

»» The Affluent Consumer Purchase Path:
What Search Behavior Indicates for
Luxury Success in 2011–2012



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» EXECUTIVE SUMMARY

The Affluent Consumer's Search Behavior

In this 18-month study, ranging from November 2008 to April 2010, iProspect Luxe Group, a specialty group of online marketers and online luxury retailing experts, analyzed more than 400 individual luxury and prestige brands. Throughout the economic downturn and initial recovery, search marketing and online channels remained a key factor in allowing affluent consumers to connect with their preferred luxury brands. Yet, the study showed changes in searching and purchase paths that luxury retailers must be aware of in order to reach new customers, maintain customer loyalty and compete in the new marketplace.

This study will provide key findings to luxury retailers by comparing consumer trends in the months before and during the height of the economic downturn to the months of initial recovery. Additionally, the study includes specific trends for the luxury fashion, multi-category and beauty segments, and actionable strategies to be successful in the 2011 and 2012 fiscal years.

KEY OVERARCHING FINDINGS

1. Affluent shoppers continued searching online for luxury products throughout the economic downturn, yet are displaying significantly increased interest in luxury brands versus a year ago. Customers sought luxury products more fervently, with an increase of 20 million search impressions for the brands studied. (Nov. 2009-April 2010 versus Nov. 2008-April 2009). Additionally, the post-holiday season is showing a significant increase in luxury search impressions, with an average 17 percent increase year-over-year. (Q1 2010 versus Q1 2009).

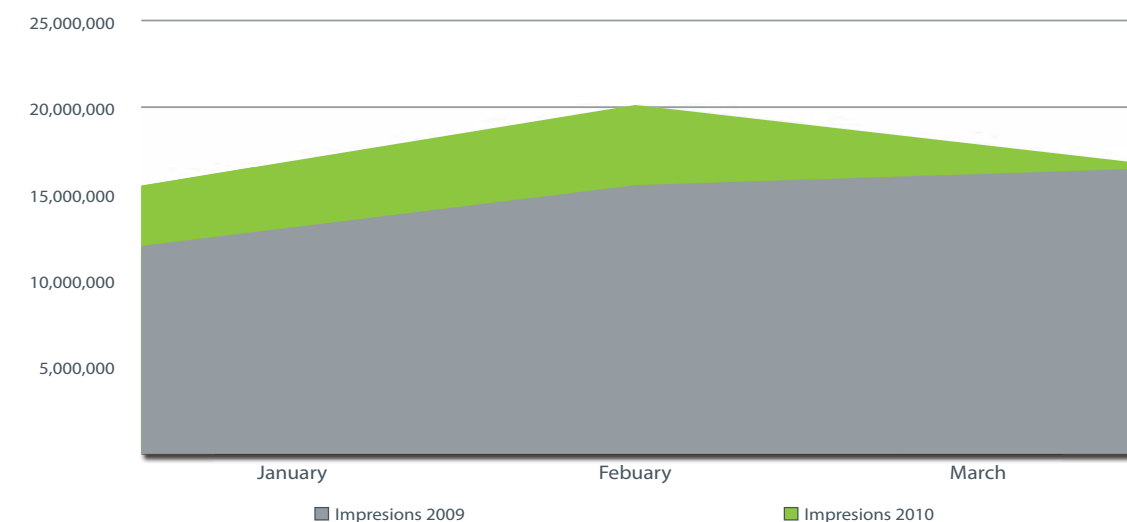


Figure 1: Luxury retail post-holiday increase in impressions YoY for Q1

2. The affluent purchase path is showing definitive signs of shortening, with 88 percent of total purchases occurring within three clicks in 2010. This reflects a 17 percent increase in “short-term” conversions versus 2009. During the height of the economic downturn (fall 2008 through early 2009), even affluent consumers appeared to be “bargain hunting” online. They searched more frequently, clicked more often (in many cases clicking on the same search result five or more times before purchasing), and purchased less often. This implies customers were comparison shopping more often and were considering purchases for a longer period of time before purchasing. As the economy has begun to rebound, consumers now appear to be comparison shopping less and buying more.



