



LUXURY BEAUTY, COSMETICS & FRAGRANCES SNAPSHOT REPORT

*The Seven Year Guide to the Trends in the American Affluent
Consumer Market for Luxury Beauty, Cosmetics & Fragrances,
including Brands*

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INTRODUCTION & METHODOLOGY

Unity Marketing's Annual State of the Luxury Market Report

This report provides seven years of data about trends in luxury shopping and purchases among the nation's top quintile of affluent high-end shoppers. The report contains detailed statistics covering 2008-2014 calendar years about what luxuries affluents bought; how much they spent including product level detail for seven consecutive years, which provides trend analysis covering the pre-recession and recovery periods; the types of stores that attract the consumers' share of wallet by category; and the brands they support.

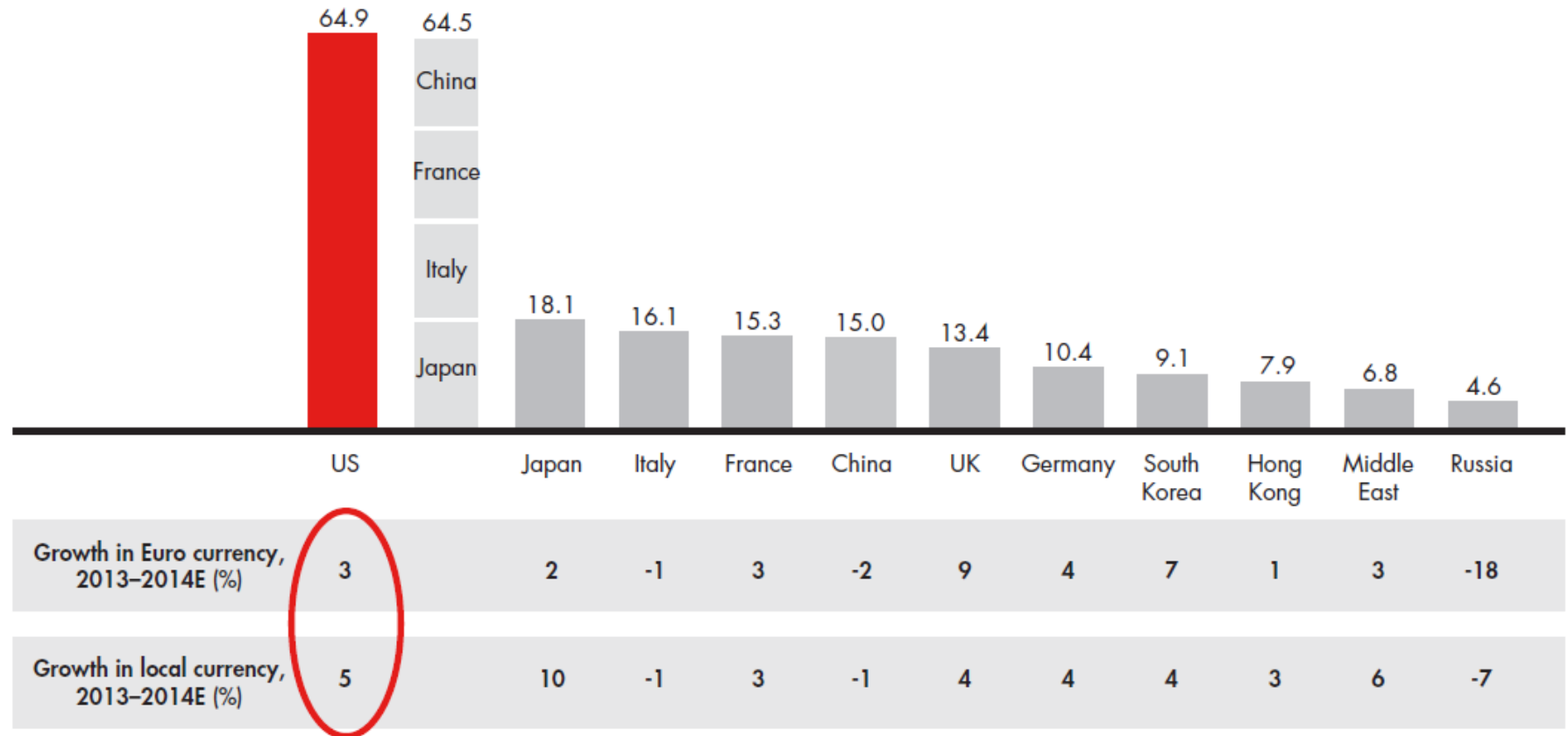
The US Luxury Market Dwarfs All Others

The United States is by far the most important market for luxury goods and services. While the emerging luxury markets with their rapid growth, like China, make the news, the U.S. luxury market remains the world's largest many times over. Not only does the U.S. have the greatest number of wealthy, the size of the U.S. luxury market, which reached €64,9 billion in 2014, is more than 3.5 times larger than the next largest market, Japan. This according to estimates reported by Bain/Altagamma in their *2014 Luxury Worldwide Market Study*.

Very simply, the U.S. luxury market dwarfs that of any other market in the world, it is larger than the combined total of the four next largest markets – Japan, Italy (€16.1), France (€ 15.3) and China (€ 15).



Personal luxury goods, top countries, 2014 (€billions)



Source: Bain & Company

Figure 1: U.S. Luxury Market Relative to Rest of World 2014 (Source: Bain & Company)

This is a report for every brand targeting the luxury consumer. It examines in depth the U.S. market for luxury goods and services.

The Luxury Report reveals:

- Who has the disposable income to buy luxury? Where can you find niches in the affluent market — ethnicities, genders, income levels, wealth – that have the money to spend on what you are selling?

- How does today's affluent define luxury? What positioning works today for a new value-based customer?
- What are the luxury consumers buying today? What luxuries are hot, what not as measured by luxury consumer demand?
- How much do luxury consumers spend on different categories of goods and services? How can you capture a greater share of the affluents' spending within and across different luxury categories?
- Where are today's luxury customers shopping? What are their favorite brands? How are their shopping habits and brand preferences changing and how can you put yourself out in front to be there where the customers are now browsing for new goods and services?
- How can you build connections to the best target customer by hitting the right notes in marketing and branding?

For Luxury Brand Marketers: *The Luxury Report USA* is an ideal research tool for luxury brand marketers that need to understand not just their core customers, but also the target customers that they haven't yet met in their stores, online or on social media. It includes brand tracking, as well, so you can see where your brand stacks up against the competition.

For Advertising Agencies: *The Luxury Report USA* is a powerful desk reference for advertising agencies preparing a pitch to a new luxury client. It provides the research foundation that demonstrates your agency knows and understands who the luxury customer is and how to reach them. And it covers 21 luxury goods and services categories, so you are ready today to pitch to a fashion brand, tomorrow to a home furnishings client, and next week to a prospective hospitality client.

For Retailers: *The Luxury Report USA* is for retailers who are challenged by intense competition coming at them from all different directions. Nobody needs to tell retailers that they face a rapidly changing selling environment where the old tricks no longer work. Retailers need the kind of intense research-based look at the potential customers that walk by their door. *The Luxury Report USA* reveals how you can attract them into your door, rather than walk on by.

This report includes eye-opening statistics, plus case studies and advice that turn research findings into actionable marketing strategies and tactics. Unity Marketing has done the important research work for you to gain critical market intelligence about your customers and target customers.

Success in the luxury market begins with understanding the needs and desires of the affluent customers. Get an edge on your competition with *The Luxury Report* by the luxury consumer experts at Unity Marketing.

More about the *Luxury Report*

The Luxury Report USA provides research analysis and data about trends in the affluent luxury consumer market. It gives marketers three key perspectives about this customer:

- Demographics of the affluent, which tells us more about the customers who can afford to buy luxury and high-end goods and services;
- Purchase behavior over the past seven years which tracks what luxuries they have bought, how much they spent, where they made their purchases and the brands that they have bought; critical since past consumer behavior often predicts future behavior; and
- Affluent Consumer Psychology or psychographics which tells about the attitudes and values and how marketers can tap the psychology of those who have the willingness to spend.

For example, Unity Marketing's tracking of affluent consumer behavior highlights that in today's luxury market, consumers' income demographics (i.e. who has the most money to spend) are less important than psychographics that describe one's willingness to spend. Further, people's willingness to spend today is more influenced by the customer's age, i.e. younger, rather than income. High income (\$250k+) and young age (under 45 years) are the highest-spending customers in the luxury market today. The question for marketers is how are you positioned to capture this customer?

The Luxury Report USA examines consumers' buying behavior and spending habits in 21 important categories in the luxury market. Specifically:

Home Luxuries

- Art & Antiques;
- Home Electronics;
- Furniture, Lamps & Floor Coverings;
- Garden & Garden Products;
- Kitchenware, Cookware and Cooks' Tools & Housewares;
- Major Home Appliances, Bath, Window Coverings & Building Products (including brands);
- Linens, Fabrics and Soft Goods;
- Mattresses & Sleep Systems; and
- Tabletop (including brands).

