

A RICH MAN'S WORLD

The market for luxury goods has been growing for 20 years — and becoming more complex in the process. How can research uncover what motivates luxury buyers?

By Jo Bowman



It's easy to lose sight of it given the state of global markets at the moment, but the world has been experiencing an extraordinary phase of wealth acquisition in recent decades. The number of millionaires has shot up by as much as 20% a year in parts of the world and, despite the current gloom, the ranks of the middle classes are set to swell by two million people between now and 2030, according to business analysts.

This is music to the ears of über-luxury goods and services providers, one of the few industries that might reasonably hope not to feel any economic downturn in the immediate future. The business of luxury is already worth between US \$160 billion and US \$400 billion a year, depending which measure you take, and is still expected to grow by 4% a year in Japan, one of the most mature premium markets, and by as much as 25% in other parts of Asia and BRIC countries, to where the bulk of luxury action is expected to go.

Naturally, not all those who might be termed wealthy are equally well-off; for one, splashing out means buying a limited-edition handbag and for another, it's buying a private jet. But the fact that what was once unattainable for most is now within reach of so many is leading to much soul-searching about what luxury means and to whom. At this year's ESOMAR Congress an expert panel was asked to answer the question: "How can research support luxury industry players?" The current downturn is likely to accentuate this need to define and redefine luxury and what high-end brands can provide.

"We are getting a lot richer as a planet; the growth in wealth is unprecedented at every level," said Paul Nunes, executive research fellow at the Accenture Institute for High Performance Business, and author of the book *Mass Affluence*. The super-wealthy, or 'ultra-high-net-worths', those worth more than US \$30 million, number about 65,000 worldwide and this club of elites is expected to admit the same number of members again in the next decade.

This means that many of the products that were previously only affordable to an exclusive elite might now be attainable to those who are well-off but in a wholly different league of wealth, meaning brands are having to rethink their positioning. "What does this mean for Champagne?" Nunes asks. "What does it mean to be a millionaire or to be in the middle class? How do you signal your affinity group? How do you express your affluence?"

In a world of mass affluence, brands can either become more expensive and retain their exclusivity to the super-rich - move down, targeting a much broader group of aspiring affluents, or simply stick with the same positioning, where there are now more potential takers than ever before.

"In the US, the top one-third of income earners take two-thirds of total income," Nunes says. "So if you're not selling to the top third, you're leaving two-thirds of income on the table."

STAR FOLLOWING

Wolfgang Schaefer, chief strategic officer with global advertising and branding agency network SelectNY, says people at different ends of the luxury spectrum often have entirely different motivations.

"There's a very, very big difference between the really top end and the plain mass-oriented premium end. One is about wanting what everyone else has; the other end is wanting what nobody else has."

Luxury is, at whatever point in the scale, about providing access and influence - some intangible other element in addition to what's actually being provided, according to Scott Williams, chief marketing officer of Morgans Hotel Group.

"We can give them all the functional benefits and even some of the emotional ... but at the top of that brand pyramid, if you're not delivering something that's highly emotional and irrational that they'll

pay a premium for, then get out of the luxury market,” he says. “When we can give them a sense of belonging or influence, it’s an instant sell.”

The draw of wanting to belong, Williams says, is evident when the group has a guest like Amy Winehouse stay. When she very publicly checked in to the St Martins Lane Hotel, there were 50,000 extra hits on the web site and four to six weeks of bookings that weren’t previously there. “There’s perceived value in gaining access to a crowd that’s very aspirational.”

Williams advises luxury brand managers to keep on top of the news and in touch with celebrity activity, “because there are masterful techniques of how to market your brands almost instantaneously now”.

What does that mean for market researchers, though? Philip Verhagen, head of high-end designer home interiors brand U+ Collection, a division of mass furniture maker Umbra, says there’s little room for research as it stands – not at the very top end of the market anyway.

“In my business, running a niche designer luxury brand, I haven’t seen anything useful, to

be honest,” he says. “You’ve got mass luxury brands but my customers are bored with mass luxury. They’re interested in true luxury and that, for them, is a unique experience.”

Verhagen says he draws inspiration from the intimate relationships he’s built up with key retailers who understand their consumers very well. “That gives me direct input on where I need to go. That kind of direct feedback has become more and more important as the world’s changing.”