Figure 2: 88% of total purchases are occurring within three clicks in 2010, a 17% increase versus 2009.

What is remaining constant for affluent consumers is their attachment to their favorite brands. Although the purchase path was typically longer a year ago, the most common path in both 2009 and 2010 began and ended with a trademarked retailer term (e.g. Neiman Marcus, Bergdorf Goodman, etc.). Beyond their overarching brand loyalty in 2010, affluent consumers are also purchasing more based upon specific designers (e.g. Herve Leger, Diane von Furstenberg, etc.). This study witnessed a 33 percent increase in purchases based on designer-focused searches (Jan.-April 2010 versus Jan.-April 2009).

3. Affluent consumers have shown an upward trend in the amount of money they are spending on luxury goods online as the economy has rebounded – resulting in an 8.1 percent increase in revenue for luxury brands in April 2009 versus April 2010. In comparison, this increase in revenue is almost double the

National Retail Federation’s overall retail category numbers, reporting just 4.6 percent YOY growth. This quicker return of consumer spending for luxury brands over general retail is a positive sign for luxury recovery, as luxury brands dropped farther and faster than the overall retail market during the initial economic downturn.

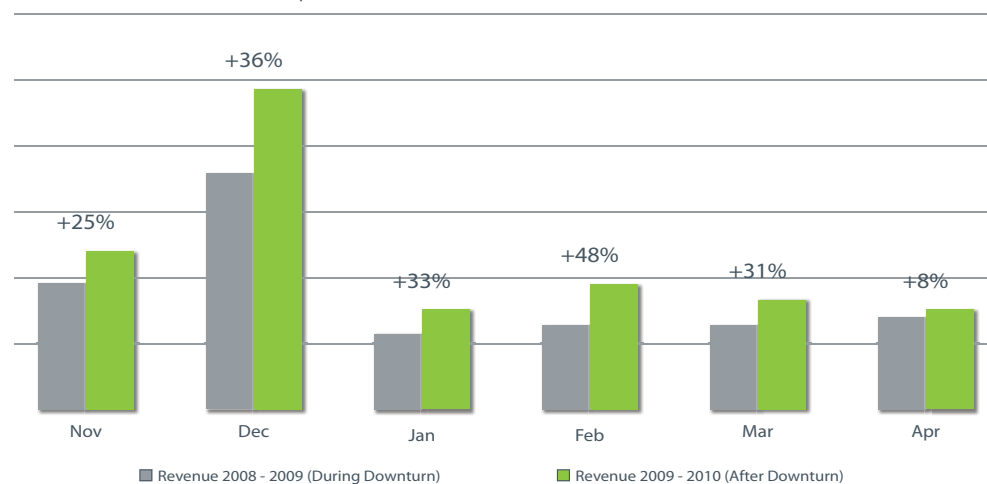


Figure 3: Luxury retail revenue comparison during downturn and post-downturn

In addition, the Luxe Groupe study indicated a 27 percent increase in luxury orders from November 2009-April 2010 versus November 2008-April 2009. These two measurements of luxury growth indicate that not only does luxury appear to be rebounding, but it may be rebounding faster than retail as a whole.

Mastercard Advisors’ SpendingPulse, a monthly report that tracks consumer spending, reinforces these findings of gradual but persistent growth in the luxury market. They have indicated that the luxury category saw an eight percent increase on luxury spending January 2010 over January 2009. They indicated a 15 percent increase in sales in February 2010 over the same period in 2009.

4. Customers are spending more per transaction on luxury goods than a year ago. The most recent holiday season gave the strongest indication of this new transactional landscape, where average order values grew about \$20 per order, or six percent. (Nov.-Dec. 2008 over Nov.-Dec. 2009). More interestingly, the total number of orders for the 2009 holiday season increased almost 25 percent, with revenue for the luxury retailer’s sites increasing 32 percent during this same time frame.