Personal Luxuries

- Clothes & Apparel (w/brands);
- Cosmetics, Beauty & Fragrance Products (w/brands);
- Fashion Accessories (w/brands);
- Jewelry (w/brands);

- Watches (w/brands);
- Personal Electronics; and
- Wine & Spirits (w/brands).

Automobiles, including automobile brands

Experiential Luxuries

- Luxury Dining (w/brands);
- Travel (w/brand);
- Spa, Salon, Massage Services; and
- Physician Services.

This report doesn't stop with the data — It pushes further to help marketers and retailers put the information to use

The Luxury Report USA translates data into information and insights that marketing executives can use to make critical strategic decisions. It makes the research data and findings accessible and useable. It provides marketers with three powerful perspectives: “The What”, “So What” and “Now What.” This report contains advice and guidance for luxury marketers to take action on the research findings revealed.

AFFLUENT CONSUMER TRACKING STUDY (ACTS) METHODOLOGY

Unity Marketing tracks purchases and spending on luxuries among affluent consumers every three months

This report summarizes the results of the Affluent Consumer Tracking Study (ACTS) recording luxury goods and services purchases throughout 2014 in two survey waves among 1,200+ affluent purchasers of one or more luxuries in the study period. The results for 2014 are compared to surveys conducted throughout 2013, 2012, 2011, 2010, 2009 and 2008.

Unity Marketing's Affluent Consumer Tracking Study (ACTS) is intended to keep luxury brand marketers' and retailers' fingers on the changing pulse of the luxury market. Through regular quarterly surveys, companies will better understand the shopping and buying habits of their affluent customers and anticipate how they will be spending their luxury budgets in the coming months.

Two Segments of Affluents based upon Income Are Surveyed

To enable luxury marketers to understand variations within the affluent market, perspectives of two different segments of the affluent market were gathered, based on household income. These segments correspond to the top 20 percent of U.S. households based upon income:

- **HENRYs (High Earners Not Rich Yet)**, who earn between \$100,000 and \$249,999 (~66 percent of the 2014 sample) the mass-affluent consumer segment;
- **Ultra-affluents**, with incomes \$250,000 and above (~33 percent in 2014), the traditional customer target for luxury brands.

The primary objective of surveying affluents regularly is to alert luxury marketers to shifts and changes in consumer choices that will affect their business in the future

The results of the quarterly Affluent Consumer Tracking Study (ACTS) gives luxury marketers early warning of changes and shifts in their marketplace. It helps them monitor brand awareness and purchase so that they can measure the success of new marketing communications programs. It provides a view ‘over the horizon’ of what trends are coming and how they will affect the luxury consumer. Through this tracking service, luxury marketers will remain up to date and in direct “contact” with their affluent customers.

Compilation of Affluent Consumers’ Luxury & High-End Purchases

This report summarizes the results of the Affluent Consumer Tracking Study (ACTS), recording luxury purchases as well as planned purchases rolled up across the surveys tracking purchases during the three-month study period. This provides marketers with both a backward and forward look at the spending behavior and attitudes of luxury consumers:

Unity Marketing’s Affluent Consumer Tracking Study is intended to keep luxury brand marketers’ and retailers’ fingers on the changing pulse of the affluent consumer market. Through regular surveys, companies will better understand the shopping and buying habits of their affluent customers and anticipate how they will be spending their luxury budgets in the coming months. The following report compiles the results of the ACTS Product & Services Track survey conducted in two waves during 2014, as compared with results from four quarterly waves in 2008-2013.

New ACTS Shopper Track Survey Adds Additional Perspective on Affluent Shopping Behavior

In 2014 an additional survey was added to the ACTS program. In alternative quarters, the Shopper Track survey was fielded. Shopper Tracks focuses specifically on where affluents shopped in the three month period, and then what products or services they bought. The Shopper Track study captures details about affluents’ most recent shopping occurrence, giving another perspective on

their behavior in the luxury market. The compiled results of the Shopper Track study are published separately as “Luxury Shopping Report.”

Major retailer and service categories included in the quarterly Shopper Track survey:

- **General Merchandise Retailers:** In-depth details about the most recent shopping experience in Department Stores and Luxury Department stores and their associated websites are gathered. In addition, topline incidence and usage data gathered for Discount Department Stores and Warehouse/Club Stores.
- **Internet and Direct-to-Consumer Channels:** In-depth details about the most recent shopping experience with an Internet-online retailer are gathered, with topline incidence and usage data only collected on Direct Mail/Catalog and Television Shopping.
- **Specialty Retailers:** In-depth details about the most recent shopping experiences is collected for these types of stores or their associated websites: Luxury-Branded Boutiques; Clothing & Fashion Accessories Stores; Home Specialty Stores; Jewelry Stores; Personal care beauty stores; Liquor and/or Wine stores; Kitchenwares and Tabletop Stores; Art Galleries, including custom framing shops; Major Appliance Stores; Sunglass or Optical Specialty Stores. In addition topline incidence and usage data is collected for these specialty stores: Book, Record and Video stores; Craft & Hobby Stores; Electronics and/or Computer Specialty Stores; Gift Specialty Stores; Toy Stores; and Home Improvement Stores.
- **Experiential Luxuries and Services:** In-depth details about the most recent service experience are gathered on Fine Dining; Travel; Spa, Salon, Massage Services; and Physician Services. Basic usage data is also collected on interior decorator, architect and contractor services.

SAMPLE DEMOGRAPHICS

Every quarter we survey not just people with high incomes, but affluents who buy luxury goods and services

The survey sample is recruited based upon high income (\$100,000 or more which corresponds to the top 20 percent of U.S. households) and purchase of one or more luxury goods or services in the three month study period. Respondents are also qualified by age, from 24 to 70 years old.

In 2014 a total of 5,166 affluent luxury consumers were surveyed, including n=2,400 in the Product/Services Track and n=2,766 in the Shopper Track; the comparable sample totals are listed in the chart below.

Income Demographics

The income distribution from the last seven years of affluent consumer tracking is as follows:

<i>Income</i>	<i>2014 (n=5,166)</i>	<i>2013 (n=5,001)</i>	<i>2012 (n=5,221)</i>	<i>2011 (n=5,424)</i>	<i>2010 (n=5,195)</i>	<i>2009 Weighted (n=4,739)</i>	<i>2008 Weighted (n=4,609)</i>
\$100,000 to \$149,999 (HENRYs)	33%	33%	33%	33%	32%	32%	31%
\$150,000 to \$199,999 (HENRYs)	24%	23%	24%	24%	23%	23%	23%
\$200,000 to \$249,999 (HENRYs)	10%	10%	10%	10%	12%	12%	12%
\$250K+ (Net Ultra-Affluents)	33%	33%	33%	33%	32%	33%	66%
\$250,000 to \$499,999	26%	25%	23%	20%	17%	18%	16%
\$500,000 to \$999,999	5%	5%	7%	9%	7%	6%	3%
\$1,000,000 or more	2%	2%	3%	4%	8%	9%	4%
Average	\$264.9k	\$266.1k	\$277.0k	\$288.6k	\$311.4k	\$331.5k	\$272.3k

Figure 2: Income Sample

Because Unity Marketing increased its sampling of the ultra-affluent consumer segment in 2010 to comprise 33 percent of the overall sample, as compared with the natural distribution of only 10 percent, the income samples for 2009 and 2008 were statistically weighted to match the income distribution for 1Q2010.

In the survey analysis two income segments are the most important for luxury marketers:

- HENRYs (High Earners Not Rich Yet) with household incomes from \$100,000 to \$249,999. These households represent the top 18 percent of all households by income. They are the mass-affluent segment and an important consumer segment for both mass-marketers and luxury brands.
- Ultra-Affluents with incomes of \$250,000 and above which represent about the top 2-3 percent of households by income. Ultra-affluents are the traditional customer targets for luxury brands.

Overall, the income of the top quintile consumers has not yet recovered from its pre-recession high of \$191,513 in 2006, nor has that of the top 5% reached its \$338,636 high in 2006 (values in 2012 dollars). The average American household has been even more profoundly affected by the recession, having lost over \$4,500 of real income. We can continue to expect variability in affluent household income to grow, especially those dependent upon investments, bonuses, commissions.

Net Worth

After falling from a high in 2010 of \$866,000, the median net worth of a survey respondent rose to \$838,000, but still below 2011 levels

How much are your personal investible assets, including investments, cash value insurance policies, retirement accounts, etc.?	2014 (n=5,166)	2013 (n=5,001)	2012 (n=5,221)	2011 (n=5,424)	2010 (n=5,195)
Less than \$1,000,000 NET	55%	56%	55%	54%	51%
\$100,000 or less	12%	11%	12%	11%	11%
\$100,000 to less than \$250,000	10%	12%	11%	11%	10%
\$250,000 to less than \$500,000	15%	16%	16%	16%	14%
\$500,000 to less than \$1 million	19%	18%	16%	16%	16%
\$1 million or more NET	31%	32%	34%	35%	36%
\$1 million to less than \$2.5 million	15%	15%	14%	12%	12%
\$2.5 million to less than \$5 million	8%	9%	7%	6%	6%
\$5 million to less than \$10 million	4%	3%	4%	3%	3%
\$10 million to less than \$25 million	2%	2%	3%	4%	4%
\$25 million to less than \$50 million	2%	2%	3%	4%	4%
\$50 million to less than \$100 million	1%	1%	2%	4%	4%
\$100 million or more	0%	0%	1%	1%	3%
Refused/Don't Know	14%	11%	12%	11%	13%
Median (in 000's)	\$838k	\$797	\$814	\$846	\$866

Figure 3: Net Worth

While the survey analysis typically is based upon the average or mean measurement in various numerically-reported scales, for net worth a better measure of the true wealth of the affluent consumer tracking sample is the median value (i.e. the middle value when all net worth values are ranked from highest to lowest and which is far less influenced by extreme highs as is averaging) which was \$838,000 in 2014, and which declined from \$866,000 in 2010 when this question was added to the survey.

