

EPSILON

LUXURY  
INSTITUTE

# The new face of luxury

Breaking down the myths and  
stereotypes of the luxury shopper



## Introduction

Traditionally, luxury brands have focused on merchandise and the retail experience—and these are unarguably important elements to a luxury brand’s success.

However, research shows that luxury brands may miss huge opportunities by not understanding who their best customers are. When brands do not know their customers, they cannot interact with them in a way that is relevant, personal, and meaningful. In turn, they lose the ability to keep their best customers and gain potential customers who are spending with their competition.

We now know that customers expect communications to speak to them directly. McKinsey & Company states that customers “expect all data stored about them to be targeted to their needs or used to personalize what they experience.”<sup>1</sup> However, if a brand doesn’t have a clear picture of their consumer, they cannot fulfil this expectation.

While luxury brands tend to have a higher price point and AOV by definition, many luxury brands lose 80–90% of the customers in any given year. Those same brands struggle to retain the top 50% of their customers. In addition, only 10–15% of luxury customers state that they have a first-name relationship with a sales professional.

Milton Pedraza, CEO of Luxury Institute confirms, “Luxury brands lose half of their top customers every year. The biggest reason why a consumer won’t come back is not the product—it’s a rude or inattentive salesperson.”

Therefore, it is crucial for a luxury brand to understand their customer from a high macro level that can be a part of a brand’s marketing ad advertising down to a granular level that can be leveraged by individual sales associates in the course of clienteling applications for customer engagement, retention, and satisfaction.

**50%**

**Luxury brands lose half of their top customers every year.**

<sup>1</sup>The coming era of on-demand marketing, McKinsey & Company, 2013

## What is luxury?

How do you define luxury? When most people think of luxury, they think of having the financial means to afford higher-priced pieces, and this is true to some point. However, “luxury” is a very broad category—it can encompass retail, travel, auto, and finance—yet there is a wide range in these groups. For instance, the pricing difference between a Coach handbag and a Hermès Birkin bag is substantial. The same is true for a BMW 3 Series and Bentley Continental GT. So is the luxury market that vast? Is it tied only to affluence?

According to wealthy consumers, luxury is defined by three elements<sup>2</sup>:

**73%**

**believe superior  
quality is the most  
important attribute**

**54%**

**consider a brand's  
design the most  
important quality**

**47%**

**say it's customer  
service**

To the consumer, the brand is the luxury experience.

**Experiencing the luxury brand.** According to American Express and The Harrison Group<sup>3</sup>, luxury customers prefer stores that are elegant. They want to feel an experience of purchasing that is as pleasant as owning a luxury item. They tend to value close relationships with select sales associates. These customers believe that it is worth it to pay more for items that are of the very best quality, and they value exclusivity.

<sup>2</sup> Luxury Institute, 2011

<sup>3</sup> 2012 Trend Data from the Annual Survey of Affluence and Wealth in America, American Express & The Harrison Group

## Not all luxury buyers are alike

Just as not all luxury brands or luxury merchandise are alike, luxury shoppers also differ greatly as well. Typically, there are four shoppers who buy luxury retail goods:

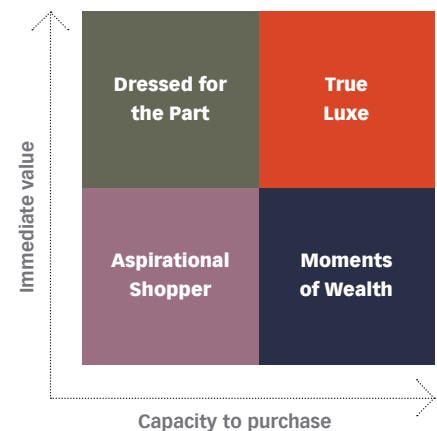
**Aspirational Shopper:** The *Aspirational Shopper* desires to own pieces from a brand, but does not have the means to do so on a regular level. This customer shops mostly from outlets or online members-only discount boutiques (e.g., Rue La La, HauteLook, ideeli, etc.), or purchases low-ticket designer brand items such as cosmetics.

**Moments of Wealth:** The *Moments of Wealth* shopper may save for a specific piece (e.g., a handbag) from a particular luxury brand, but does not purchase from the brand frequently. This shopper tends to make one-off purchases over a long span of time.

**Dressed for the Part:** This shopper purchases luxury items to give off the appearance of being someone who lives a luxury lifestyle, but the *Dressed for the Part* shopper does not have the financial resources to be a true luxury buyer. This fashionista shopper devotes most of her spend to fashion, accessories, or a car rather than an expensive home.

**True Luxe:** The *True Luxe* shopper has the means to purchase luxury items at will without concern for finances. This shopper purchases from luxury retailers frequently throughout the year.

