# DRIVING PROFITS BY DISPELLING THE MYTHS OF AFFLUENTS

Ramey
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If you are a CEO or CMO of a high-end home brand, then there is a better-than-average chance that your products and services are purchased by affluent consumers. (Sure, that's kind of a no-brainer claim, but bear with me.)

The bad news is that far too many marketers in the high-end space fail to fully understand affluent consumers, and as a result, make regrettable assumptions and decisions in their marketing communications, which in turn means that they don't fully reach the revenue and profit potential of their brands. Said another way, they are leaving money on the table.

The good news is that if you allow me to dispel a few myths about Affluents, you might make smarter decisions, thereby gaining an advantage over your less-enlightened competition.

Let's begin with a simple definition of Affluents.

*Affluence is defined in different ways by different researchers. While specific numbers change annually, the easiest way to think about it is by using the Pareto principle, also known as the 80/20 rule.*

Generally speaking, 80% of American households are non-affluent and 20% are affluent, earning at least $150K in HHI annually.

## THE MOST IMPORTANT, YET LEAST UNDERSTOOD

I maintain that Affluents are the most important, yet least understood, consumer segment in marketing. Why would I call them the most important? Easy. The United States is a consumer economy, in which consumer spending accounts for nearly 70% of GDP.[1] We buy stuff, and that's what keeps our economy humming. Affluents account for 40–45% of this volume. That's nearly half of consumer spending. Said another way, one out of five Americans is disproportionately driving the U.S. economy.

Affluents are twice as likely to buy, and when they do, they spend 2.6 times more than the average household in many categories. In fact, the research firm Ipsos says that Affluents outspend non-Affluents in 92% of categories, including the home. [2]

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With this sort of buying power, you might wonder why so many marketers of high-end brands fail to understand Affluents to the best of their abilities, especially when (Peter Drucker said) the aim of marketing is to know the consumer so well that the product sells itself. I believe that marketers misunderstand Affluents because their own biases get in the way. Pam Danziger, a researcher at Unity Marketing, once wrote, "Marketers' fantasies about how the luxury consumer lives and behaves cloud their judgments. I often find marketers attribute motives to the aspirations of their own customers when they are really projecting their own aspirations onto the customer."

A few years ago, marketers were surveyed by the high-net-worth intelligence and data company Wealth-X and asked about digital's importance in marketing to Affluents. More than one-fourth of marketers indicated that affluent consumers do not engage in online shopping, and more than two-thirds claimed that Affluents do not respond to digital campaigns. These numbers have likely improved since then, but still…it's amazing that marketers assumed that Affluents didn't shop and buy online.

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In fact, many marketers of high-end brands tend to have the same outdated misperceptions of affluent consumers as class-conscious low- and middle-income Americans do. You don't have to necessarily like rich people, but if you are selling to them, you certainly need to understand them if you want to be successful.

## AFFLUENT CONSUMERS: MYTH VS. REALITY[3]

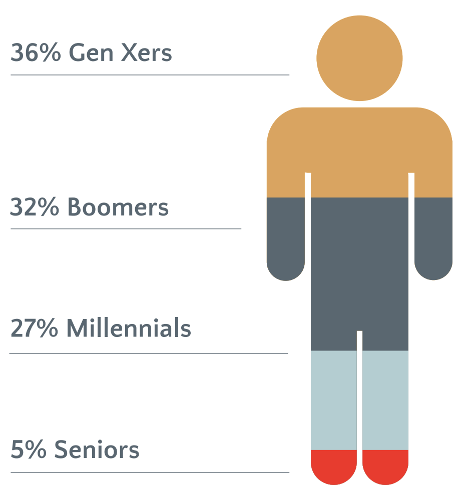
| PERCEPTION | REALITY | SURVEY QUESTION | TOTAL |
|---|---|---|---|
| Inherited riches | Entrepreneurial riches | Average percent of assets inheritance | 2% |
| Lifelong pursuit of wealth | Wealth a by-product of pursuing passions | Still on the front lines of their business | 61% |
| Conspicuous consumption | Stealth wealth | I believe in "stealth wealth" – having money, but keeping it under the radar | 82% |
| Brand as badge | Brands enable self-expression | Expressing my personal style is very important to me | 69% |
| Trophy spouse | First spouse | Married to first spouse | 64% |
| Ivy League | State university | Percent of college grads attending public colleges; Ivy League | 59%; 14% |
| Old patriarchs | Boomers & Gen Xers with kids | Median age; percent with kids under 18 | 47; 50% |
| Elitist attitudes | Middle-class attitudes | I would describe myself as middle class at heart | 84% |

## THERE IS NO ONE SIZE THAT FITS ALL

Understanding Affluents begins with the knowledge that they are not a homogenous group. That's a mistake that I see all the time. Marketers simply blast a single message to a demographic of adults ages 25–54 with HHI of $150K – and call it a day. Just because they are affluent doesn't mean that they are all the same.