Gender

Women respondents comprised a greater share of luxury survey respondents than men

Gender	2014 (n=5,166)	2013 (n=5,001)	2012 (n=5,221)	2011 (n=5,424)	2010 (n=5,195)	2009 (n=4,739)	2008 (n=4,609)
Male	37%	41%	42%	46%	44%	40%	40%
Female	63%	59%	58%	54%	56%	60%	60%

Figure 4: Gender distribution

As a rule women are more modest luxury spenders, yet they represent the majority of the luxury survey sample year-in and year-out.

Age Distribution & Cohort

Luxury consumers are middle aged ~ Just over 45 years of age

Age	2014 (n=5,166)	2013 (n=5,001)	2012 (n=5,221)	2011 (n=5,424)	2010 (n=5,195)	2009 (n=4,739)	2008 (n=4,609)
Young affluents (24-44)	42%	44%	53%	54%	53%	38%	38%
24-34 years	17%	17%	23%	24%	25%	22%	22%
35-44	25%	26%	29%	29%	27%	28%	27%
Mature affluents (45-70)	58%	56%	47%	46%	47%	62%	62%
45-54	31%	30%	26%	23%	25%	29%	28%
55-70	27%	26%	22%	23%	22%	22%	23%
Average Age	47.4 yrs.	47.1 yrs.	45 yrs.	45.1 yrs.	45.2 yrs.	45.3 yrs.	45.3 yrs.

Figure 5: Age Distribution

The average age of the luxury consumers surveyed has been remarkably consistent over the past seven years, averaging just slightly over 45 years in age. This is not unexpected as the age window of affluence, when people reach their highest level of income and earnings, ranges from 35 to 54 years

Throughout the Affluent Consumer Tracking Study (ACTS), young affluents (defined as those under 45 years of age) have consistently spent more on luxury. This is owing to the fact that young affluents are at a more acquisitive lifestage associated with people forming families, having children, moving up into larger houses, and simply acquiring the various luxuries of life. As people age and mature, they have already made those investments in their luxury lifestyles and so have less need to make new purchases. Further, as people age their interests turn more experiential and less materialistic.

That is why it is interesting to note that in 2010 through 2012 the share of the young affluent consumers participating in the Affluent Consumer Tracking Study (ACTS) rose to make up a majority of respondents, but their participation declined sharply in 2013 and 2014. The drop in participation of millennial-generation young affluents, aged 24-34 years, in particular drove this trend, as participation among the GenXer young affluents, aged 35-44 years, has been more or less on an even keel.

Luxury Marketers>> Take Action

While the typical profile of a luxury consumer is a middle-aged, HENRY female, the best prospects for luxury brands is a young, ultra-affluent male

Typically the most active luxury consumers are women, but, as this report will reveal, the biggest spenders in Unity Marketing's Affluent Consumer Tracking Study (ACTS) are men, young affluents (24-44 years) & ultra-affluents. Luxury brands need to develop strategies that tap the strong potential of these young affluent men who are their best prospects, such as Suitsupply.

Luxury Marketers>> Get Inspired by Suitsupply

Suitsupply creates a special in-store shopping experience designed for young men's fashion needs today & tomorrow

Suitsupply sells high-quality, well-designed men's suits at affordable, even reasonable prices, with off-the-rack suits starting under \$500 and made-to-measure up to \$2,000. Suitsupply is an international retailer with six US stores and seven more slated to open soon to make 46 stores worldwide.

Besides attractively priced clothes, Suitsupply provides exceptional service, which includes highly-trained sales associates that take the guesswork out of the equation by fitting a customer into the suit that works best for him; and on-site tailors who do basic alterations while one waits — all for the thrill of immediate gratification.

But it's not just the clothes and shopping experience that sets Suitsupply apart. Suitsupply's marketing strategy makes it an important retailer. Suitsupply is a retailing concept that is designed to grow and evolve with its core customer base. Suitsupply knows its customer — young, ambitious professional men — and his needs today, but is positioned to meet those needs in the future, as he advances in his profession and his ability to trade up. It's the affordable front door to a bespoke haberdashery experience that today's young and less affluent HENRY (high-earners-not-rich-yet) customers will ultimately grow into.

Suitsupply looks to be a sustainable brand with a powerful target market — young men with ambition and incomes destined to rise year-over-year with a need for professional suiting and appreciation for high levels of service. The brand's future is virtually guaranteed because Suitsupply has ticked off all the most important boxes to succeed.

- Identifying the customer: Young men on the road to affluence who need professional suiting
- Defining what he needs: Fine quality suiting at reasonable price today with offerings that can grow with his ability to pay in the future

- Delivering a WOW factor that will hook him and keep him coming back: Service levels that exceed what he would expect and probably has ever experienced. By providing instant alterations, Suitsupply builds a level of trust and loyalty that will bring him back again and again.

Occupation & Employment

The largest percentage of affluents surveyed are employed in professional or managerial/executive occupations --

Women make up the bulk of those not currently employed

<i>What is your occupation?</i>	<i>2014 (n=5,166)</i>	<i>2013 (n=5,001)</i>	<i>2012 (n=5,221)</i>	<i>2011 (n=5,424)</i>
Managerial, executive	22%	23%	23%	23%
Professional (medicine, law, etc.)	22%	22%	22%	20%
Not currently employed	21%	20%	17%	14%
Engineering, technical	8%	8%	9%	8%
Teaching, educational	8%	7%	7%	7%
Administrative, clerical	7%	5%	6%	6%
Entrepreneurial, Self-Employed	5%	5%	5%	8%
Marketing, sales	3%	4%	4%	3%
Skilled craft or trade	1%	2%	1%	2%
Other	4%	5%	4%	8%

Figure 6: Occupation

Of note, ultra-affluents tend to be more highly represented in professional occupations, while HENRYs are more highly represented in the managerial or executive ranks. This question was added to the survey in 2011.

Other Demographic Variables

Luxury consumers are highly educated with over 80 percent having a college degree or more –

Ultra-affluents are even more highly educated with over 90 percent having a college degree and 48 percent having some graduate school or more

Educational Attainment	2014 (n=5,166)	2013 (n=5,001)	2012 (n=5,221)
High school or less	3%	2%	2%
Some college	14%	13%	13%
Bachelor's Degree	36%	36%	37%
Elite Bachelor's Degree (Elite Colleges & Universities, such as Ivy League schools, "Little Ivy's", "Public Ivy's", and other prestigious universities, including U.S. military academies, such as West Point)	4%	6%	8%
Masters/some graduate school	30%	31%	30%
Doctoral and/or Professional Degree (e.g. Ph.D. JD, MD)	14%	13%	12%

Figure 7: Educational Attainment

This is a new question added to affluent consumer tracking in 2012.

Over 80 percent of the luxury consumers are married

Which of the following best describes your marital status?	2014 (n=5,166)	2013 (n=5,001)	2012 (n=5,221)	2011	2010
Married	82%	82%	83%	84%	84%
Single	7%	8%	8%	7%	7%
Couple living together	6%	6%	6%	6%	6%
Divorced	3%	3%	2%	3%	2%
Widowed	1%	1%	1%	1%	1%
Separated	0%	1%	1%	0%	1%

Figure 8: Marital Status

Luxury Beauty Snapshot Report

On average ~3 people live in the luxury consumer household in the current year, about the same as found in previous tracking studies, which typically includes one child under 18 years of age.

Most luxury consumers are in mature-family or young-family lifestage

Which of the following describes your stage of life?	2014 (n=5,166)
Mature Family, junior-high, high-school or college-aged kids	31%
Young Family, pre-school or elementary-aged kids	22%
Empty nester	19%
Single	11%
Young Married	11%
Retired	7%

Figure 9: Life Stage

A new question about luxury consumers' life stage was added to the ACTS survey to provide additional perspective on this customer.

