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RESEARCH

$4.1T in wealth being transferred over next decade: Wealth-X

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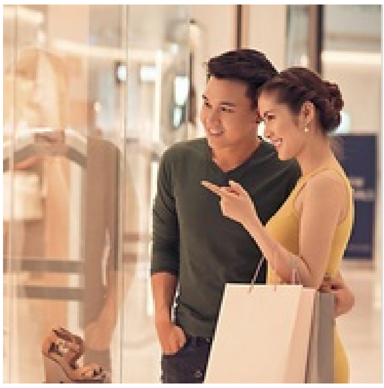

Mandarin Oriental's "Stay and Shop" package

By SARAH JONES

As the global population of ultra-high-net-worth individuals grows, wealthy consumer behavior will also shift and alter how wealth is used, according to a new report from Wealth-X.

In some emerging markets, such as India and South Africa, entrepreneurship is forming new millionaires, while in other developing nations, wealth is changing hands for the first time as inheritance. This calls for revised strategies to target the global high-net-worth individuals that reflect their varied interests and activities.

"Both [challenges and opportunities are present] depending on consumer and depending on geography," said David Friedman, president of Wealth-X.

"The Chinese luxury consumer will continue to exist under the growing shadow of the anti-corruption purge, which will mute ostentatious displays of luxury buying within their home market, but will continue to manifest in other markets," he said. "Wealth-X data shows that 90 percent of luxury purchases are done outside of China. This combined with currency arbitrages between the Middle East and Europe are driving these consumers to

Europe.

"For the Middle East market, the luxury brands have relied on novelty to cultivate relationships with local buyers and have neglected investing in educating their consumers on the deeper and historical brand narrative. The growth of local and new upstart luxury brands are forcing the traditional luxury brands to retrench and re-educate their consumers on the heritage and craftsmanship embedded in their brand.

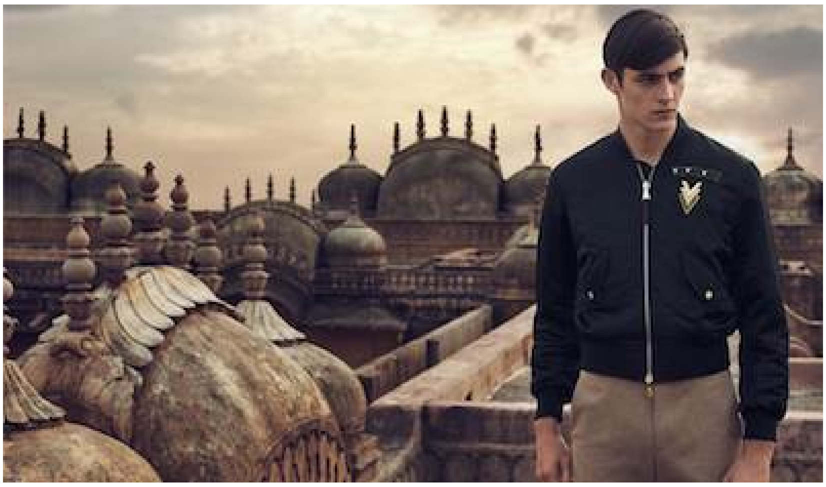
"Many global luxury brands are pivoting away from Asia and recognizing the U.S. as the 'new' emerging market where there are intense clusters of wealth that are untapped in markets like Houston, TX. The opportunity is for brands with a retrenched emphasis on their physical brand presence and global bricks-and-mortar retail deployment to continue to capture the global Chinese luxury consumer."

For the purposes of Wealth-X's "Decades of Wealth: The Next 10 Years In Wealth & Luxury" report, ultra-high-net-worth is defined as those having net assets of $30 million or more.

New business
Since the BRIC nations came into the public eye for their wealth growth about a decade ago, China and Russia's rapid 600 percent economic growth has helped them receive the most attention of the foursome. This may change, however, going into the next 10 years.

India, which was often overlooked, has experienced a 27 percent growth in the number of millionaires over the past year, rising from 196,000 to 250,000. Wealth-X projects there will 437,000 millionaires in India by 2018, and the number will double by 2023, fueled by education and entrepreneurship.

Since India has historically had a caste system and is accepting of economic disparity, new wealth and luxury spending will likely not be frowned upon as it has been in other emerging markets.



