

COLUMNS

Are you affluent or middle class? Why it matters

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Ron Kurtz

By **Ron Kurtz**

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Your effectiveness as a marketer or retailer of true luxury products or services could be substantially influenced by your answer to this question.

Later in this article, you will see how to determine which category applies to you, based on either income or net worth. You might be surprised.

On target

True luxury products are typically those that are characterized by price points well beyond what a middle class consumer could afford or would be willing to spend and that are usually available in limited quantities and with limited distribution.

To really understand the consumer for true luxury products, one should be similarly affluent or be open to thinking well beyond their own personal values and interests. The latter requires you to be an exceptional and objective analyst of good market research. Otherwise, it will be very difficult to relate to the affluent consumer and to market to them effectively.

My experience includes situations where I was marketing a true luxury product through a distribution channel composed of people who were far from being affluent. One was a new cruise line with daily rates of over \$500 per person, at a time when all other luxury cruises were selling for less than half that.

We relied on travel agents to promote our cruises, but few could afford them, and it was difficult for them to see the value and appeal that our cruises had for the truly affluent traveler.

Eventually the word of mouth from happy cruisers and great media coverage convinced travel agents that there was a market for our cruises, and they learned how to identify the target consumer and to explain the value and appeal of our cruises.

I was not sufficiently affluent to be part of our target market. However, through research and objective analysis of where other luxury cruise lines were falling short in meeting the needs and interests of the affluent, we were able to design a product and price it in a way that made it attractive to them. Many of our clients had never wanted to cruise before, and most were much younger than the existing market for luxury cruises.

Dollars and sense

Now, let us look at a way to determine whether you are affluent or middle class. Unfortunately there is no consensus on the definition of affluence, either in terms of income or net worth. Most researchers and consultants seem to use \$100,000 income as the starting point for defining affluence. Amazingly, some start as low as \$75,000 income.

The most common formula for defining middle class by the demographic statisticians is based on applying an adjustment factor to median household income the point where half earn more and half earn less. One typical approach is to multiply the median by 67 percent for the lower level of the bracket and 200 percent for the upper level.

For the New York metro area, where the median household income is about \$53,000, the range for middle class would be about \$36,000 to \$106,000. Anything above \$106,000 would be considered affluent. Most other major metro areas are pretty similar.

Anyone familiar with the cost of living in New York and other major metro areas knows that \$100,000 will not go far in covering typical day-to-day expenses for a family. True affluence in New York more likely begins around \$300,000, which is about the income level of the top 1 percent of all United States households. Even at that income, the amount of discretionary income can be pretty limited for New Yorkers.

Net worth is a more stable indicator of affluence than income, according to research by the Federal Reserve Board and the Internal Revenue Service. A net worth of \$1 million is required to be in the top 10 percent of U.S. households.

Our research indicates that real knowledge of the price points and brands of true luxury products begins with the top 1 percent of households, based on net worth. These 1.2 million households have a minimum \$8 million net worth. They represent the real market potential for true luxury products.

BOTTOM LINE, unless you have a net worth approaching \$8 million or a consistent annual income well above \$300,000, you better have an open mind and be an exceptional and objective analyst of good market research if you want to understand the affluent and market effectively to them.

Ron Kurtz is president of [American Affluence Research Center](#), Alpharetta, GA. Reach him at kurtzgroup@comcast.net.