 to $149,999	10%
$150,000 to $199,999	3%
$200,000 to $249,999	1%
$250,000+	2%
TOTAL	**100%**

Source: U.S. Census Bureau, Current Population Survey

http://pubdb3.census.gov/macro/032005/hhinc/new06_000.htm