$hop like a millionaire

Now that millionaires are mainstream and luxury goods have gone mass-market, high-end customers are defining themselves through excess

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The new 23-floor LVMH tower on 57th Street in Manhattan, designed by French architect Christian de Portzamparc, is the company's U.S. headquarters. An elegant Christian Dior store is located on the first floor.

The owner of a new Long Island estate home, built at a cost of over $1,000 a sq..ft., orders two-dozen, 50-ft-tall, fully grown trees, at a cost of $30,000 each, so that he doesn't have to wait for new trees to grow. A third grader in a private school wears a $2,500 watch and gives his classmate a $300 birthday gift at a party for 60 classmate-all flown to St. Barts for the occasion. A high school student carries her books to class in a Prada backpack. Welcome to the world of excess, where money has been trivialized and spending is the preferred way to differentiate one's self from one's peers.

Outrageous? Not really. Stories like these are becoming more common as elite shoppers enjoy a new, unprecedented spate of spending, surpassing even the ostentatious buying binge of the '80s. Consider the following.

Producers of big-ticket merchandise-cars, yachts and homes-are faring particularly well. The newly announced Mercedes-Benz Maybach, expected to sell for over $200,000 when it hits the market in 2003, is so luxurious that it has an on-board humidor, flat-screen TV, matching his and her golf sets and a personal computer. Rolls-Royce is reintroducing the Rolls-Royce Corniche, and VW has a new Bugatti in its line-up. Automotive manufacturers expect demand for cars priced at $150,000 or more to grow substantially over the next few years.

Just opened, Alain Ducasse's new restaurant on Central Park South in New York boasts a prix-fixe menu cost of $160 per person. With wine and gratuities, the bill for a party of four easily exceeds $1,000. Within a few days of opening, the waiting list grew to 2,700 names.

So who is doing all this spending? And how does it impact retail? Let's take a look at the new elite mass market, the new millionaires and the newly growing companies that profit from the sales.

Above: The sleek, contemporary architectural lines of Prada's interiors and the unique pale green color have become signature elements.

Left: Images used in Prada's windows communicate a luxurious but youthful lifestyle with a bit of impertinence and edginess.

Elite mass market

The number of millionaires rose last year by 18 percent to seven million worldwide, driven by a booming global economy and a buoyant stock market.

The 2000 World Wealth Report, prepared by Merrill Lynch and Gimini Consulting, puts the holdings of the world's millionaires at $25.5 trillion. The report predicts this figure will climb to $44.9 trillion by 2004. About 30 percent of these millionaires live in the United States.

According to the study, "ultrahigh net worth individuals," those with assets of more than$30 million, have increased by 18 percent in the past year. There are 514 billionaires worldwide, and more than half live in the United States.

According to the IRS, the elite group of high-income taxpayers, those reporting adjusted annual gross incomes of $200,000 or more, surged by 19 percent in last year. There were 1.8 million returns in this category, up from 1.5 million in 1998, constituting 1.5 percent of all returns.

The top tier of upscale shoppers is now a significant demographic, with numbers large enough that luxury goods providers have now found a powerful new "mass market" for their merchandise. Mass market advertising, Internet sites and expanding chains of retail outlets are now efficient means of selling and promoting luxury products.

According to former Editor-in-Chief Gary Walther of *Departures*, the publication produced for Platinum American Express cardholders, "Luxury is up, exclusively is down." Walther says that in the '80s, the two were synonymous, but now the market for luxury goods is large, and the supply is segmenting into purveyors of mass luxury goods and elite luxury goods. The mass luxury classification is providing new opportunities for worldwide growth, while the very top tier is the icing on the cake. (After ten years with *Departures*, Walther just departed to found his own luxury travel magazine.)

Luxury leaders

In spite of what book, such as The Millionaire Next Door, say about millionaires-quietly living unassuming lifestyles, saving every penny in order to invest and driving secondhand cars-that just does not reconcile with reports on consumer spending and the dizzying, escalating profits at luxury goods companies. There are plenty of millionaires, near-millionaires and wannabe millionaires who are spending like crazy.

The luxury leaders were hot stocks in 1999, with French and Italian firms leading the pack. The largest luxury goods company in the world, the French firm LVMH Moet Hennessy Louis Vuitton SA, reported a stock increase of 168 percent for 1999, with a doubling of net profit for the year and annual sales of $8.9 billion. Its sales rose 40 percent worldwide in the first half of 2000, with U.S. sales increasing 68 percent.

Among other French luxury goods companies, Hermes International logged an annual stock increase of 104 percent, with profits soaring 33 percent. And the Italian Gucci Group ran up 144 percent increase.

