PRIVILEGE TO THE PEOPLE: A SEGMENTATION OF THE U.S. LUXURY CONSUMER LANDSCAPE

Brands like Chanel, Ferrari and Rolex bring to mind images of Robin Leach and “Lifestyles of the Rich and Famous.” But luxury is no longer exclusive to the super-rich, as the luxury retail market moves into the U.S. mainstream. And as this democratization happens, the underlying meaning of “luxury” is changing, for different consumer segments.

Luxury is often a way for consumers to signal that they've “made it,” and there's a myriad of ways for different segments to express that. For example, some consumers express status subtly through the scarcity and heritage of the products they purchase. Others express it by purchasing eye-catching products that they want to showcase to friends, family and admiring audiences. Many upscale brands are no longer exclusive to the excessively wealthy, and management consulting firm Bain and Co. estimates that spending on personal luxury goods in the U.S. rose a steady 5% last year to about $73 billion. And when we look at global spending on luxury goods, the U.S. is at top the list. In fact, Americans spent more on luxury goods than consumers in Japan, Italy, France and China combined.
Defining “luxury” is no easy task, essentially because the meaning of the word is constantly in flux. Why is that? Consumer perceptions about what is necessary change over time, often in parallel with shifts in economic conditions and technological advancements. In some cases, luxury is defined within families and is passed down to younger generations. In other cases, economic changes can foster groundswells of loyalty and patriotism. For example, American heritage brands like Red Wing and Pendleton reclaimed the spotlight during and following the Great Recession, as Americans placed a premium and luxury status on hand-crafted U.S. made goods.

Twenty years ago, mobile devices were viewed as luxury items and status symbols. Today, however, it would be difficult to find consumers who don’t consider their mobile device a necessity. As wearable technology has advanced, they have become fashion accessories tied to personal identity and image. With the launch of the Apple Watch, Apple isn’t just jumping into the wearables game. It’s positioning itself within the luxury market to compete with the likes of Rolex and TAGHeuer. To be successful, luxury brands must align with the ever-changing meaning of the word luxury, as well as with consumer perceptions of luxury and necessity to successfully position their goods in the marketplace. More challenging still will be capturing the success and adoption levels mobile devices have seen, while maintaining the luxury status of the brand image.
In an effort to widen their nets, many luxury brands have made themselves and their products accessible to a broader portion of consumers, while many aspirational brands are honing in on exclusive luxury markets. Striking a balance between appealing to a broader audience without alienating the core customer base is essential to success. Luxury brands must also be careful not to shift the premium and exclusive perception of their brands too dramatically.

Blurring the distinction between luxury and mass appeal can be challenging and a risk for high-end brands, but several have achieved notable success by creating partnerships with mass merchandisers, such as Vera Wang’s partnership with Kohl’s and Missoni’s partnership with Target. But striking the balance between luxury and volume isn’t unique to the retail world, and it’s not new. In fact, it has long been demonstrated in the automotive industry, where manufacturers like Toyota, Nissan and Honda each offer high-end, luxury models through their Lexus, Infiniti and Acura brands and lower-priced options through their flagship, namesake brands.

Historically, luxury brands have shied away from e-commerce. That viewpoint is shifting, particularly as high-end luxury retailers like Gilt Groupe and Haute Look (Nordstrom) are making high-end brands accessible to a wider audience through e-commerce, particularly via mobile apps. And they’re having a notable impact among affluent Millennials. Nielsen research shows that affluent Millennials are more likely than the average consumer to make mobile transactions, and this group spends over 50 hours a month using their smartphones to search the web and using apps.

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**MONTHLY TIME SPENT BY MEDIUM IN HOURS: MINUTES**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Time Spent</th>
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<tbody>
<tr>
<td>18-24</td>
<td>50:51</td>
</tr>
<tr>
<td>25-34</td>
<td>50:28</td>
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<tr>
<td>35-49</td>
<td>46:53</td>
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<tr>
<td>50-64</td>
<td>34:05</td>
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<tr>
<td>65+</td>
<td>25:54</td>
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THE MANY FACES OF THE U.S. LUXURY CONSUMER

Nielsen has segmented the U.S. luxury consumer market based on the values consumers associate with luxury, as well as by luxury retail purchasing habits. Because of the aspirational nature of luxury, the consumers actually buying luxury items (as well as the meaning ascribed to those purchases) can be surprising. As we will show, high income is not always the most reflective driver of the best or only opportunity with luxury brands.

Nielsen has identified five distinct segments of consumers who associate different meaning and value around the term “luxury,” and their purchasing behavior within the luxury market differs as well. Understanding the differences between the segments can help shape how retailers and brands should best engage and message them in order to build meaningful and distinct consumer relationships within the luxury market.

Luxury buying consumers are numerous in the marketplace, making up roughly 33% of U.S. households. In fact, three of the five consumer segments that Nielsen has identified value luxury and make luxury retail purchases. This highlights the democratization and ease of access to the luxury market, a trend that is broadening as access and channels widen. The two other consumer segments value and aspire to luxury, but are not likely to make luxury retail purchases. These aspirational consumers make up about 41% of U.S. households.