This trend appears to be continuing into the first quarter of 2010. As an example, Bluefly,* a leading online retailer of designer brands and fashion trends, reported in their first quarter 2010 financial results that their average order size increased to \$279.94 in the first quarter of 2010 compared with \$249.99 in the first quarter of 2009. “We are seeing a real rebound in the luxury market, particularly with the launch of the spring season in March,” said Melissa Payner, Bluefly’s CEO. “As the quarter progressed, we saw an increase in customer activity as well as an increase in average order size, related to the revival of the luxury market.”

This is in sharp contrast to many “industry experts,” who, during the height of the economic downturn, predicted that customers would never again be willing to buy full priced luxury goods. While the economic recovery is not even near complete, this research signals that affluent consumers are already shifting their behavior to purchase at a higher price point.

» VERTICAL FINDINGS

This study also took a microscopic look at some of the key luxury retail verticals, including fashion, multi-category and beauty, as each of these niches showed some specific trends that marketers should notice and heed:

FASHION – “Luxury fashion is...back.”

Category Definition: For the purposes of this study, the fashion category consisted of designer contemporary and fine luxury apparel brands. Examples of luxury fashion brands like those studied are Roberto Cavalli, Burberry or Proenza Schouler.

In many ways, the fashion category leads the way for luxury overall. Therefore, it is a positive sign for all luxury retailers that the fashion brands studied showed a significant increase in conversion rates of 16 percent (first quarter 2010 versus first quarter 2009). Furthermore, to see the larger gains in performance post-holiday than are seasonally typical may indicate that affluent consumers are ready to shift their willingness to spend more on themselves, and not just on gifts for others.

MULTI-CATEGORY – “Wall Street controls the luxury marketplace.”

Category Definition: Many of the luxury brands studied offer customers multiple areas of product offerings, ranging from fashion and shoes to handbags. These include some of the most well-known luxury brands in the world and were defined as “multi-category” brands within the study. Examples of luxury multi-category brands like those studies are Gucci, Marc Jacobs or Prada.

The multi-category brands more closely followed drops and gains in the stock market than any other category studied. Through October 2009, the impression volume for these brands matched very closely to peaks and valleys of the Dow Jones Industrial Average. As a positive sign, in fall 2009, the search volume for these brands began rising faster than the Dow Jones Industrial Average to the tune of an increase of more than 5.3 million impressions for these brands. (Nov. 2009-April 2010 over Nov. 2008-April 2009).

In fact, during Saks Fifth Avenue’s* most recent financial earnings report in late May 2010, the company reported to analysts that its shoppers are purchasing fewer items but at higher prices, a sign that high-end consumers are willing to spend more now for the items they desire.