As a luxury brand, it's vital to understand which of your customers fall into these categories and which are likely to accelerate. For example, an *Aspirational Shopper* may complete their degree and obtain a job, therefore graduating to the *Moments of Wealth* or *Dressed for the Part* segments of luxury shoppers. By having awareness of customer potential, your brand can focus on the right customers for acceleration.



## Identifying the luxury shopper

Are wealth and income the sole predictors of luxury habits? Or are you missing opportunities to connect with customers by omitting those that don't fit a standard profile?

**The True Luxe shopper.** Through analysis of the transactional data available on Epsilon's Abacus Cooperative and the compiled data from Epsilon's TotalSource Plus™, we compared the top 30,000 B2C luxury spenders with a yearly spend over \$30,000 in specialty retail and over \$1,200 in average order spend to the shopping patterns and profiles of individuals with net worth of \$1 million+ and wealth resources over \$2 million to begin to see a true picture of the luxury shopper. Surprisingly, it greatly differs from the customers that most luxury brands are targeting.

Luxury brands think their customers are:



Female  
45 years old+  
Wealth resources:  
\$1 million+

### The True Luxe shopper is most likely to look like:



#### Demographics

**57.5%**

male

- No children

- Likely to be Asian or Middle Eastern

**25-44**

years old

- Dwelling type: condo

- Likely to move

**52%**

single

Niches 3.0 household clustering segments:

- Big Spender Parents

- Chic Society

- Feathering the Nest

- Home Hoppers

- Just Sailing Along

**42%**

college grads and over index for graduate school at 5.7%



#### Financial

**\$125-250k+**

Target Income

**\$500k+**

Target NetWorth

**\$352k+**

Home market value

**\$750k+**

Wealth resources

**\$100k+**

Liquid resources

**\$200-500k+**

Investment resources

**A1-B1**

Target ValueScore



#### Market indicators

- Economic activity rank 1: Top 10%
- Do not purchase via catalog
- Retail buyers
- Total \$ spent on purchases: Highest



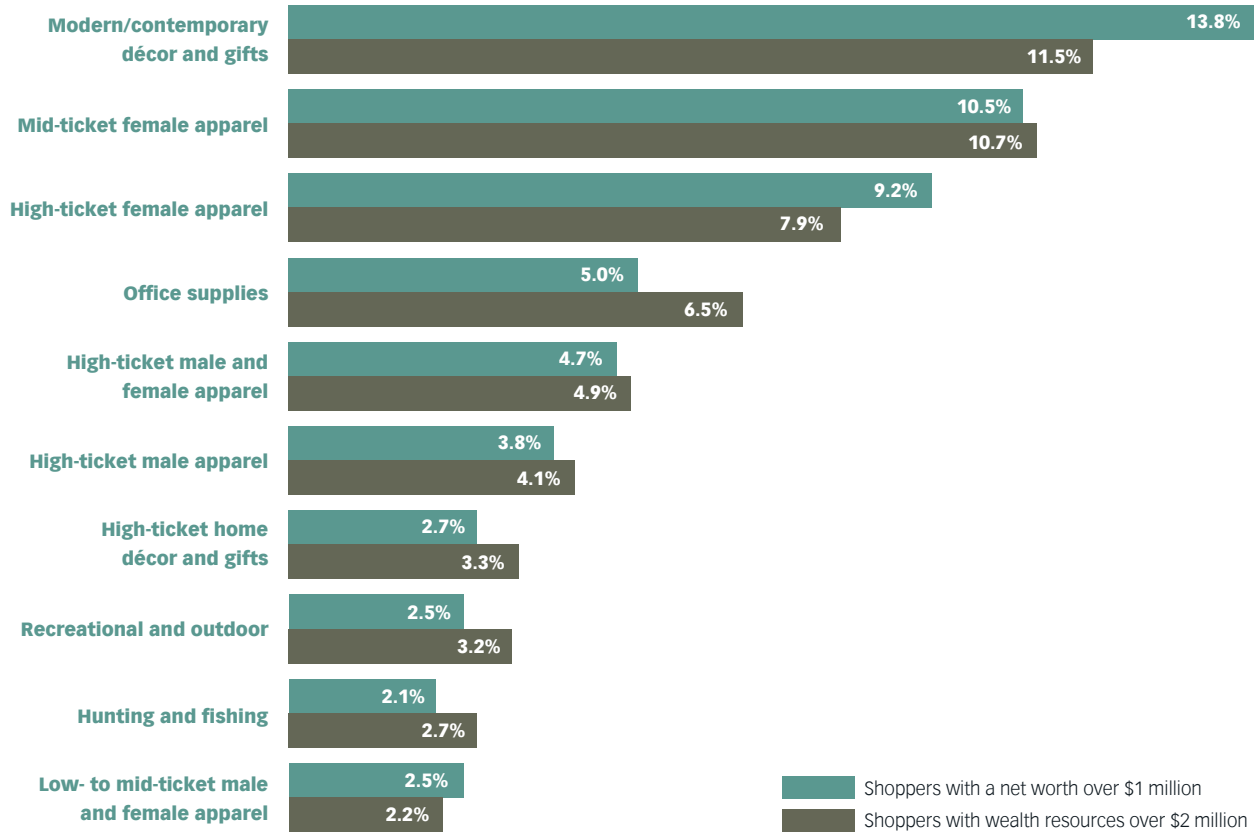
#### Market trends

- Online transactors
- Lending customers
- Smart phone users
- High-end shoppers
- Likely cruiser
- Satellite radio subscriber
- Technology early adopters
- Financial advisor customers
- Financial institution shoppers
- National bank customers
- Wired line video connectors
- Online browser, store shopper
- Frequent online movie and music purchaser