A CLOSER LOOK AT THE LUXURY BUYING SEGMENTS

The “established luxury” consumer segment represents the traditional affluent luxury buyer who values high quality and exclusivity above all else in luxury products. High-quality service is also vital in interaction with this discriminating segment. When engaging these quality-focused consumers, brands should emphasize excellent craftsmanship and classic styling. These older, more established consumers live in affluent enclaves like Martha’s Vineyard, Mass., and Jackson, Wyo. Because these consumers have already made it, they don’t feel the need to prove
themselves with luxury goods. Rather, luxury items play a more subtle role in their lives. These quality-focused consumers frequently shop at brands like Brooks Brothers and Pottery Barn; however, this group is also more likely to purchase specialized, limited-release goods and services.

The “new luxury” consumer segment represents young urbanites who value quality and craftsmanship, but also view luxury items as status and image markers. Quality is important, but these younger consumers see luxury items as a way to make a statement and signal their new found success to their physical communities and social networking communities. These young consumers want a forum to talk about and engage in the hype around new products. This is especially true of luxury tech products, as these young consumers are highly digitally connected. Brands seeking to engage with these young urbanites should emphasize the exclusivity and premium nature of their products. New luxury consumers are most likely to live in tech-hubs like San Jose, Calif., and San Francisco, Calif., and they’re likely to shop at upscale retailers like Anthropologie, Bloomingdale’s and Crate & Barrel.

Similar to the new luxury consumers, the “Keeping up with the Jones” segment uses luxury items as a way to signal their success within their communities. However, this group doesn’t value quality in luxury items. Rather, luxury goods serve as a way to impress others and gain status. Luxury brands interested in engaging with this segment of suburban families should position their products as symbols of success, affluence and belonging. These suburban consumers are most likely to live in Salt Lake City, Utah, Los Angeles, Calif., and Portland, Ore. and shop at a mix of luxury and aspirational retailers like Banana Republic, The Gap and Macy’s.

The aspirational consumer market is vital for luxury brands looking to achieve volume and growth. Both younger and older aspirational consumers place value on luxury products, but have not traditionally made purchases. Lower-priced offerings and partnerships with mass merchandisers give these consumers access to the brand and build loyalty. A luxury purchase should feel like an indulgence and a reward for these aspirational consumers. Younger Aspirationals tend to live in college towns like College Station, Texas, and Lafayette, Ind., and they often shop at retailers like Burlington Coat Factory, Express and Old Navy. Older Aspirationals tend to shop at retailers Stein Mart and Chico’s, and live in Florida locales like Homosassa Springs, Punta Gorda and Sebring.
U.S. LUXURY CONSUMER LANDSCAPE: A VIEW INTO THE SEGMENTS

“NEW LUXURY” - IMAGE, STATUS, QUALITY
Value Image, Status and Quality, Buy Luxury
Age 25-44, Wealthy Urbanites
Strive to achieve a high social status
Like to broadcast a lifestyle that impresses others
Willing to pay more for high quality products
Shop at Anthropologie, Bloomingdale’s, Crate & Barrel
Spent $500+ in last year on athletic shoes, cosmetics/perfume, men's and women’s clothing

“ESTABLISHED LUXURY” - QUALITY
Value Quality, Buy Luxury
Age 45+, Wealthy Suburban Homeowners
Willing to pay more for high quality products
Prefer subtle status cues and timeless classics over trends
Shop at Brooks Brothers, Pottery Barn, Neiman Marcus
Spent $500+ in last year on fine jewelry, men’s and women’s business clothing, women’s clothing and shoes, sports equipment, cosmetics/perfume

“KEEPING UP WITH THE JONES” - IMAGE & STATUS
Value Image & Status, Buy Luxury
Under age 55, Upscale Suburban Families
Strive to achieve a high social status
Like to live a lifestyle that impresses others
Wear designer brands to impress others
Shop at Banana Republic, Gap, Macy’s, Crate & Barrel
Spent $500+ in last year on athletic shoes, cosmetics/perfume, kids’ clothing, women’s shoes

YOUNGER ASPIRATIONALS
Values Luxury, Doesn’t Buy Luxury
Under age 55, Midscale Suburban Families
Influenced by celebrity endorsements
Would pay more for products consistent with the image they want
Follow trends, Wear designer brands to impress others
Shop at Burlington Coat Factory Express, Old Navy
Spent $500+ in last year on athletic shoes, kids’ clothing

OLDER ASPIRATIONALS
Values Luxury, Doesn’t Buy Luxury
Age 55+, Midscale Rural Couples
Brand name is best indication of quality
Strive to achieve a high social status
Price Conscious - Economy has a direct impact on spending habits
Shop at Stein Mart, Chico’s
Spent less than $500 in last year on apparel, shoes and sports equipment

Sources: Nielsen PRIZM Demographics 2015, Scarborough 2014
FINDING LUXURY CONSUMERS ON THE GROUND:

DOMINANT CONSUMER SEGMENT BY CBSA (CORE-BASED STATISTICAL AREA)

Map shading represents the consumer segment that makes up the highest percentage of households within a given Core Based Statistical Area (CBSA).