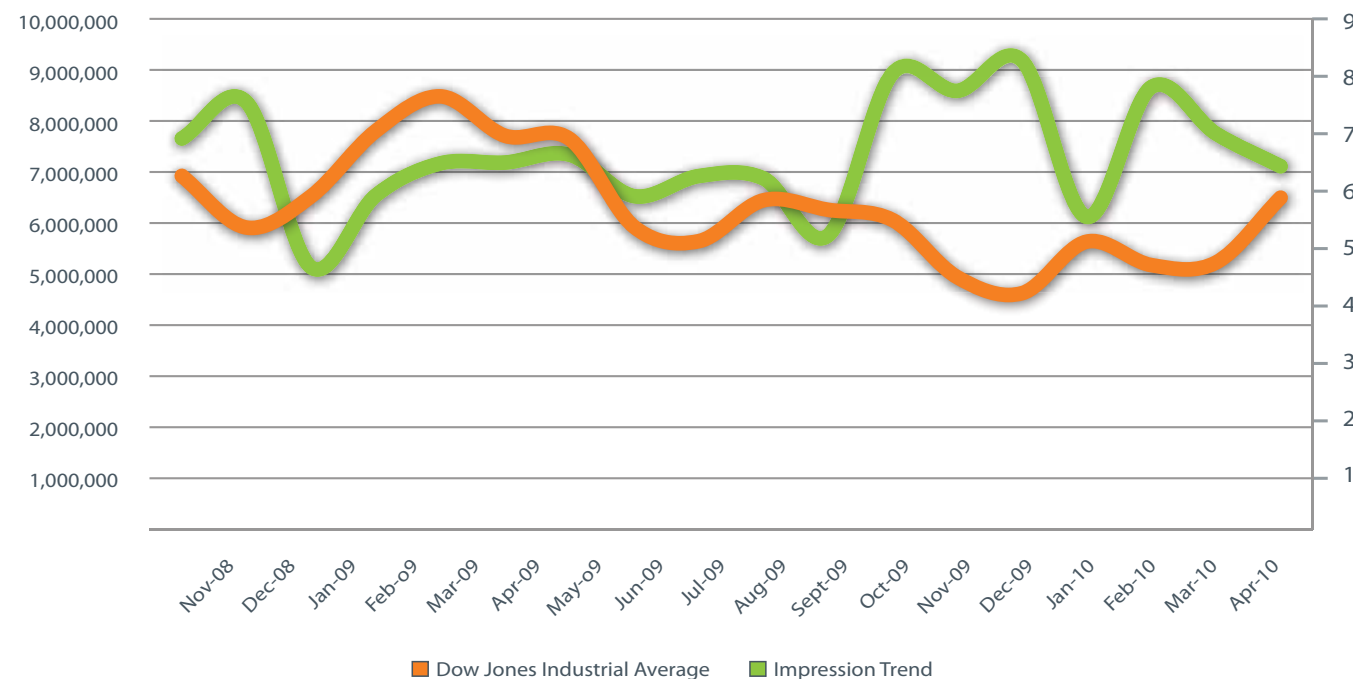


Figure 4: Luxury retail search impressions in the multi-category vertical, in comparison to Dow Jones Industrials Average.

BEAUTY – “Consistency is key.”

Category Definition: Luxury retailers of women’s cosmetics, skincare and fragrances were studied within the beauty vertical. Examples of luxury beauty brands like those studied are La Mer, Trish McEvoy or Lancome.

Differing from other categories, beauty has been the most consistent throughout the economic downturn and recovery. From holiday 2008 through early 2010, the beauty category displayed search impression levels that were flat to slightly decreased. In addition, the number of orders in the luxury beauty category increased only slightly at nine percent and conversion rates increased at a rate of 17 percent (Nov. 2009- April 2010 versus Nov. 2008-April 2009). This consistency in the luxury beauty category throughout the recession and upswing perhaps indicates support for the widely known “lipstick effect,” the theory that consumers are more willing to purchase lower cost luxury goods even when their funds are more limited.

» TAKEAWAYS

The New Rules for Online Luxury Retailers:

As consumer confidence is tentatively returning and affluent consumers are showing a renewed interest in investment pieces and trends alike, luxury retail marketers must find new ways to engage and create loyalty. Though the future economic situation is always uncertain, there are a few things that luxury marketers can do to ensure they are in the best position possible, regardless the state of the economy. Throughout 2011 and into 2012, some key strategies will be as follows:

OVERARCHING

First and foremost, intensely analyze your own customers and brand – Take the time to undergo the same type of analysis this study looked at for your own brand, with all of the analytics and insights you have at hand. Take a look at your search campaigns, conversion data and industry trends to learn more about your individual business and how it compares to your category overall.

This will help you to determine key assumptions for moving ahead, like: Is discounting or offering promotions a viable option for your business, or has that tended to erode your customers’ lifetime value? Do you see conversion rates dipping, and is it time to invest more in your site or tighten up your landing pages? There is no one-size-fits-all strategy for luxury retail marketers. Determine your unique needs, your customers’ particular behavior patterns and then methodically work through improving the channels that make the most impact to your business.

CUSTOMER-FOCUSED MARKETING

Invest in online – While luxury and online have not always embraced one another, the luxury customer has fully embraced online, even when other they were abandoning other channels (e.g. online search volume increased throughout the economic downturn, while in-store purchases dropped). Now is the perfect time for luxury brands to begin investing in online in a way that not only services the customer, but also reinforces everything the brand represents.