## Purchase behavior of the non-True Luxe customer

When we only base identification of the luxury shopper on wealth, as most brands do traditionally, this is what we see:

### Top 10 merchandise categories for shoppers



## Engaging the luxury customer

Online shopping accounts for less than a quarter of sales for multichannel luxury retail brands, because these consumers typically want to see and touch the product in person. Luxury shoppers crave the experience of the brand—they're looking for the VIP interaction. Enter clienteling.

Luxury brands tend to be plagued by customers who only make one purchase. Therefore, it's vital for you to arm your brand with external data to understand which type of luxury shopper persona these one-time purchasers belong to. This is the only way for you to know what offer these shoppers are most likely to respond to, focusing on the best opportunities and the customers that are actively spending in the luxury realm. This focus is best achieved through clienteling.

**Luxury shoppers crave the experience of the brand—they're looking for the VIP interaction.**



### Clienteling

**Clienteling uses information about an individual customer—buying habits and preferences—during interactions within the store to create personalized attention and build a stronger buying relationship. Brands that use clienteling successfully are able to create “pull” to their retail locations, instead of attempting to “push” store traffic.**

### The digitally savvy luxury customer<sup>4</sup>



#### Internet

**98%**

use the internet regularly

more than

**50%**

of the time, they research products

**75%**

of the time, they compare prices on their mobile device

however, they purchase via mobile less than

**5%**

of the time, preferring tablets or computers



#### Social media

**7 in 10**

used social media in the last year, with more than 50% Facebook users

of those, **<25%**

engage with brands or retailers on Facebook

yet, this number rises to

**34%**

under the age of 50

**2x**

Twice as many women were likely to engage brands via social channels

**50%**

Nearly half of Millennial and Gen X consumers “like” brands on social media

<sup>4</sup> Luxury Institute, October 2010, DMA 2011

## Managing the gray market

Luxury brands constantly need to be aware of the impact that gray market resellers have on their brand. Curtailing gray market sales is a high priority for many of luxury retailers. However, it can be difficult for luxury brands to identify a shopper who is purchasing goods for the purpose of resale on the gray market.

Segmenting this behavior can be extremely beneficial for luxury brands. Identifying transactional history of those buyers who have a habit of purchasing multiples of a single type of item or frequently making large purchases without the financial means that fit the True Luxe buyer persona could be red flags.

Luxury brands can begin to take control of gray market buyers by analyzing this data in combination to external purchase data and treating these buyers differently. For example, a brand would not want to send special promotions or offers to buyers on their housefile who have been flagged with potential gray market behaviors.

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## Epsilon recommendations

- 1 Combine housefile information with third-party data including purchase behavior, to get the real picture of your shoppers.
- 2 Use this information to segment your housefile into shopper personas.
- 3 Tailor marketing communication to the personas that you identified for personalized, relevant communication to be used for successful clienteling.
- 4 Leverage external shopper behavior for true 1:1 interaction.
- 5 Segment your housefile to identify red flags for gray market behavior and treat this segment differently by excluding it from special offers and promotions.

For more information on how to identify your *True Luxe* shoppers, increase engagement with clienteling, and make the most of your marketing, contact Jean-Yves Sabot at 303 410 5142 or [jean-yves.sabot@epsilon.com](mailto:jean-yves.sabot@epsilon.com).

## **About Epsilon**

Epsilon is an all-encompassing global marketing company, the leader in creating connections between people and brands. We find, acquire and retain customers for brands around the world.

We employ >5000 associates in 60 offices and are recognized by Ad Age as the #1 World Largest CRM/Direct Marketing Network, and the #1 U.S. Agency from All Disciplines. Independent studies by Forrester Research name us as the leader in database marketing, email and loyalty.

For more information, visit [epsilon.com](http://epsilon.com), follow us on Twitter @EpsilonMktg or call 800 309 0505.

## **About Luxury Institute**

Luxury Institute is a boutique research and consulting firm that helps clients to build highly profitable, customer-centric enterprises. We offer luxury intelligence, brand strategy, relationship-building culture, membership associations, and industry and brand events to top-tier luxury brands, as well as startups.

For more information, visit [luxuryinstitute.com](http://luxuryinstitute.com).