Most own their own home – Young affluents more likely to rent or own an apartment/condo

Please indicate whether you rent or own your primary home:	2014 (n=5,166)	2013 (n=5,001)	2012 (n=5,221)	2011 (n=5,424)	2010 (n=5,195)
Own home	82%	82%	79%	80%	81%
Own Apt/condo	9%	9%	12%	11%	12%
Rent	8%	8%	8%	8%	7%
Other	1%	1%	1%	1%	1%

Figure 10: Home Ownership

Affluents surveyed are mostly white

<i>Which of the following best describes your ethnicity?</i>	<i>2014 (n=5,166)</i>	<i>2013 (n=5,001)</i>	<i>2012 (n=5,221)</i>	<i>2011 (n=5,424)</i>	<i>2010 (n=5,195)</i>
American Indian, Eskimo, or Aleut	1%	1%	1%	2%	2%
Asian or Pacific Islander	7%	8%	7%	7%	7%
Black or African-American	4%	4%	4%	3%	4%
Spanish/Hispanic/Latino	5%	5%	5%	7%	10%
White or Caucasian	86%	86%	86%	89%	84%
Other	1%	1%	1%	2%	3%

Figure 11: Ethnicity

Hispanic and Black/African American ethnicities have lower overall incomes and, as a result, are less likely to meet the income criteria for this survey of \$100,000 and above. For these two ethnicities the top 20 percent of income starts at around \$70,000, significantly lower than the population as a whole.

CHAPTER 1— PROSPECTS FOR THE FUTURE LUXURY MARKET

OVERVIEW

Affluents Enjoying the Little Things in Life – Resisting the Temptation to Over-Spend & Liking It

Affluent consumer confidence took another turn for the worst in the second quarter 2015, according to the latest survey conducted by Unity Marketing. The five key measures of how affluents feel about the overall economic health of the country and their personal financial situation all dipped in the most recent survey after rising in the first quarter 2015. “The LCI – Luxury Consumption Index – stands only about 9 points above its lowest point during the recession, in 4Q2008,” reports Pam Danziger, president of Unity Marketing and lead researcher in the most recent Affluent Consumer Tracking Study.

“But the climate today is very different from that back at the end of 2008. Unlike the hang wringing and doom saying we saw during the depths of the recession, affluents have gotten on with their lives. They have adjusted to a level of lower expectations and they are doing just fine. Sure, they may still miss some of those free-spending days before the recession hit, but they are finding pleasures in the small, everyday things. They learned the lessons of living close to the edge of their financial limits and have grown accustomed to a ‘new normal’ where luxury is only occasional indulgence.”

“Today the real challenge is for marketers to adjust to this ‘new normal’ of lower expectations,” Danziger says. “Yes, the rich are getting richer, but those at the top 2-3% of all U.S. households account for only about 10% of overall consumer spending, while 40% of total consumer expenditures are made by the HENRYs – high-earners-not-rich-yet consumers with incomes \$100k-\$249.9k—or the top 18% of households. It’s the HENRYs that gave rise to the boom in the luxury market up to the recession, but today they are

living a comfortable middle-class lifestyle. In fact, the HENRYs are the newly emerged American middle-class consumers with discretion, now that the old middle-class has lost much of their discretionary spending power due to the recession. The HENRYs are also the gatekeepers for the future luxury market, but today they simply aren't buying into it."

Demographic Forecast: Luxury Drought

The 'new normal' for the luxury market means a slowdown in the rate of consumer purchase and a reduction in consumer spending at the high-end. Unity Marketing calls this the 'Luxury Drought.' Why? Very simply:

Demographics. Danziger explains, "Consumers reach their peak earning years between 35 and 54. This period also corresponds to the years when consumers spend the most. But today, the Baby Boomers, born 1946-1964 and aged 51 to 69, are rapidly advancing out of that range. The GenXers that follow, aged 36 to 50 years old, are roughly half the size of the Boomer generation. As a result, they will not and cannot pump enough dollars into the consumer economy, including the luxury market, to make up for the loss of the

Boomers' spending power. That means the U.S. economy as a whole, and the luxury market in particular, is facing a crisis: not enough customers with enough spending power to keep all the brands, the retailers, and the marketers going, not to mention, growing. The consumers have already adjusted to the reality of lowered expectations. Now it is time for the marketers."

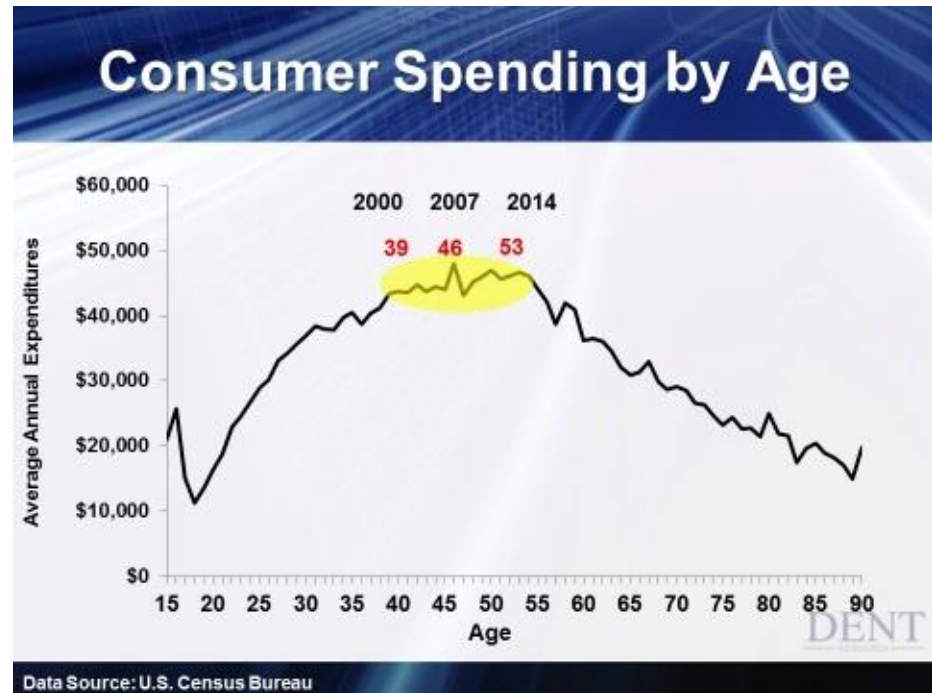


Figure 12: Dent Research, Consumer Spending by Age

Economist Harry Dent explains the impact of demographic shifts in consumer demand and spending. He says, “People spend sharply more between age 19 and 39 as they get married, have kids, and build their households. Those between age 27 and 41 purchase most of the homes, which is the largest and most leveraged purchase they ever make. They enter a high plateau of spending, on average, at age 39, hit the peak at 46, and decline sharply after 53. It’s that plateau, between age 39 and 53, that’s so important. The generation responsible for the most consumption in our economy, the boomers, first hit that plateau in 2000...We hit the end of this plateau in 2014 when the peak boomers hit age 53. As you can see, their spending will decline more dramatically in the years ahead. This is when the real demographic cliff hits. Nothing will entice them to spend what they did in that 39 to 53 year plateau. Nothing!”

Call it the demographic cliff, as Dent does, or the luxury drought, as Unity Marketing, it all translates into one thing: The luxury market is not going back to the way it was before the recession or even during the brief period following when pent-up demand resulted in a temporary period of increased spending. We are in for a long, tough period of reduced consumer demand and spending. Marketers will need to get their best game on through the rest of this decade and into the middle of the next, when the Millennial generation, about as big as the Boomers, reach the age of affluence. Until then, Unity Marketing can keep you on top of the trends in affluent purchases spending, so you can focus your product development, marketing and branding investments on the customers that will make, or break, your future.