Bob Shullman, whose Shullman Research Center (SRC) studies and tracks affluent consumers, has pointed out the many different variables among this segment. "There are significant differences on many issues depending on their household income, wealth, age, gender, etc. These differences present both a challenge and an opportunity to marketers in tailoring their messages, rather than using a 'one size fits all' approach," wrote SRC in its 2013 *Shullman Luxury and Affluence Monthly Pulse* report.

There are, of course, generational differences in affluence. Currently, seniors make up 5% of affluent consumers, with Baby Boomers at 32%, Gen Xers at 36%, and Millennials at 27%.[4] (Incidentally, Millennials were only at 20% just a few short years ago. Not all Millennials are living in their parents' basements.)




## GENERATIONALLY DIVERSE

Most wealthy Americans come from humble beginnings.


## MIDDLE CLASS AT HEART

Another common misperception is that Affluents inherited their wealth, when in fact most wealthy Americans come from humble beginnings, as researcher Jim Taylor points out in his book, *The New Elite: Inside the Minds of the Truly Wealthy.*

Taylor points out that 28% of Affluents come from the lower middle class, while 36% come from the middle class, and 25% come from the upper middle class.[5] That's essentially nine out of ten Affluents shaped by their middle-class upbringing. And moreover, they bring those middle-class values with them on the journey to affluence.

*Approximately 10% of wealthy Americans inherit their wealth. The rest create it themselves.*

If you get this one wrong in your marketing communications, you are making a terrible mistake. More than three out of four wealthy Americans still describe themselves as middle class at heart. They never set out to be rich; instead, they just pursued their passions and worked hard. In other words, wealth was never an end unto itself; it was a by-product of their journey.

In fact, "some affluent consumers cope with the psychological baggage of being wealthy...by declining to think of themselves, or to project themselves, as being affluent or wealthy at all," according to *Research and Markets – Affluent Customers: Demographic Patterns and Spending Trends.*

Many marketers of high-end brands might be surprised to discover the values that Affluents prize the most – which, of course, they gained from their youth:

## AFFLUENTS VALUE[6]

1. THE VIRTUE OF WORK
2. COMPETITIVE PLAY
3. EDUCATION
4. RESPECT FOR ADULTS
5. MODESTY
6. INDEPENDENCE
7. SELF-DETERMINATION

In fact, I'd go a step further and say that affluent consumers have more in common with their non-affluent friends and neighbors than most people would believe. Cara David, managing partner at YouGov's wealth practice, pointed out in a recent report that both Affluents and non-Affluents "describe themselves as honest, intelligent, friendly, loyal, and independent. And what about their values? They share the same top three: freedom, stability, and friendship. They also share in common those traits that they value the least: power, authority, and social status – values many associate with the wealthy."

## AFFLUENTS ARE NOT FRIVOLOUS

Marketers are sometimes surprised to learn that Affluents spend as thoughtfully as their non-affluent friends and neighbors. Of course, it's probable that their thoughtfulness may be directly related to the fact that they spend twice as much as average households on the items they buy, but I also believe that their buying habits were shaped by their middle-class values.

Research shows that **58% of Affluents respond to money-saving incentive offers,** which is higher than average households.[7] In fact, according to Simmons,[8] affluent consumers out-index non-affluent consumers in seeking special offers, shopping around for special bargains, and waiting until items go on sale before they buy.

"Since most U.S. Affluents feel they worked hard for their money, and they want to get the most for it when shopping, bargain hunting is the norm," according to a report in *U.S. Affluents 2017: Looking Beyond the 1%.* Not only are they bargain hunting when they shop, but more and more affluent consumers would rather spend their dollars on meaningful experiences instead of more stuff.

A report from *Research and Markets* said, "For an increased number of affluent Americans, the endless and conspicuous accumulation of possessions has become less important than financial access to meaningful experiences such as purposeful or at least exotic travel." This trend plays out in other research. For instance, Ipsos asked Affluents whether they would rather have two extra weeks of salary versus vacation time. Those consumers choosing vacation time have grown from 40% in 2014 to 48% in 2015 to 55% in 2016. Think about that for a moment. A greater share of Affluents would choose more vacation time over more stuff. They are not only investing more money in leisure, but more time and emotion, too.

As you might expect, with more affluent consumers spending on experiences, fewer are spending on products. According to YouGov's *Affluent Perspective*, those affluent consumers who expect to spend more on luxury this year, compared to last year, have decreased from 40% in 2016 to 36% in 2017 to 31% in 2018.[9]

Apprentices:

5

in the first five years of wealth. Cautious and price-sensitive, particularly with big-ticket items.

Journeymen:

6–14

years into their wealth experience. Beginning to mature in their buying habits.

Masters:

15

years of wealth or more. Have become comfortable with being wealthy.

## CRACKING THE CODE

So if the affluent class in America is not what we might have imagined – highly diverse, generally self-made, thoughtful with their purchases, and more focused on experiences than stuff – where does that leave marketers of high-end home brands?