Other luxury brands hold cocktail parties for their wealthy clientele that are discreetly monitored, to try to better understand who these people are and what makes them tick. Beyond that, the panel was adamant that traditional research techniques are all but useless in trying to get under the skin of the über-rich.

IDENTIFYING VISIONARIES

Williams says that in the world of luxury there are visionaries and copycats, and the visionaries don’t get their vision through market research. “Visionaries either have colossal failures or wild successes,” he says, pointing to Apple CEO Steve Jobs. “Jobs has a vision. He doesn’t believe in market research; he doesn’t segment his market.”

Verhagen agrees. “The mass affluence brands, in my view, will always be followers to true visionaries in many ways. Market research should focus on what are those real visionaries, who are really leading the field; the small brand servicing the richest man in the village that all the Joneses want to follow.”

Schaefer runs ‘gorgeous gossip’ with a panel of experts on clients’ end consumers – people such as magazine editors. Research projects using metaphors and drawings as stimuli to uncover feelings rather than facts about brands are also in use. Research, particularly qualitative research, has a clear role to play in the development of the mass, aspirational luxury brands. “For the highest end of the market, I’d say forget it ... it’s a completely different dynamic,” Schaefer says.

The panel concluded that deeper understanding of what motivates luxury buyers would be useful to the luxury market, with qualitative insights to be then validated at a quantitative level. **RW**



COLD SHOWERS AND GOLD TAPS

Marco Bevolo, director at Philips Design, says researchers can get a slice of the increasingly appetising luxury cake, but not without change to make their services more valuable.

Marco Bevolo who ran the panel discussion on luxury at this year's ESOMAR Congress in Montreal, says researchers can be more active in this market but need to adapt their offer, especially given the current economic climate.

"Market research has not so far played a major role in helping the luxury industry achieve its success," he says. "There's a very appealing opportunity here, and the research industry seems not to have really bitten into it."

Many luxury brands do use conventional market research, but this is not where the breakthroughs come from; they use it for what Bevolo calls 'hygiene' purposes. "It's like when you take a shower so you don't stink. It's true that it stops you from stinking, but people don't fall in love with you just because you shower."

Boutique research agencies such as The Hasley Group and Ledbury Research offer extremely comprehensive services aimed at the top end of the luxury market. Others, such as Agenda Inc, notably assist luxury customers with a creative mix of qualitative research and MTV-style entertainment. This area remains largely untouched by conventional research agencies, however.

"If you read a few high-end magazines you can get a lot of the kind of information that you can pay a lot of money to market research agencies for," Bevolo says. "Maybe the white apron of research scientists should also be used to study things that are not studied at the moment, and to go deeper into what they are already researching."

DETECTIVE WORK

"In order to work with customers who spend €25,000 to €60,000 on a piece of luggage, conventional market research is not going to get you anywhere. This is completely virgin

territory, and to me, it's an area that borders with journalism on the one hand, and customer service on the other. A whole new set of observational techniques, drawing on micro-sociology and cultural studies, are required.

"Based on my discussion with the other panellists in Montreal, I've concluded that, if market researchers want to address this segment, they should dare to include in their market research some unorthodox field techniques that nowadays are not part of market research."

To be of use to brands targeting the mass affluent market, Bevolo says researchers should focus on five things he picked up in the session:

- Brand dynamics, providing understanding of the evolution of brands over time, and the relationship between them.
- Better segmentation based on psychographics as well as the usual criteria. This should scientifically underpin the dynamics of trends.
- Watching the celebrity world. This has a huge impact on demand for luxury, yet none of the ESOMAR exhibitors in Montreal offered star-related research.
- Understanding that authenticity and being a visionary or leader in a category are the same thing, and that leadership in customers' minds needs to be better understood.
- Deeper qualitative work, with more interpretation and analysis than just statistics, spreadsheets and number-crunching.

"If market research agencies want to do what they always do, then it's bad news," Bevolo says. "If they want to understand they might want to work more like detectives or insiders, then the debate is open, and quantitative can help as well. It's a very challenging mission, and a great opportunity to both learn and grow at the same time."

Marco Bevolo

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