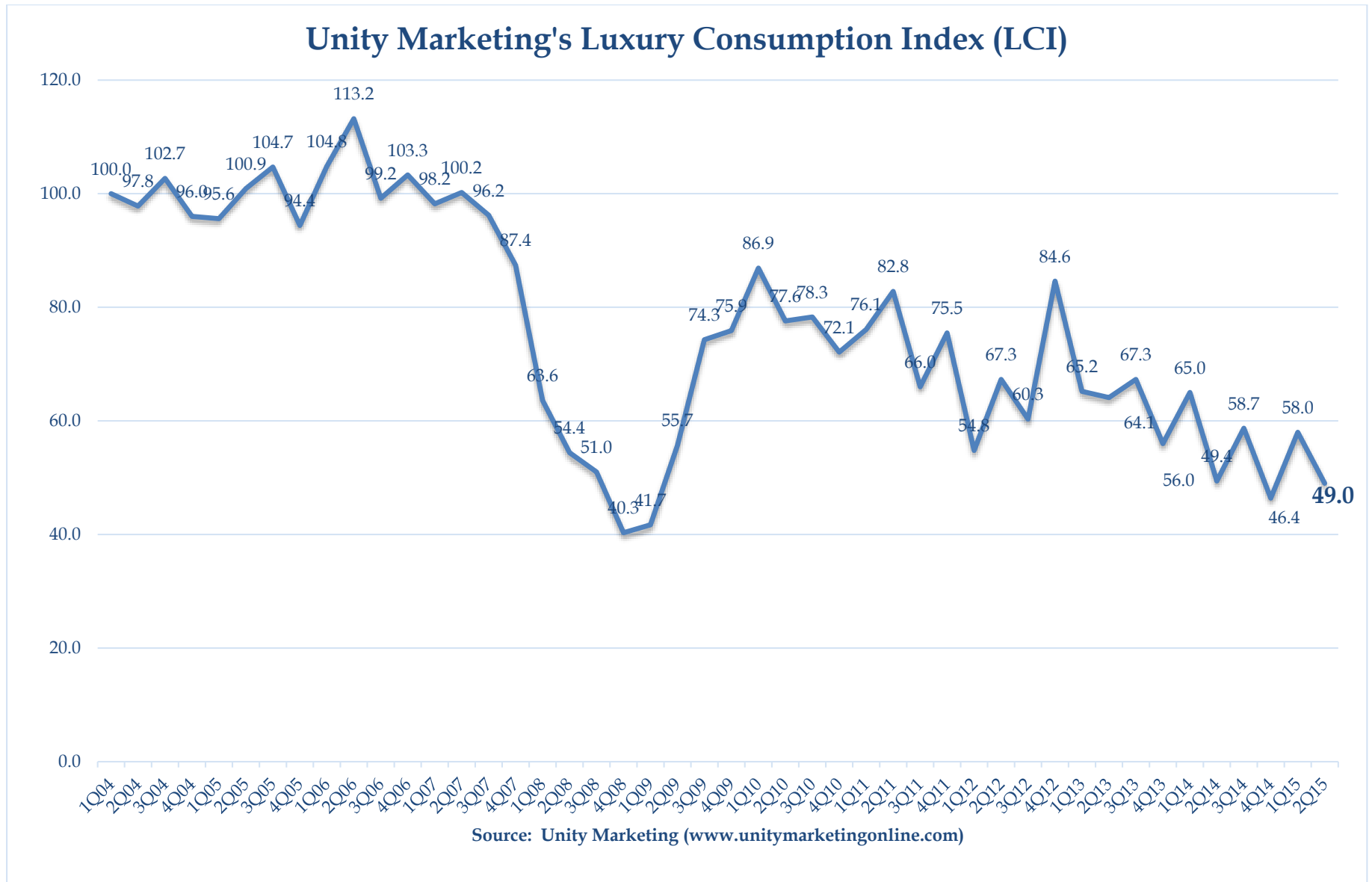


Figure 13: LCI Historical 1Q2004-present

The Consumer Economy at Large

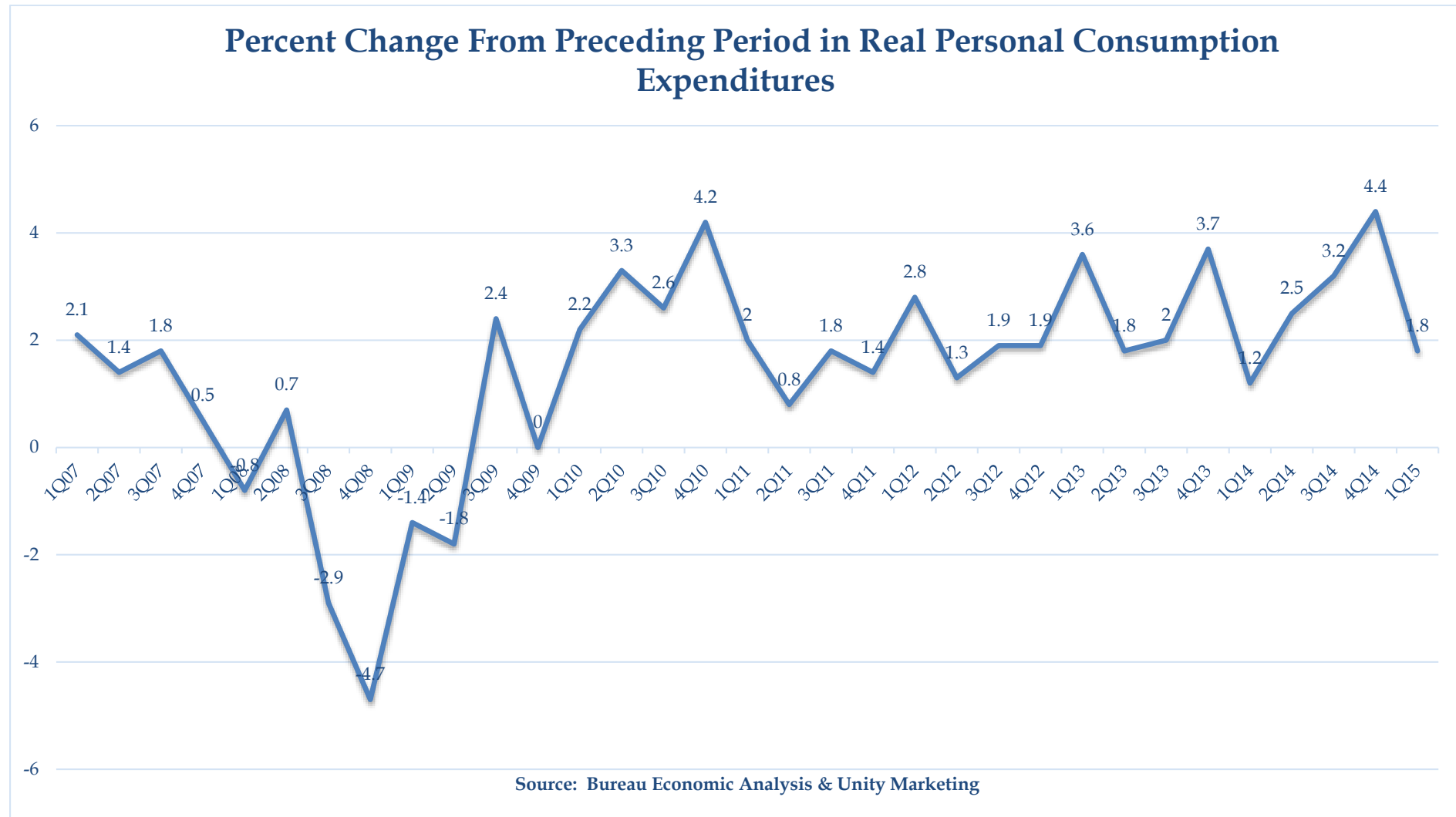


Figure 14: Personal Consumption Quarterly Change 2008-1Q15

In a measure of consumer behavior, the Bureau of Economic Analysis, which compiles the government's GDP calculations, reports that personal consumption increased by 1.8% from 4Q14-1Q15, which is down from 4Q14 levels of 4.4%. While personal consumption expenditures were positive in 1Q2015, overall the real gross domestic product (GDP) actually decreased .7% in the same time period. This followed fairly strong growth in GDP during 2Q14 (4.6%) and 3Q14 (5.0%), but with a dip in 4Q14 (2.2%).

Digging a bit deeper into personal consumption spending in the 1Q15, we find that increased spending on services, most notably housing and health care, drove the overall increase. Durable goods expenditures only rose 1.1%, though household furnishing posted strong 5.2% increase, and non-durables were up only .1%, with decreased spending on restaurant dining and clothing and footwear.