Celebrating their fortune, the luxury goods heavyweight have also been on a buying and consolidating spree. Some of LVMH's recent acquisitions include the French jeweler Chaumet, Swiss watchmakers Zenith, Ebel and tag Heuer AG, the British auction house Phillips, and even Urban Decay, a youth-oriented cosmetics brand. LVMH joined with Italy's Prada Holdings BV to beat out Gucci NV for control of Italian fashion house Fendi, purchasing a 51 percent interest. LVMH has even recently tried-unsuccessfully so far-to add Gucci to its portfolio. In 1999, Gucci acquired Sanofi Beauti, Yves St. laurent, Boucheron and Sergi Rossi.

Other LVMH holdings include champagne/wine/spirits: Dom Perignon, Moet & Chandon, Krug, Veuve Clicquot, Hennessy, Pommery, Chateau d'Yqeum, fashion products:Louis Vuitton, Loewe, Celine, Givenchy, Christian Dior, Christian Lacroix, Fred Joailliers, perfumes/cosmetics: Christian Dior, Guerlain and Kenzo. LVMH also owns DFS (Duty Free Shops), the French department store Le Bon Marche and Sephora.

According to Bernard Arnault, the billionaire head of LVMH, the company has two strategies: 1.) to increase sales of the existing portfolio brands, and 2.) to buy creative companies that will fit within the portfolio. He describes LVMH as being very decentralized, more like a federation of small-sized companies rather than a big organization, But there is a definite plan to promote the LVMH name, as evidenced by the recent opening of a prestigious, 23-floor office tower on New York's 57th Street, which has a Christian Dior store on its main level.

While the Europeans are definitely dominant in the luxury goods sector, American designers-including Calvin Klein and Ralph Lauren- have staked out territory as well. Ralph Lauren has identified this sector as a major growth opportunity for his Purple Label upscale line. A number of U.S. retailers, such as Neiman Marcus, Bergdorf Goodman, and barneys, target the luxury audience with an endless array of status labels in fashion and accessory and home products, ranging from kate Spade to Christofle.

A major strategy among the luxury goods providers has been to revamp their products and advertising to appeal to a younger audience. Sexy and hip advertising-often using extreme and controversial images-has become a trademark for Gucci, Prada and Dior. In fact, some of the photographic images used in Gucci's latest ads have been criticized for being too suggestive, even sexually explicit, but Gucci group Creative Director Tom Ford, who orchestrated the company's youthful image transformation, is quick to come to their defense. The trick is to attract a new, youthful audience while keeping traditional, wealthy customers who have been loyal to the brand for years.

Ferragamo's luxurious merchandise finds an elegant home in this setting, designed by **Kenne Shepherd**.

New millionaires

A big driver of consumer markets has been the new millionaires. Having recently acquired their net worth from the technology boom-as founders of companies, investors in Internet IPO's or even employees with fat stock options-their in-your-face buying style has had a major impact.. For many of them, buying is a coping mechanism and shopping is performance art.

New millionaires see the selection and acquisition of objects as a means of expressing and communicating their personalities and of competing with peers. Buying an edgy, sophisticated brand-be it a high-tech gadget, apparel or a car-communicates that the buyer is edgy and sophisticated. There's a style imperative, and being the first with the latest, hottest, biggest, fastest or costliest at any given moment is what's important. For newly minted millionaires, luxury is usually what's current, pared-down, contemporary, speedy, technology-driven and blatantly self-promotional. Often, it's something so new that only a small group of trendsetters can or will understand or embrace it.

In contrast, old millionaires (old money) prioritize equity and investment purchases (things that collect value over time), status signifiers-defined by social class or entitlement, not individual identity, relationships (returning to the same hotel or restaurant, shopping in a store with excellent personal service, buying things that are custom-made), and privacy and discretion.

Luxury suppliers used to provide enduring, classic items of dependable style and flawless good taste.To serve the new millionaires, they must also become trend machines, spewing out newness and oneupmanship on demand.

Perhaps most importantly, new millionaires are mostly younger than old millionaires. Everything they do is emboldened by youthful assertiveness, entrepreneurial spirit and risk-taking. It is this constant demand for the new that is driving the economy in general and the luxury goods market in particular.

This window design, by 555 Design Fabrication Management of Chicago, showcases Gucci's legendary double G's-on a giant scale-to establish the brand and image. The G's are fabricated of bronze mirror.

Targeting luxury shoppers

Hugh Mullins, chairman and CEO of Dallas-based Neiman marcus, a company long known for courting customers in search of quality and extravagance, makes note of the spread of affluence and identifies what he sees as three core pillars of his business: '1.) As baby boomers-consummate consumers-move into their 40s an 50s, they will be in their peak earning years with increased disposable income. 2.) As they inherit their parents' estates, we will see the biggest transfer of wealth in history: $3 trillion a year, each year, for the next 10 years. 3.) The economy has generated more wealth for more people, there are more millionaires and more families with incomes over $100,000 than ever."