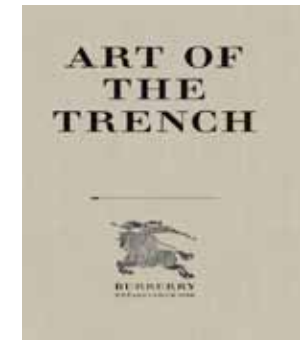
Customer segmentation will be paramount – In 2011 and 2012, it will be key to have two specific and well-planned strategies specifically focused on loyal customers versus new and aspirational customers. A few key points to keep in mind when segmenting and customizing your messaging to your key consumer groups:

- **Align your efforts with your unique customers' needs** - Each month, there are changes, opportunities and new ways to reach consumers within the online marketplace. Whether it's a new display capability, a new form of attribution or a new channel (mobile search, iPad advertising, etc.), many marketers are on the forefront, constantly innovating and testing. Luxury retail marketers have not had a reputation of being "early adopters" in terms of new technology and ways to reach customers, as the need to protect such high profile brands often outweighs the need to innovate. It is truly possible to do both.



Graphic 1 – In the hands of early adopters – Gilt Groupe on iPad

- **Aspirational Customers are the "New Black"** – During the economic downswing, aspirational customers, those who purchase less often and have lower average order value, were often the incremental boost marketers needed. Luxury marketers who not only survived, but also thrived during the economic downturn, focused on attracting new and sometimes aspirational customers. For luxury brands, now is the time to invest in finding new customer groups. If you invest in them, they will invest in you for the long haul.



Graphic 3 – Burberry creates a social media channel for passionate fans



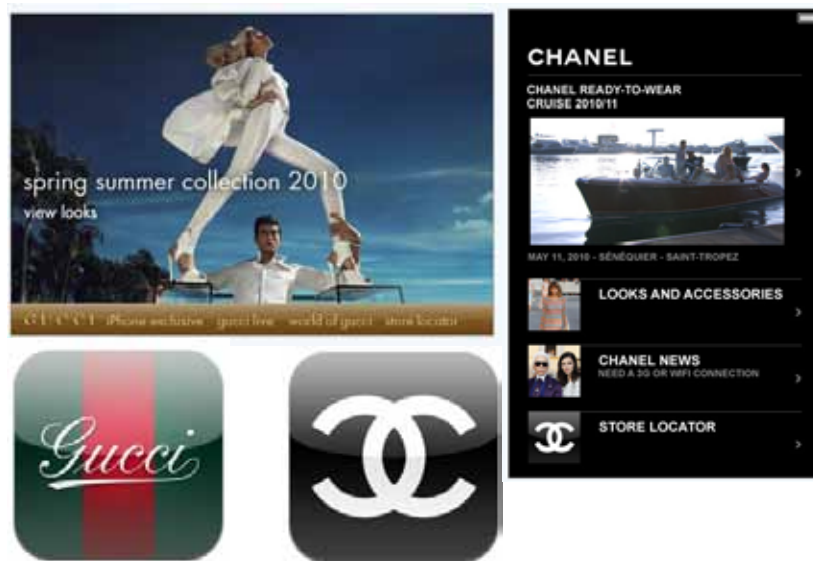
Graphic 4 – Luxury retailers embracing Facebook audiences

- **Aspirational customers are often a marketing arm in themselves.** Aspirational customers often participate heavily in word-of-mouth and viral marketing. After saving for a "dream handbag," an aspirational customer may tell all of her friends on Facebook/Twitter/etc. Smart marketers must make it simple for customers to share their luxury excitement: offer onsite reviews, have a thorough social media strategy, implement the universal Facebook "like" button, etc.

- **Find new ways to engage.** Creating gifting silos onsite that offer gift buying assistance and "gifts under" a certain price point often prove effective in assisting loyalists purchasing gifts and aspirational customers shopping for themselves alike. Also, establish specific keywords and creative for this audience that speaks to an investment and to the value of the purchase, rather than just an impulse buy or promotion.



