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RESEARCH

Future of luxury marketing is in HENRYs

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Affluent millennials

By FORREST CARDAMENIS

NEW YORK – With retail sales flatlining, brands must appeal to a new demographic to sustain growth and forge relationships with the next generation of ultra-affluent customers, according to a senior executive from Unity Marketing at the Luxury Retail Summit: Holiday Focus 2015 on Sept. 16.

Specifically, high-earners not rich yet (HENRYs), especially HENRYs aged 44 and younger may save luxury from its current drought. Appealing to HENRYs and aspirational millennials, however, means brands will have to retell the story of luxury and market in new ways.

“We can’t pull many more marketing tricks out of our hats to get people into stores,” said Pam Danziger, president of Unity Marketing, Lancaster, PA. What we really need to do is focus on the people themselves. Who are the best customers we can invite in our store? Who are the ones who offer the best prospect for growth?"

Luxury Retail Summit: Holiday Focus 2015 was organized by Luxury Daily.

Chasing HENRY

HENRYs, defined as those in households making between $100,000 and $249,999, make up just 18 percent of consumers but account for 40 percent of spending, compared to the 2 percent who make at least $250,000 that account for 10% of spending and the 80 percent of mass market consumers that account for the remaining 50 percent. Because of their proportional value and because some will grow into the top 2 percent, that 18 percent is luxury brands' future market.

Luxury shoppers

With the exception of automobiles and fine dining, luxury retail sales are experiencing growth of less than 1 percent per month year-over-year, some months even negative growth. As a result, brands must forge relationships with the affluent consumers of the future, as millennial HENRYs are still mostly too young to have attained affluence and entered the ultra-high-net-worth consumer subset.

“Making a connection with these young HENRYs today is opportunity to get close to them and learn about them as they mature," Ms. Danziger said. “Not every HENRY becomes an ultra-affluent, but most ultra-affluents start out as HENRYs.”

Unity Marketing’s research shows that affluence is highest between the ages of 35 and 54, and that HENRYs younger than 45 spend up to twice as much on luxury goods as HENRYs over 45 years old. In addition, older HENRYs currently outnumber young HENRYs, with a reversal projected as 2018.

However, the ratio of young HENRYs to old HENRYs will not peak until the mid- and late-2020s, meaning that the next luxury boom, spearheaded by millennials, is around one decade away, giving brands plenty of time to win over those consumers. Accordingly, some brands, particularly large retailers like Nordstrom and Neiman Marcus, have opened outlet stores and discount branches, hoping that HENRYs will “graduate” to the main brand. While this may raise the concern of lower prices devaluing the brand as a whole, the appeal to consumers who care less about and even scour at the high prices associated with luxury brands is one way brands are preparing for the future. Entry-level products such as beauty items and fragrances can help luxury brands establish life-long connections with consumers at a young age.

Since it is imperative that luxury brands gain younger consumers to survive, having entry-level products for younger, not-yet-affluent consumers can be a good way to introduce them to a brand. However, luxury brands cannot forget their core audience when promoting entry-level products to avoid losing loyal customers and devaluing their brand (see story).

The “L-word”

For young HENRYs, the “luxury” label does not carry the same mystique as it has in the past or that it might for older consumers. Instead, the word connotes over-priced and unaffordable goods even more than it defines craftsmanship or value. For these consumers, the values associated with the brand as well as the relative value in cost-per-use are more important.

“There are good products everywhere at every price level, so that isn’t going to set you apart. You have to reframe the luxury story,” Ms. Danziger said. "Lead with data about where value is: put the substance before style."

Indeed, millennial HENRYs do not abide to the traditional hallmarks of luxury. Rather than marking themselves by wearing the most expensive brands they can afford, they look to brands that reflect who they are, opting, for example, for an Ironman Triathlon watch instead of a Rolex and prefering to foster their own identity through their clothing, accessories and other goods rather than harnessing the brand's.

”They want their own initials [referring to titles such as Ph.D], not the designer’s [to define them],” Ms. Danziger said.

Other hallmarks of young HENRYs are a preference for customizable and bespoke goods, and luxury with a clear purpose and function. French footwear and accessories maker Berluti, which measures the foot, puts it in file and custom-makes shoes for the wearer’s foot, is one example of a luxury brand whose practices will likely appeal to young HENRYs as their income increases.

Another necessity for brands to appeal to this key demographic is to make products personal. Online jeweler Blue Nile, for example, is establishing bricks-and-mortar locations that do not even sell diamonds to establish connections with young consumers.

To create a lasting impression and build loyalty amongst younger consumers, marketers no longer need to tout “youth values,” according to a new survey by Havas Worldwide.

Instead of positioning campaigns as a means to separate generations, marketing efforts will more successfully attract younger consumers by giving them the means to stand out among their peers in a positive way. These efforts will then lead to brand loyalty (see story).

Bottom-line, as millennial HENRYs grow into affluence, luxury brands will have to meet the future luxury consumers on their terms, and that means redefining “luxury” and disassociating it from price point and other connotations held by young consumers, showcasing brand values in addition to values and focusing on assets like customizability, personability and function.

"Retail, first and foremost, is a people business," Ms. Danziger said. "It’s much more about the way you sell than what you sell. "Abandon elitism, exclusivity, status and 'the L-word.'"

Final Take
Forrest Cardamenis, editorial assistant on Luxury Daily, New York