

RESEARCH

Millionaire myths are hurting luxury marketing: report

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Impressions of millionaires may not hold true

By SARAH JONES

Popular culture and the media have created misconceptions and misunderstandings of the affluent, which stall the efforts of marketers who buy into myths, according to research from Unity Marketing and the American Affluence Research Center.

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"[Do the Millionaires Still Live Next Door or Have They Moved: Demographics of Millionaires](#)" says that while much focus is placed on Asian markets such as China and Japan, the United States has twice as many millionaires as the next top 10 markets combined, making it arguably the most important market for luxury goods. There are 12 million households in the U.S. with a net worth of \$1 million or greater, and most choose to save rather than spend, eschewing an ostentatious lifestyle, calling for marketing that reflects these preferences.

"I think the last five or so years, luxury brands have been focused on developing their brands in emerging markets like China," said Pam Danziger, president of [Unity Marketing](#), Stephens, PA.

"They've been eager to get a foothold in these markets, build their brands and grow their

businesses, which has in many cases been quite successful," she said. "But in their search for rapid growth, they have often neglected the biggest and best potential market for luxury, which is right here in the United States.

"The fact is positioning and marketing luxury in emerging markets, with 'nouveau riche' consumers, in many ways is easier than positioning and marketing to more established wealthy consumers like you find here. Ultimately the idea of developing a one-size, fits-all 'global' luxury brand concept may prove to be flawed, since luxury is very much culture bound.

"What is important to a 'nouveau riche' 28-year-old in China is very different than a 50-something wealthy American woman. Marketing and positioning of luxury brands will have to take those differences into account. In other words, what works there, won't work here."

Spending patterns

The U.S. luxury market is valued at around \$70.8 billion, 3.5 times the size of the next largest, Japan.

Contrary to belief, millionaires typically do not have large salaries. The largest share of those with a wealth of \$1 million or more make between \$100,000 and \$249,900 per year. Only 4 percent earn more than \$1 million per year.

This would typically place them in the HENRY (high earner not rich yet), but this report instead classifies them as HERNs (high earners rich now), due to their amassed wealth.

"What I was most surprised by in our research was the relatively high incidence of fairly modest household incomes among the top 10 percent of U.S. households as defined by net worth, which in the latest Federal Reserve Board's research starts at just about \$950,000," Ms. Danziger said. "The median income of all 12.3 million households with net worth at the top 10 percent is \$184,400, within the HENRY range, while the average is \$361,200.

"HNW millionaire households have exceedingly high levels of net worth, but their household incomes are much more modest," she said.



Sotheby's property in South Hampton

A common belief is that millionaires live in mansions, but most instead reside in a home valued at less than \$500,000, and drive a car that is more than two years old. Only 15 percent live in a home worth \$1 million or more.

Most millionaires do not inherit their wealth, with 86 percent self-made. Seventy-two percent are employed, split between working for themselves or others.

This consumer set typically has limited knowledge of luxury brands and price points.

Of the top 10 percent based on net worth, at least 34 percent responded that Louis Vuitton, Gucci, Hermès, Prada and Rolex are overrated. Perhaps due to that perception, few millionaires own luxury goods from well-known brands.



Rolex timepiece

Seventy to 80 percent of these consumers base their assessment and rating on personal experience with a brand, through purchases or marketing, and their knowledge.

"[The myth most harmful to luxury marketers is] that the affluent/millionaires are conspicuous and ostentatious consumers who are familiar with luxury brands," said Ron Kurtz, president of the [American Affluence Research Center](#), Atlanta.

"Luxury brands need to orient their marketing efforts toward educating the affluent about the value and quality features of luxury goods since only a small portion of the affluent are familiar with the price points and brands of true luxury goods," he said.

Another reason for the lack of luxury goods is a tendency toward frugality. According to a Unity Marketing survey of high-net-worth individuals, discount department stores were the second most popular shopping destination, behind the Internet.

Those with wealth of at least \$1 million are more likely to shop at luxury department stores than their counterparts with less than \$1 million, but 47 percent reported no shopping trips to these retailers within the three month period of the survey. Just a quarter went to a luxury brand boutique.

High-net-worth individuals are actively shopping online, with 14 percent shopping via ecommerce 11 or more times in a three-month period.

While necessity is the main driver of online shopping, a quarter of respondents say the reason for their last experience was for fun. When looking to shop on luxury department stores' Web sites, they rank Nordstrom first, followed by Bloomingdale's, Saks Fifth Avenue and Bergdorf Goodman.



Bloomingdale's Stanford store

Most affluents tend to shop in-store, but one-fourth of these consumers consider online a better option, according to a separate report from Unity Marketing.

Since consumers are using online sources, it is important for brands to be able to entice the consumer to go in-store and physically engage with the product prior to purchase, this will likely lead to more purchases and a better relationship ([see story](#)).

Sales and discounts are incentives that are effective for millionaires. However, these discounts are not motivations when they are shopping at wine and liquor stores, luxury boutiques, jewelry stores and art galleries.

High-net-worth individuals' spending habits may be lower than expected. For instance, the median amount for the most they would expect to spend on a watch for formal occasions

was \$1,000, compared to the maximum \$25,000.

Particular purchases tend to be made at certain points in an affluent's life. Automotive upgrades happen most at age 53, while 46-year-olds spend the most on furniture.

As a consumer gets older, their wealth generally increases, but their spending is reduced, except on vacation homes, travel and cars.



Luxury rental from HomeAway

Changed attitude

Affluent consumers have recovered from the recession, but their willingness to spend is reserved, according to a recent report from Unity Marketing.

Bragging rights have changed from the designer to the bargain, and affluent consumers are not necessarily looking for the best brand or design, but what they can receive for their money. This change in attitude often spearheads from the younger generations that are growing up into the target consumers for many brands, therefore a notion that holds high importance for many luxury marketers ([see story](#)).

Going beyond stereotypes and learning more about how the affluent actually live will be beneficial for marketers.

"Ron and I both believe that marketers have an idealized vision of what the wealthy look like, dress like, live like, drive like and many of those ideas are reflected in the the popular media and among the Hollywood elite," Ms. Danziger said.

"The fact is most millionaires aren't ostentatious or conspicuous consumers," she said. "Red carpet events aren't a part of their lifestyle."

"Marketing starts with understanding the consumers, and 'in my humble opinion,' too many luxury marketers market to the idea of what they believe the wealthy are like, not who they really are."

Final Take

Sarah Jones, editorial assistant on Luxury Daily, New York

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