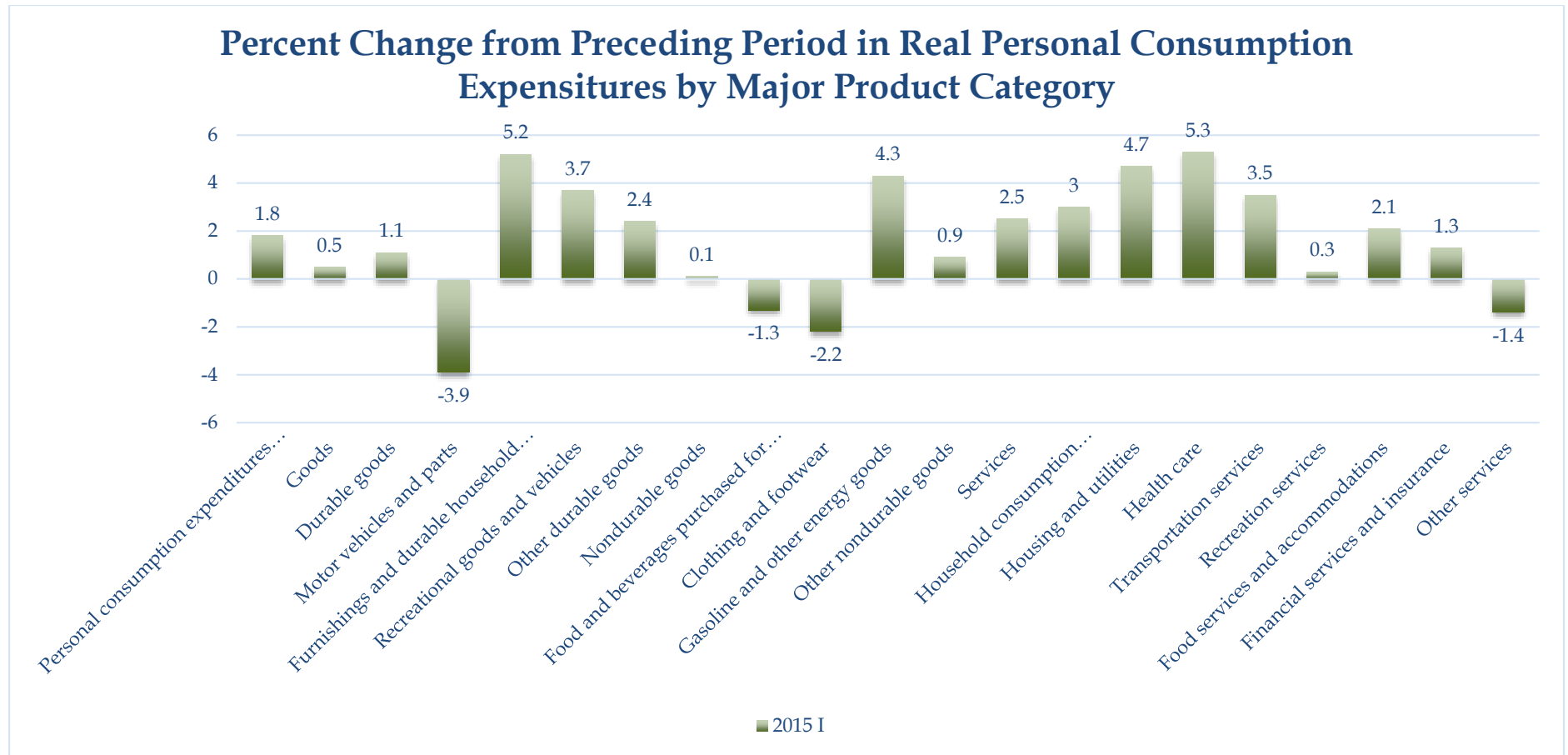


Figure 15: Personal Consumption Expenditures 1Q15 Percent. Change Previous Period, details

Luxury Marketers>> Take Action as Economy Still Struggles

The U.S. economy remains unstable and consumers are struggling

While most economists believe the U.S. economy is moving in the right direction, its progress remains slow. Improvements in the economy are now measured in tenths of a percentage point, rather than in full percentage points. That growth in personal consumption expenditures are slowing is another sign of potential weakness, for personal consumption makes up the lion's share of the U.S. economy overall. Unity Marketing remains cautious about the economy overall and warns luxury marketers not to take anything for granted. They must continue to work hard to encourage their high-end customers to trade up to luxury.

On a positive note, retail sales at the GAFO-type stores (i.e. the classification of stores that are found in malls, shopping centers, big-boxes, and Main Street) rose in 2013 and 2014, though way below levels reported in 2011 and 2012.

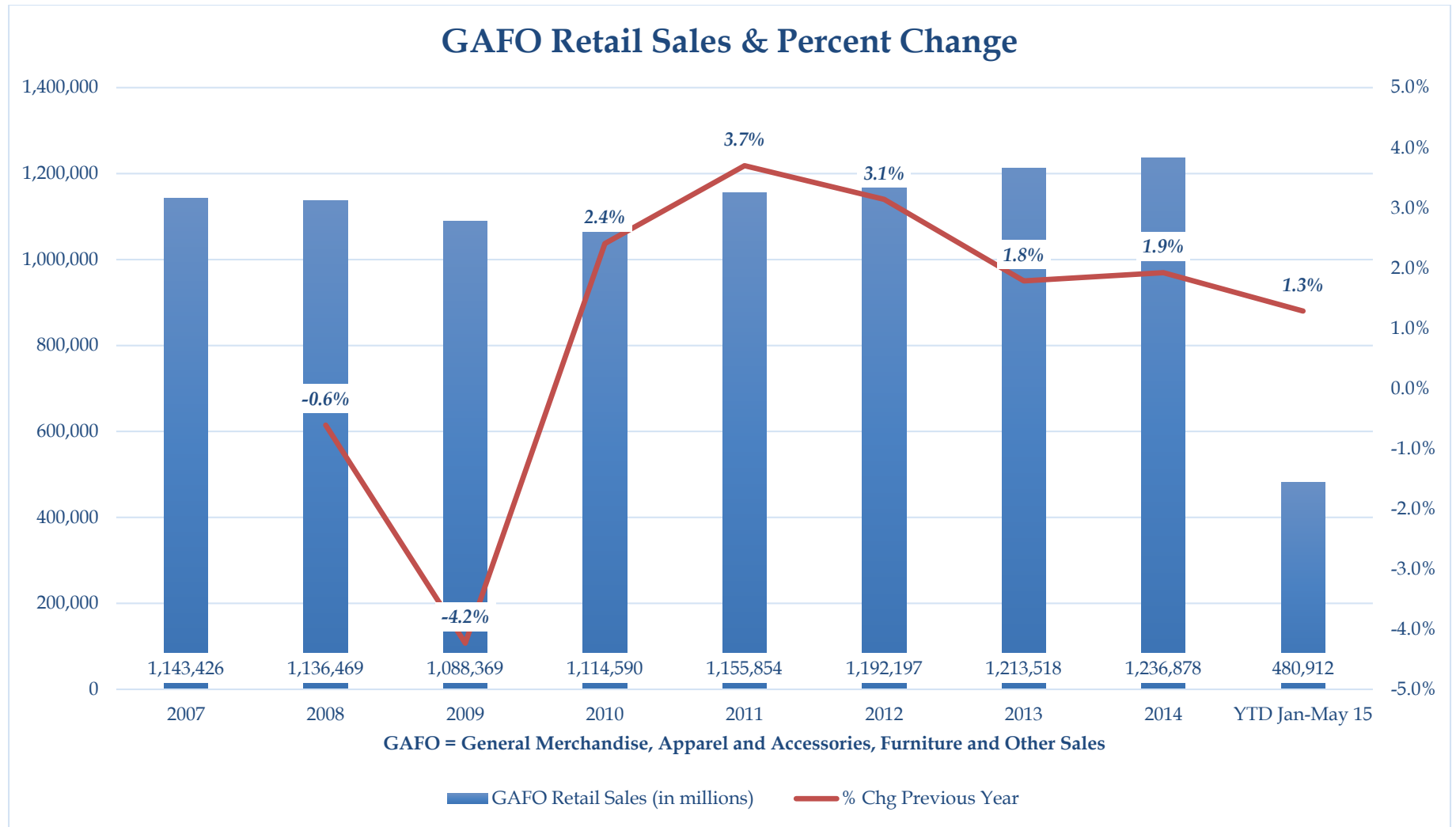


Figure 16: GAFO Retail Sales & Percentage Change 2007-1Q2015

GAFO Retail Sales in 2015

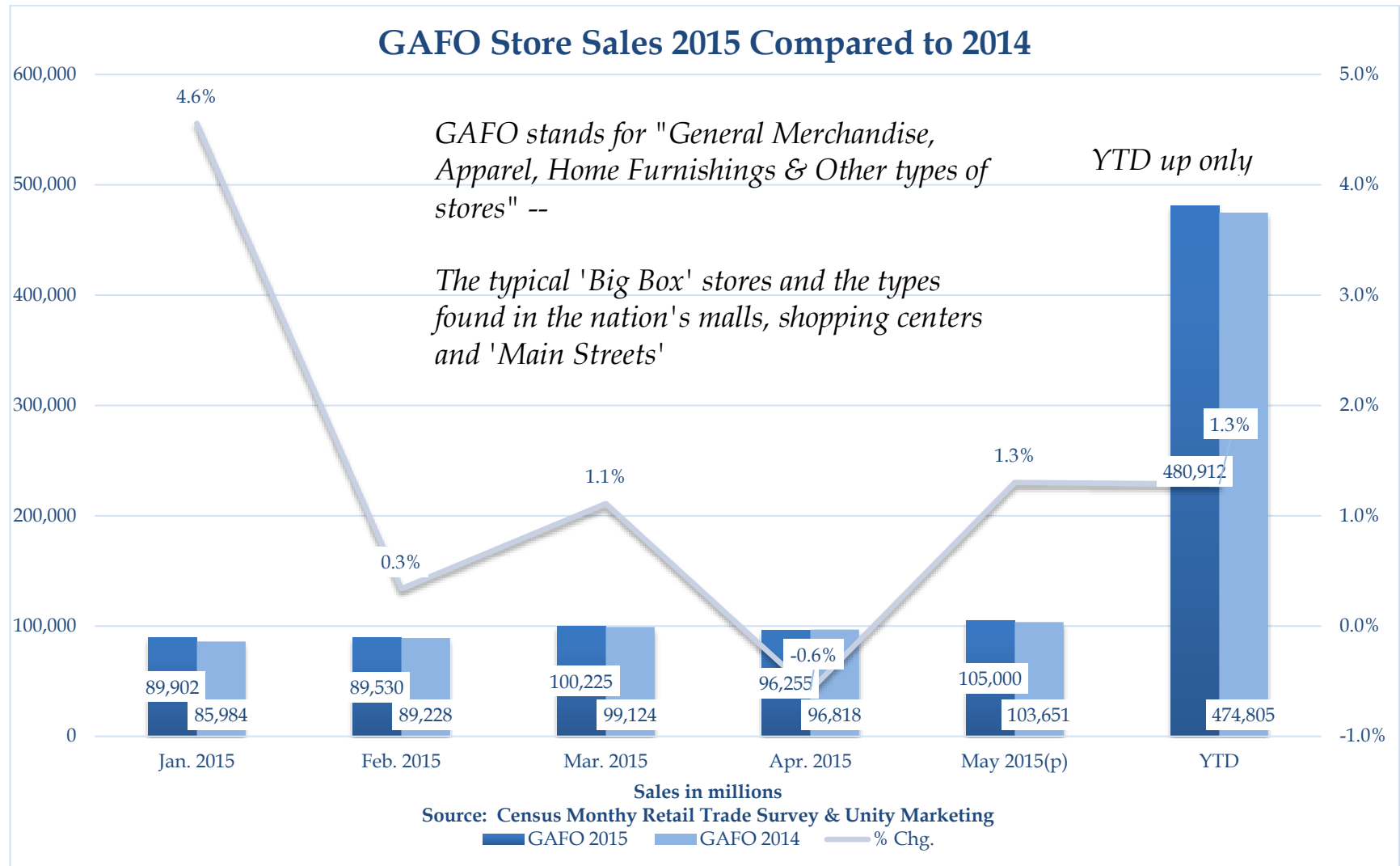


Figure 17: GAFO Store Sales YTD 2015-2014

Year-to-date GAFO sales are only up 1.3%, with the biggest boost achieved in January when GAFO sales rose 4.6%, presumably due to shoppers redeeming their holiday gift cards when such sales are booked.