Mullins is proud to announce, "Neiman Marcus has just ended the most successful year in our nearly 100-year history. The increasing demand for luxury goods has contributed to our success." He adds, "It's not an easy business to run. You have to get your hands around both product and service to be successful. But luxury

The presence of Fendi and Prada on Fifth Avenue puts them at the heart of New York's tourist district and exposes their brands to millions of passerby each day. Pedestrians who can't afford to shop in such upscale establishments still get an eyeful. Sales of luxury goods have increased at explosive in the past year.

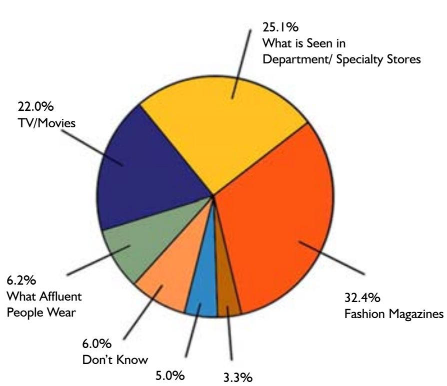
goods have been our business all along-and there's no one better positioned to do that."

Of course, a store like Neiman Marcus carries a broader range of goods than does the typical luxury goods specialty store. In fact, some luxury brands even have "stores" inside NM. As Mullins see it to appeal to multiple points of view, ranging from modern to traditional and from young to old.

Luxe environments

According to a recent survey (see chart on page 39), 32.4 percent of customers get their ideas about what constitutes luxury goods in fashion from fashion magazines, and 25.1 percent from department and specialty stores. With store environments being so important, many luxury goods retailers, including Escada, Ferragamo, Prada, Louis Vuitton and Chanel, are in the midst of developing new prototype retail stores at the current time and/or aggressively adding new doors to extend their reach. (The new Prada is being designed by cutting-edge, Pritzker award-winning architect Rem Koolhaas.)

Research indicates that perceptions of luxury are influenced the most by fashion magazines and retail department and specialty stores.



Source: ICR, Media, Pa.

Kenne Shepherd, principal of the new York-based interior design and architecture firm that bears her name, has been involved in Calvin Klein's madison Avenue, New York flagship store as well as many projects for Ferragamo. She sees one of the challenges as "bringing open-sell concepts to luxury retailing without having to compromise the exclusivity of the brand."

Describing luxury selling environments as uniformly spacious, simplified and minimalist, Shepherd emphasizes the need to provide an experience that does not overwhelm the merchandise and that connects with image, lifestyle and service expectations. As she sees it, luxury shoppers today want items out from under glass and accessible. They have little time for the service experience-but, when they do want hand-holding, it had better be available. Shepherd adds, "The growing need to create layers of design and display strategies to satisfy both the more established luxury customers, as well as to appeal to a younger clientele who may be purchasing that brand for the first time, is very important."

Neiman's Mullins stresses the need for comfort and ease of shopping, and he feels they impact everything from the design layout to restrooms. He notes the wave of vendor shops in the luxury sector and says, "They combine luxurious elements with luxurious products, and they help define boundaries in the store. But we don't want the whole store to become shops, and there always has to be great flexibility."

From a design point of view, Mullins sees modern elements becoming more important and a movement to materials that are more residential in feeling. "These customers want the store to be more like their homes. That's one reason we feature art collections in our stores." Plush materials, comfortable furniture and softer lighting all contribute to an upscale, residential feeling.

"Customer service still rules," Mullins emphasizes. While Neiman's is moving to merchandise that is more accessible-out from under lock and key. Mullins says, "Customers want to touch and feel, but often personal contact is needed to explain product benefits and to enhance the experience."

Mullins sees the influence of the new millionaires as pushing the market toward what he describes as a "modernist" attitude that is reflected in merchandise and in the store. "Especially important to Neiman's," he comments, "are the 'young young'-those who don't have enough money to afford to buy elite goods yet. We have to let them know that Neiman's is a cool place to be when that time comes-when they can afford to shop here."

Who knows if all the new millionaires that have resulted from the current economic boom will continue to have such an impact on our society and on the wealth index? According to Smart Money magazine, between February and May of 2000, due to the devaluation of tech stocks, "some $22.7 billion of wealth disappeared into the Ethernet." many Silicon Valley companies have lost one-third of their markets have grown wary of the continuing lack of profits.

Perhaps, when all is said and done, 40 percent of the 400 wealthiest Americans will continue, as they have in the past, to earn their money the old-fashioned way-they will inherit it. ddi