Graphic 5 – Gift finders offer aspirational and loyal customers alike a new way to engage and shop on your site



Graphic 2 – Some luxury brands who are engaging creatively with mobile

- **Invest in loyalty** – Beyond the aspirational and new customer, luxury marketers must constantly have a plan in place to avoid loyal customer attrition, such as:
- **Focus on the advantages luxury has over commodity goods.** The quality, craftsmanship, emotional connection and history are the golden ticket for luxury retailers. Speak to these attributes in your website copy, as well as your search and display creative. These messages are especially strong when speaking to a customer who considers your product an investment.



Graphic 6 – Luxury retailers focus on emotional connection, craftsmanship

» ABOUT iPROSPECT

iProspect is a leading global digital performance marketing agency. The company helps many of the world's most successful brands maximize their online marketing ROI through research, pay-per-click management, search engine optimization, performance display, comparison shopping management, local search, mobile, social media management, and other related services.

The agency, which is part of Aegis Media, is proud to work with many of the world's most notable brands and represents more retail clients on the Internet Retailer Top 500 List than any other agency (3 consecutive years – 2009, 2010, 2011). iProspect has received numerous industry awards including: The 2010 ClickZ Connected Marketing Award for Best Use of Search Engine Marketing; The 2009 Search Engine Strategies Award for Best Social Media Marketing Campaign; The 2009 Search Engine Strategies Award for Best Use of Local Search.

With offices in Boston, New York, Chicago, San Francisco, Dallas-Fort Worth, and around the globe, iProspect can be contacted at 1-800-522-1152, or by visiting www.iprospect.com.

CONTACT

Please feel free to reach out with any questions about this report or your luxury retail needs to: Vic Drabicky, VP, Strategic Accounts, at vic.drabicky@iprospect.com, or Andrea Wilson, Client Services Director, Luxury, at andrea.wilson@iprospect.com

STUDY METHODOLOGY

In this study, the iProspect Luxe Group analyzed data from 424 luxury retail brands marketed within the company's client base. Included in the analysis were the metrics of impressions, clicks, click through rate, CPC, cost, revenue, orders, conversion rates and average order value for November 2008 through April 2010. The Luxe Groupe also examined key economic indicators, such as the Dow Jones average, in conjunction with this luxury client data.

BRAND NOTICE

The client names and data specific to individual brands are not released due to proprietary and contractual limitations. Any luxury brand names mentioned and graphics displayed may or may not have been specifically studied, and are used for the purposes of illustration.

*Bluefly and Saks Fifth Avenue were not among the brands studied in this research. The examples used are for the purpose of illustration, and the quotes and statistics mentioned from these organizations were relayed in public earnings statements.

CUSTOMER EXPERIENCE

Luxury is continuing to become more customer-centric. Ensure you are delivering an excellent customer experience, worthy of your brand. It may sound simplistic, but you must make it as simple as possible for new and loyal customers alike to browse and purchase from you. Specifically:

- **You never get a second chance to make a first impression** –As the purchase path is shortening (with three clicks or less before purchase becoming more prevalent), it is vital for luxury retailers to capture customers' intent and provide them, without fail, a website experience with relevancy and appropriate depth. Beyond ensuring accuracy and relevancy, luxury retailers should also consider more in-depth website experience testing. One top name multi-category luxury retailer, in the height of the recession, found out that their landing page experience was severely limiting their customer set. After undergoing landing page optimization testing, the retailer worked to ensure a customer in the mindset to purchase a \$1,000 item didn't land on a page with \$47,000 jewelry displayed, and as a result, they saw new customer purchases skyrocket.
- **Reassure your customer that your brand is truly special** –Whether you send customers a thank you email after a purchase or a hand-written note in their shipped package, find ways to increase your customer's connection with your specific brand when they first have your luxurious product in their hands. If you already have live customer service or live chat capabilities on your site, why not take it one step farther and offer a personal shopper via your online chat experience?



Graphic 7 – MyShape offers an online personal shopping experience to customers

ADDITIONAL VERTICAL CATEGORIES:

Other specific verticals studied included shoes, handbags, luxury travel, gourmet foods, accessories and jewelry. Please contact iProspect if you would like to discuss the findings in relation to these specific categories.



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