Thereafter, however, growth slowed on a month by month basis. GAFO stores (general merchandise, apparel, furniture & furnishings and other stores) are the kind of stores that typically fill U.S. shopping centers, malls and main streets.

Retailers posting particularly strong year-over-year growth in the first quarter included gift, novelty and souvenir stores, electronic shopping and mail order houses and hobby, toy and game stores. The other retailers that contributed to strong Jan-May 2015 results are shown in the chart to the right.

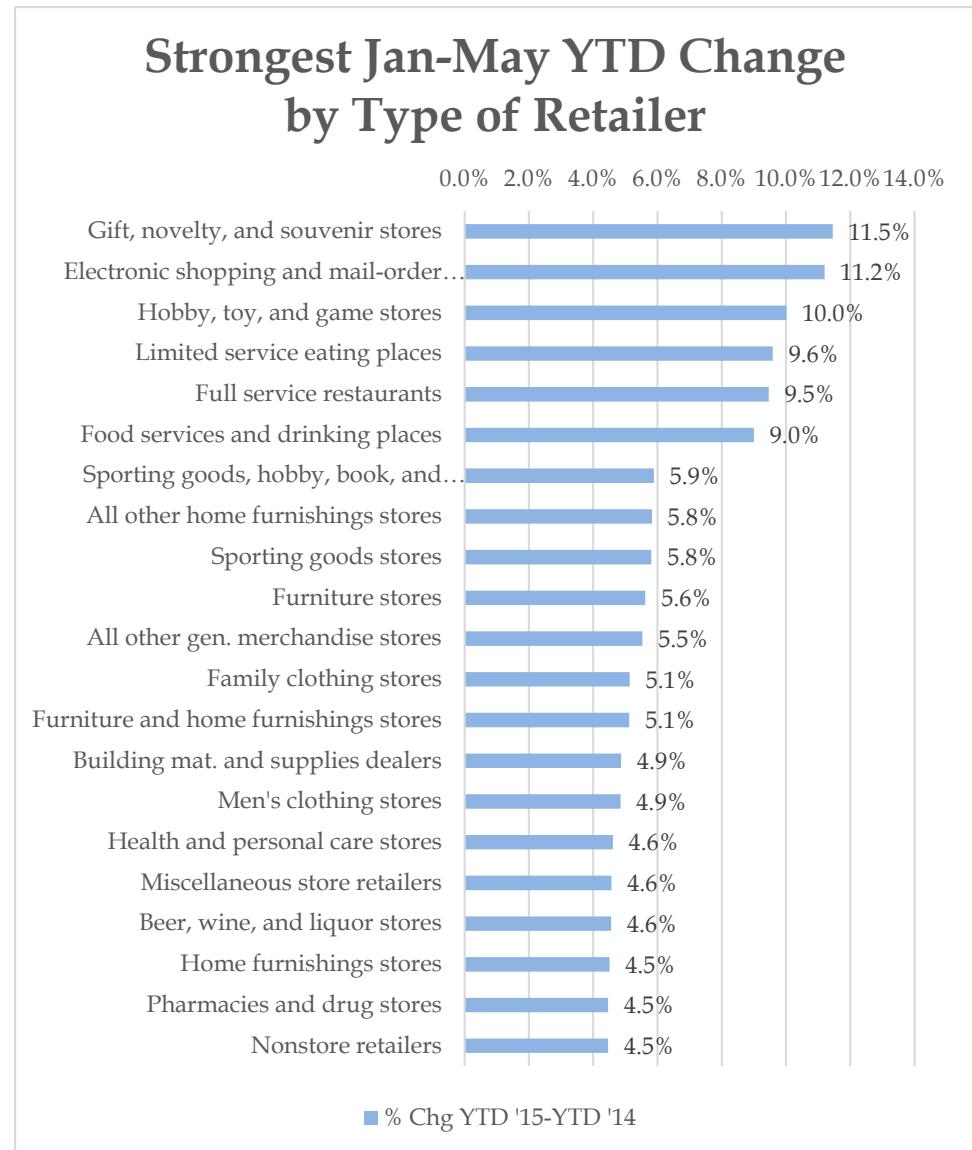


Figure 18: Fastest Growing Retailers 1Q2015

Luxury Marketers>> Take Action by Tapping Consumer Trends

Trends in what affluent consumers want and where they are spending their money point to key strategies for marketers to align their products and services with shifts in consumer needs, desires, attitudes and priorities. Let's look at what the trends in consumer spending say about today's customers:

- **Consumers want more fun** – People are making more time for fun, their past times, hobbies & recreation, so they are spending more on travel, music, flowers, luggage, motorcycles & airplanes, pets, sporting goods and bicycles. Today's consumers, especially the Millennials, crave a work-life balance.

The key opportunity for marketers is how to align your brand, your products, your services with people's need for fun & recreation.

- **Consumers are investing more in their home** – People are spending more to transform their home to a more comforting & comfortable place. Home is becoming a retreat, an emotional anchor, a refuge, a safe haven to raise families.

How can your brand, your products, your services enhance people's comfort, enjoyment, pleasure in their home?

- **Consumers still want luxury indulgences** -- People want to attract, people want to be attractive, people want to bond, people want connection, so they are spending more on jewelry and watches and women's clothing.

How can your brand, your products, your services make people feel more attractive? How can you help people bond with others?

- **Consumers buy things to make them happy** – The key question is how can your brand, your products, your services deliver more value for the asking price? How can you enhance happiness, pleasure, comfort, make them feel rewarded [i.e. all unquantifiable] by their spending? Marketers must be careful about the customers finding acceptable substitutes at lower prices

They say money can't buy happiness,
but money can buy wine, and that's
kinda' the same thing.



someecards
user card

CHAPTER 2: PERSONAL LUXURY PURCHASES OVERVIEW

HIGHLIGHTS OF PERSONAL LUXURY PURCHASES

- Demand & Spending Trends -- Demand** for personal luxuries was flat from 2013 to 2014, after dropping from 2012. But while demand was flat, spending decreased by 15.4%. The combination of these two variables, i.e. demand flat but spending down, signals that affluents were trading down to less premium brands and/or choosing less expensive options in the personal luxuries they bought. As a result, the affluents' cautious mood presents a challenge for personal luxury brands and retailers that carry these goods.