Source: Nielsen PRIZM 2015

DOMINANT CONSUMERS SEGMENT BY CBSA

- LUXURY BUYING CONSUMERS
- ASPIRATIONAL CONSUMERS
- NON-LUXURY BUYING CONSUMERS
### TOP 10 MARKETS (CBSA) BY LUXURY CONSUMER SEGMENTS

<table>
<thead>
<tr>
<th>NEW LUXURY</th>
<th>ESTABLISHED LUXURY</th>
<th>KEEPING UP WITH THE JONES</th>
<th>YOUNGER ASPIRATIONALS</th>
<th>OLDER ASPIRATIONALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Jose-Sunnyvale, CA (24.3%)</td>
<td>Vineyard Haven, MA (80%)</td>
<td>Salt Lake City, UT (29.0%)</td>
<td>College Station, TX (45.3%)</td>
<td>Homosassa Springs, FL (56.1%)</td>
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<tr>
<td>San Francisco, CA (21.5%)</td>
<td>Jackson, WY (61.6%)</td>
<td>Los Angeles, CA (20.1%)</td>
<td>Lafayette, IN (44.8%)</td>
<td>Punta Gorda, FL (52.8%)</td>
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<tr>
<td>Washington, DC (20.9%)</td>
<td>Summit Park, UT (55.4%)</td>
<td>Portland, OR (19.6%)</td>
<td>Laredo, TX (42.1%)</td>
<td>Sebring, FL (46.7%)</td>
</tr>
<tr>
<td>New York, NY (19.5%)</td>
<td>Bridgeport-Stamford, CT (50.5%)</td>
<td>Las Vegas, NV (17.6%)</td>
<td>Bloomington, IN (41.6%)</td>
<td>Weirton-Steubenville, WV (46.5%)</td>
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<tr>
<td>Honolulu, HI (15.4%)</td>
<td>Steamboat Springs, CO (50.4%)</td>
<td>Sacramento, CA (17.5%)</td>
<td>Gainesville, FL (40.2%)</td>
<td>Johnstown, PA (44.3%)</td>
</tr>
<tr>
<td>Santa Maria-Santa Barbara, CA (15.3%)</td>
<td>San Jose-Sunnyvale, CA (50.2%)</td>
<td>Denver, CO (17.1%)</td>
<td>Greenville, NC (38.2%)</td>
<td>Ocala, FL (43.9%)</td>
</tr>
<tr>
<td>Boston, MA (15.2%)</td>
<td>Washington DC (46.9%)</td>
<td>Colorado Spring, CO (15.9%)</td>
<td>Champaign-Urbana, IL (38.2%)</td>
<td>Prescott, AZ (43.4%)</td>
</tr>
<tr>
<td>Seattle, WA (13.4%)</td>
<td>Honolulu, HI (44.8%)</td>
<td>Seattle, WA (15.1%)</td>
<td>Auburn-Opelika, AL (38.1%)</td>
<td>Lake Havasu City-Kingman, AZ (43.4%)</td>
</tr>
<tr>
<td>San Diego, CA (13.4%)</td>
<td>San Francisco, CA (43.2%)</td>
<td>Phoenix, AZ (14.9%)</td>
<td>McAllen, TX (36.9%)</td>
<td>Pittsfield, MA (42.9%)</td>
</tr>
<tr>
<td>Boulder, CO (13.3%)</td>
<td>Oxnard-Thousand Oaks-Ventura, CA (42.6%)</td>
<td>Austin, TX (14.9%)</td>
<td>Columbia, MO (36.4%)</td>
<td>Wheeling, WV (42.8%)</td>
</tr>
</tbody>
</table>

Source: Nielsen PRIZM Demographics 2015. Percentage indicates percent of households in a market that fall into a given segment. For example, 24.3% of households in San Jose-Sunnyvale, CA fall into the “New Luxury” segment.

Developing a focused consumer engagement strategy for both core and aspirational luxury consumers is crucial for brands looking to tap into this growing market. A successful consumer engagement strategy includes:

- Understanding the values, motivations and product preferences of consumers with affinity for luxury brands. Figure out which consumers lead and influence the luxury market and which consumers follow.

- Finding these consumers where they live and reaching them through the media they consume.

- Activating consumers with messaging that will resonate and form an emotional connection and engagement to luxury brands.
As U.S. consumers continue to recover from the Great Recession and feel more confident opening their wallets, luxury retail spending will likely continue to grow. This includes consumers who may not have had access to luxury brands in the past, as luxury goes more mainstream. And as more and more households become multi-generational, building loyalty among families presents great opportunity. Brands that invoke heritage like Brooks Brothers can capitalize on the history and meaning behind of the brands across families and generations. Continued growth of the luxury market requires diligence in understanding the evolving tastes of consumers entering the market and the distinct values these consumers place on the luxury items they purchase.
ABOUT NIELSEN

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