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‘X-Fluents’ at Saks Defy Turbulence to Buoy Luxury Sales: Retail
2011-10-07 04:00:01.1 GMT

By Cotten Timberlake

Oct. 7 (Bloomberg) -- When stock markets tumble, wealthy U.S. shoppers typically cut back their visits to such luxury emporiums as Saks Inc. and Nordstrom Inc. Yet even as the markets have seesawed, they’ve kept right on spending.

Exhibit A: Saks and Nordstrom yesterday reported September sales that exceeded analysts’ estimates, while luxury retailers as a whole outpaced all other segments except gasoline-selling wholesale clubs.

Affluent Americans aged 24 to 49 who have a yen for high living and bling are helping drive luxury sales, says Unity Marketing, which conducts quarterly shopper surveys. One cohort, called the “X-Fluents” -- for “extremely affluent” -- are responsible for 23 percent of luxury sales in the U.S., up from
18 percent in 2007, the Stevens, Pennsylvania-based firm said in a Sept. 14 client presentation it provided to Bloomberg News.

“The U.S. marketplace is more concentrated among young people,” said Unity President Pam Danziger. “They are more predisposed to luxury indulgence and represent more promising targets to luxury brands.”

X-Fluents were out in force again last month, she said.

Another group that Unity has dubbed “Aspirers” are also spending more on luxury, according to Danziger. They favor “flash, bling and status” and now account for 18 percent of luxury sales compared with 16 percent in 2007, she said.

In the past, affluent shoppers’ willingness to buy baubles has been tied to the stock market because its performance affects the perception of their own wealth -- the so-called wealth effect. Luxury was the hardest hit retail segment during the financial meltdown three years ago; sales in the U.S.
plummeted 9.1 percent in 2009, according to the International Council of Shopping Centers.

Holiday Season

This time is different. Though the Dow Jones Industrial Average swung by 4 percentage points daily for an unprecedented stretch in August and consumer confidence stagnated near a two- year low in September, luxury sales may outpace the overall industry this holiday season.

Sales at luxury stores open at least a year will climb 7.5 percent, faster than the 6.7 percent increase in November and December of 2010, predicts the ICSC. Other retail segments will see slower or unchanged sales growth, the New York-based trade group said.

Unity, which sells the results of its surveys to such retailers as Neiman Marcus Group Inc. and Tiffany & Co., has been asking luxury shoppers questions since 2002.

Respondents are asked to agree or disagree with such statements as: “Luxury is defined by the brand of the product, so if it isn’t a luxury brand it isn't a luxury." Or: "Once you experience luxury in your life, you never want to go back to the ordinary."

Spending Patterns

The firm devised five personality groups based on income and spending patterns.

X-Fluents are the most highly indulgent, spending more, buying the most frequently and dedicated to maintaining a deluxe lifestyle. Aspirers like to buy and display brands.

"Butterflies" are on average are over 47, mostly female and enjoy luxury experiences such as travel. "Cocooners," also over 47 on average, express their luxury identity by spending on their nests. "Temperate Pragmatists" -- average age 45 -- have a take-it-or-leave it attitude toward luxury goods and the lowest income of the five.

X-Fluents laid out an average $253,960 on fashion accessories, cars, home furnishings, travel and dining last year, up almost a third from 2009. X-Fluents' income averages $410,152, and they are the youngest, or 42 on average, with a majority 40 or younger.

'Bragging Rights'

The younger luxury consumers are, the more concerned they are with "bragging rights," the Affluence Collaborative, a New York market research firm, wrote in a July research report.

Aspirers have an average age of 43.5 and income of $303,057, with a minimum of $100,000 to qualify, Unity says.
They have not achieved the level of luxury to which they aspire and are the most materialistic, according to the firm.

After pulling back for the past two years, aspirational consumers have returned to the stores to sate their pent-up demand, says Milton Pedraza, chief executive officer of the Luxury Institute, a New York-based research firm.

Their wherewithal stems from job security, bonuses and stock options, Pedraza said. Many are clustered in financial services and Silicon Valley, removed from the economic challenges other Americans face.

"Right now people continue to want luxury," Neiman Marcus Chairman Burton Tansky said in an interview.

Courting Customers

The Dallas-based retailer has been actively courting younger, affluent customers, Wanda Gierhart, senior vice president, said in a Sept. 30 phone interview.

It is updating its contemporary fashion department -- which sells such brands as Diane von Furstenberg and Alice + Olivia -- to give it "a different edge" than the rest of the store, Gierhart said. Six months ago, Neiman Marcus for the first time started allowing sales associates in that department to wear denim to work.

The retailer shifted "a lot" of its advertising spending to digital ads this past year, so customers know they can shop at Neiman Marcus whenever and wherever they want to, Gierhart said. It has ramped up its social media efforts and modernized the aesthetics of its publications, she said.

The “emerging customer” likes to mix fashions according to her own taste, Gierhart said, which differs from a more traditional head-to-toe look in European brands, she said.

A greater concentration of X-Fluents does not necessarily bode well for the industry long term, Danziger said.

Since the recession, many former luxury buyers have dropped out and once again view themselves as middle-class, Danziger said. While many of these had spent significantly less on luxury goods individually, they together had accounted for a lot of purchasing, she said.

“Where is the growth going to come from?” she asked.

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