Potentially "up the creek," unless their brand content efforts connect with Affluents' values and aspirations – and unless their brand activation efforts can place the right message in front of the right person at the right time.

Let me give you an example. When I talk to marketers about their targeting strategies, many of them believe that the most important factors are income and net worth. Granted, those are important, especially for high-end home brands. But there are other ways to better target your prospective customers.

One of them is someone's tenure of wealth. In other words, it may not be as important to target a consumer with $1 million in household income as it is to target someone who has been affluent for more than 10 years. "The length of time people have been wealthy is one of the most powerful predictors of not only how they spend money, but also how they view themselves and live their lives," wrote Jim Taylor, whom I mentioned earlier.

**Taylor classifies Affluents into three general categories:** [10]

- **Apprentices** in the first five years of wealth are cautious and price-sensitive, particularly with big-ticket items. They are highly reluctant about buying a brand that they consider a status symbol.

- **Journeymen** are 6–14 years into their wealth experience and are beginning to mature in their buying habits. They begin to be connoisseurs.

- **Masters** have been wealthy for 15 years or more, and have become comfortable with being wealthy. They spend twice what apprentices do on home renovations and four times as much on home furnishings.

Needless to say, if I were responsible for marketing at a high-end home furnishings company, I would prefer to talk to a "Master" with $1 million in HHI than an "Apprentice" with $5 million.

Better yet, I would target a tenured Affluencer. Another targeting opportunity is a group that Ipsos has identified as Affluencers. "These are not only the early adopters who blaze new paths — they're the influencers who lead the rest of us forward," says Ipsos. "They give us a glimpse into the future of categories. What Affluencers are doing now is what everyone else will be doing next."

Affluencers spend

40%

more than "regular" Affluents

Affluencers spend 40% more than "regular" Affluents and 5.6 times more than non-Affluents — on home decoration and remodeling.[11] They index at 197 in terms of "designing or building a new home." They not only buy more, but they also spread the word. And if you can find an affluent consumer who buys more home-related products and who evangelizes his or her purchase, then you've come pretty close to cracking the code.

## FINAL THOUGHTS

YouGov reports that "76% of Affluents in North America say that there are very few brands that I feel like I personally relate to." You might think that this is a dismal statistic for the high-end home category – and you are right.

But I encourage you to think of it as an opportunity.

Hopefully, I've given you a few nuggets to consider about affluent consumers. Armed with some data about their upbringing, values, and aspirations, you might find opportunities to adjust your messaging to be more in line with what makes these consumers tick. And you may have thought about your activation strategy – and how a few changes to your targeting might yield better results.

The rest of the market, including your competition, is still operating on outdated myths and perceptions. So this is a great opportunity for you to earn a larger share of market and drive greater revenues and profits.

I can't wait to see what you do!

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# Chris Ray

**CEO, Ramey, a leading firm specializing in helping high-end home brands find, reach and motivate affluent consumers.**

Ray is a nationally recognized authority on brand strategy and high-end home brands, having served as a featured speaker at events including the National Retail Federation's annual convention, Silversea Cruises' national sales meeting, and House & Garden's "Well-Lived Life" conference.

As CEO of Ramey, Ray has led the firms remarkable growth and transformation into a highly regarded marketing firm, working alongside some of the world's best-in-class organizations, including:

- The world's leading cookware company
- The world's largest window coverings company
- The world's largest geothermal manufacturer
- The world's leading 3D software manufacturer
- The world's first edge computing platform designed for the Internet of Things
- The world's number-one resort for service (via *Travel+Leisure*)
- The world's leading automotive manufacturer
- America's largest privately held wireless carrier
- America's top-performing community bank (via *American Banker*)
- America's premier culinary college
- America's fastest-growing utility company
- One of America's largest privately held investment banks

In addition to his work, Chris is a passionate entrepreneur and community volunteer.  He has served on a number of civic and non-profit boards, including Operation Shoestring, St. Andrew's Episcopal School, and The Ramey Foundation. He currently serves on the board of Dunn Investment Company.

For more information or to discuss ideas for your brand, contact Chris at **Chris.Ray@UpwardHome.com.**

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## FOOTNOTES

1. "Gross Domestic Product" (Bureau of Economic Analysis, 2017).
2. "Customer Expenditures Study" (Ipsos, 2014).
3. Jim Taylor, "The New Elite: Inside the Minds of the Truly Wealthy" (New York: AMACOM, 2008), 71.
4. "Affluent Survey" (Ipsos, 2016).
5. Taylor, "The New Elite," 43.
6. Taylor, "The New Elite," 46.
7. "Affluent Consumers: Demographic Patterns and Spending Trends, 7th Edition" (Research and Markets, 2017).
8. "Summer 2016 National Consumer Study" (Simmons Research, 2016).
9. "Affluent Perspective" (YouGov, 2018).
10. Taylor, "The New Elite," 118-125.
11. "Meet the Influencers" (Ipsos, 2018).