Louis Vuitton shot its spring/summer menswear campaign in Jaipur, India

In Africa, wealth is expected to grow at a steady rate of 10 percent per year, especially in markets such as South Africa, Nigeria and Kenya. As with India, Africa has a propensity for entrepreneurship, but many of its opportunities lie in technology, such as telecommunications solutions and mobile banking.

By 2040, Africa is expected to be home to 10,500 ultra-high-net-worth individuals, four times that of today.

Wealth-X also identifies Iran, Turkey and Mexico as other countries that have the potential for strong growth in wealth.

Traditionally, wealth in developed nations has been passed down as inheritance, but that form of wealth transfer is declining. Greater life expectancies mean that parents dip into more of their assets to get through retirement, and less is left to give to the next generation.

Affluent parents may not pass on as much to their children

Concurrently, in developing nations, especially within Asia, newly created wealth is often being passed down for the first time. Cultural differences, such as the position of women in society and religion, will make the approach to inheritance different from the western world.

In Asia, the wealth transfer may also happen well before death, as older generations seek to make their progeny's lives better sooner.

Across the world, $4.1 trillion is expected to be passed down by UHNW individuals over the next 10 years, $1.2 trillion of which will be liquid assets.

Today, 63 percent of UHNW individuals are self-made, compared to 18 percent who solely inherited their wealth. The population with inherited wealth is expected to grow at a rate of 2 percent over the next decade.

Seeking exclusivity

China's wealthy have rapidly evolved from showy luxury purchases to quieter, more discerning buys as they have become more sophisticated consumers. Wealth-X expects that this is not an anomaly and that other emerging markets will see a similarly trajectory as they mature.

Peninsula Academy package

The newly wealthy are traveling internationally more frequently, which increases their awareness of more brands and styles. On the same note, many UHNW or their children were educated in North America or Europe, where they learn purchasing behaviors of the established affluent from their classmates.

These individuals also have access to global media, which not only talks about trends but often reports on the difference in consumption habits between emerging and developed wealthy.

Globalized media gives UHNW individuals in all locations more information about the worldwide economy, which spurs feelings of austerity. Planning in case of another financial crisis, the affluent are making sure they plan for the future and secure their assets.

A confluence of positive developments is recasting the Caribbean as one of the top regions for ultra-high-net-worth consumers looking for sound investments, according to a separate report by Wealth-X.

Barbados in particular is a market with promising real estate opportunities due to lax regulatory policies and a burgeoning luxury landscape. Behind-the-scenes of this boom in roving real estate interest is an aging UHNW population looking to protect wealth (see story).

As the wealthy population grows, it will be more difficult to find exclusivity. This may mean vacations to space as the go-to resorts become crowded.

This will also have an effect on hard luxury, as simply having a high price point or limited quantity will not alone define present exclusivity. Objects that are by nature finite in supply or items that are personalized to the individual will retain their level of rarity.

The wealthy will be focused on spending their money on experiences over things, and they will also seek out privacy, possibly through members-only clubs. Likewise, brands and financial service providers may become more picky about who they select as clients.

For instance, Swiss watchmaker Patek Philippe is celebrating its 175th anniversary with the creation of one of the most complex and expensive watches in the world.

The watch will be known as the Grandmaster Chime, and only seven of them will be made. Prospective consumers must interview with the chairman of the brand, Thierry Stern, to purchase one of the six available watches, while the seventh will be kept by the brand to be displayed at the Patek Philippe museum in Geneva (see story).

"The winners will be those that are able to successfully navigate the dynamic tension between understanding their own unique brand DNA and also understand the bespoke requirements of their key and top clients," Mr. Friedman said. "The brands that will win will understand their own unique voice and invite their clients to renarrate their life in light of that narrative such that there is a co-authoring of a joint luxury and lifestyle narrative.

"At Wealth-X we answer this question with a concept we call 'bespoke marketing' which has at its heart the idea that to engage the UHNW market, you must have a segmenting strategy of 'one,'" he said. "For brands whose revenue includes as a substantial component high priced items purchased by the ultra affluent market, one of the best practices for engaging this market is forging a proactive strategic 'referral' program that seeks to accelerate and monetize the social capital of their top and key clients that revolves around their key passions, hobbies, interests and philanthropic giving."

Final Take
Sarah Jones, staff reporter on Luxury Daily, New York

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