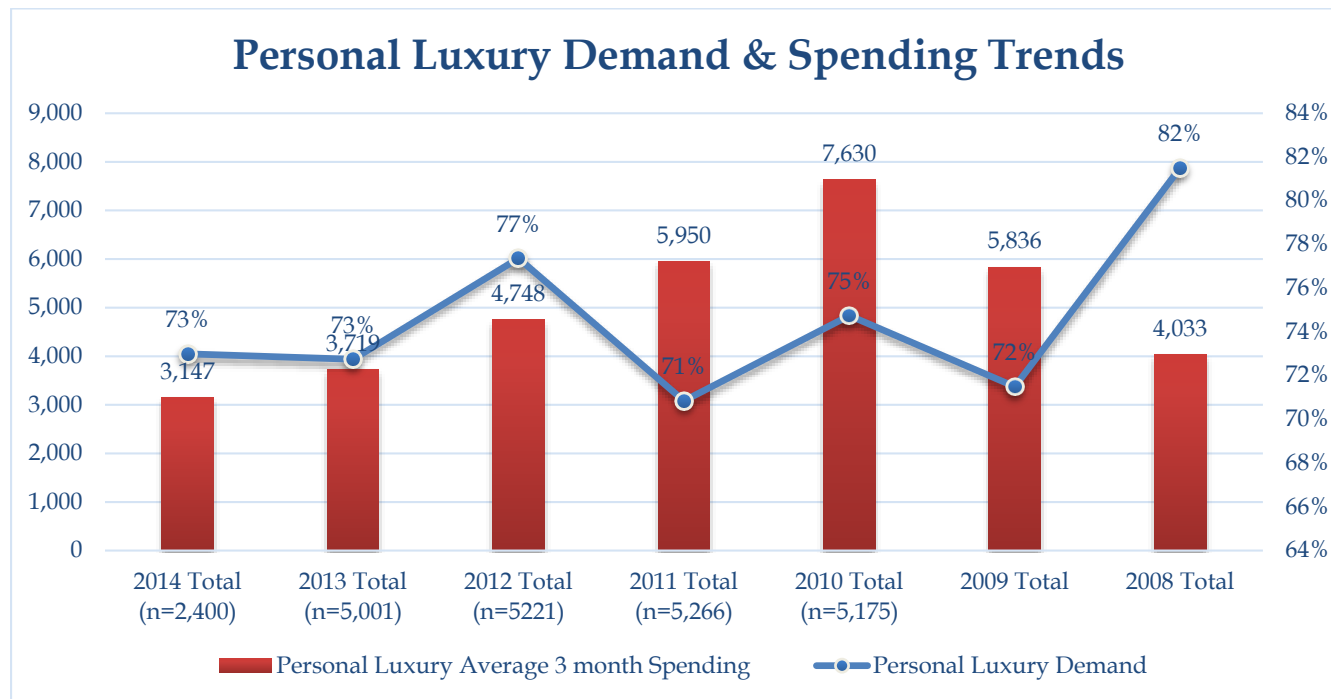


Figure 19: Personal Luxuries Demand & Spending Trends

Luxury Beauty Snapshot Report

- Spending by category** –With the exception of fashion accessories, which captured a greater share of affluents' spending and fragrances and beauty which was basically flat, all other categories of personal luxury posted a decline in average spending in 2014 from 2013 levels. Jewelry and watches declined the most, while wine and spirits, automobiles and clothing and accessories were down the least.

<i>Luxury Spending</i>	<i>2014 Avg. 3 month period (n=2,400)</i>	<i>2013 Avg. 3 month period (n=5,001)</i>	<i>% Chg 2014-2013</i>	<i>2012 Avg. 3 month period (n=5,221)</i>
Personal Luxury (excluding Automobiles)	3,147	3,719	-15.4%	4,748
Clothing & Apparel	2,145	2,272	-5.6%	1,985
Fashion Accessories	1,849	1,523	21.4%	2,010
Fragrances & Beauty	660	653	1.1%	1,066
Jewelry	2,989	3,890	-23.2%	4,352
Personal Electronics	1,805	2,014	-10.4%	2,457
Watches	3,323	4,310	-22.9%	4,377
Wine & Spirits	813	854	-4.8%	1,422
Automobiles	53,652	56,206	-4.5%	57,071

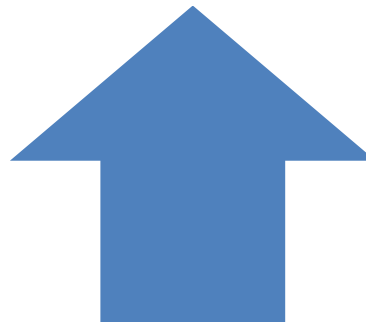
Figure 20: Personal Luxury Spending and Change Previous Year

- **Demographic Segment Spending** – For all demographic segments, spending on personal luxuries declined this year, with women, young affluents and ultra-affluents posting the largest declines.

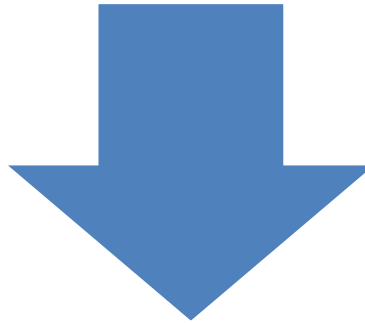
<i>Personal Luxury Spending by Segment</i>	<i>2014 (n=2,400)</i>	<i>2013 (n=5,001)</i>	<i>% Chg 2013-2014</i>	<i>2012 (n=5,221)</i>	<i>2011 (n=5,266)</i>	<i>2010 (n=5,175)</i>	<i>% Chg 2010-2014</i>
Total	3,147	3,719	-15.4%	4,748	5,950	7,630	-58.8%
Gender							
Male	3,795	4,366	-13.1%	5,305	7,317	10,461	-63.7%
Female	2,843	3,764	-24.5%	4,363	4,798	5,389	-47.2%
Age							
45 Years and Older	2,619	2,781	-5.8%	3,389	3,540	3,843	-31.9%
44 Years and Younger	3,804	4,788	-20.5%	5,905	7,842	11,153	-65.9%
Income							
HENRYs (\$100k-\$249.9k)	2,360	2,592	-8.9%	2,998	3,549	3,888	-39.3%
Ultra-Affluents (\$250k+ above)	4,810	5,820	-17.4%	8,071	10,775	15,130	-68.2%

Figure 21: Personal Luxury Spending by Demographic Segments

- **Biggest winners and losers as measured by spending 2013 to 2014—**



Women's brief cases, carry alls, up 72%
Men's wallets, brief cases, +66%
Luggage for men & women, +55%
Women's fashion accessoires, scarves,
belts, shawls, +50%



GPS devices, down 58%
MP3 players, -43%
Men's jewelry, -41%
Digital reading devices, -36%

Figure 22: Biggest Winners & Losers in Personal Luxury

PERSONAL LUXURY DEMAND DETAILS

Demand for personal luxuries was flat

<i>Luxury Purchase Incidence Among Luxury Purchasing Households</i>	<i>2014 Avg. 3 months period (n=2,400)</i>	<i>2013 Avg. 3 month period (n=5,001)</i>	<i>2012 Avg. 3 month period (n=5,221)</i>	<i>2011 Avg. 3 month period (n=5,266)</i>	<i>2010 Avg. 3 month period (n=5,175)</i>	<i>2009 Total</i>	<i>2008 Total</i>
Any Personal Luxury	73%	73%	77%	71%	75%	72%	82%
Clothing & Apparel	24%	25%	26%	25%	27%	26%	30%
Fashion Accessories	22%	24%	24%	23%	24%	21%	25%
Fragrances & Beauty	26%	25%	27%	25%	29%	29%	27%
Jewelry	14%	14%	16%	16%	18%	14%	14%
Watches	10%	11%	13%	13%	14%	11%	9%
Personal Electronics	20%	19%	22%	22%	23%	20%	
Wine & Spirits	60%	59%	58%	59%	63%	59%	66%
Any Automobiles	10%	10%	12%	11%	13%	10%	7%

Figure 23: Personal Luxury Demand, as measured by Purchase Incidence

This year, total demand for personal luxuries remained at 73%, up only one point from the historic low of 72% in 2009. Overall there was little variation in demand in any of the categories from 2013 to 2014.

Personal Luxuries Spending Details

With demand flat, affluents spent less on personal luxuries this year, indicating affluents traded down to less premium brands and/or bought more personal luxuries on sale or at a discount

<i>Luxury Spending</i>	<i>2014 Avg. 3 month period (n=2,400)</i>	<i>2013 Avg. 3 month period (n=5,001)</i>	<i>% Chg 2014-2013</i>	<i>2012 Avg. 3 month period (n=5,221)</i>	<i>2011 Avg. 3 month period (n=5,266)</i>	<i>2010 Avg. 3 month period (n=5,175)</i>	<i>2009 Avg. 3 month (Weighted)</i>	<i>2008 Avg. 3 month (Weighted)</i>
Personal Luxury (excluding Automobiles)	3,147	3,719	-15.4%	4,748	5,950	7,630	5,836	4,033
Clothing & Apparel	2,145	2,272	-5.6%	1,985	2,657	3,347	2,323	2,183
Fashion Accessories	1,849	1,523	21.4%	2,010	2,638	3,410	2,138	1,768
Fragrances & Beauty	660	653	1.1%	1,066	1,249	2,025	1,238	909
Jewelry	2,989	3,890	-23.2%	4,352	5,293	6,359	5,892	5,546
Personal Electronics	1,805	2,014	-10.4%	2,457	2,874	4,077	2,715	0
Watches	3,323	4,310	-22.9%	4,377	5,097	6,233	6,381	5,117
Wine & Spirits	813	854	-4.8%	1,422	1,840	2,479	1,570	823
Automobiles	53,652	56,206	-4.5%	57,071	57,731	62,288	57,994	49,535

Figure 24: Personal Luxury Spending

Spending on personal luxuries was down 15.4% year-to-year. With the exception of fashion accessories which captured a greater share of affluents' spending and fragrances and beauty which were basically flat, all other categories of personal luxury posted a decline in average spending in 2014 from 2013 levels. Jewelry and watches declined the most, while wine and spirits, automobiles and clothing and accessories were down the least.

Personal Luxury Spending by Demographic Segments

All demographic segments decreased their spending year-to-year – Women, young affluents and ultra-affluents most of all

Personal Luxury Spending by Segment	2014 (n=2,400)	2013 (n=5,001)	% Chg 2013-2014	2012 (n=5,221)	2011 (n=5,266)	2010 (n=5,175)	% Chg 2010-2014
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Gender							
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Figure 25: Personal Luxury Spending by Demographic Spending

Compared with the previous year, all demographic segments decreased their spending on personal luxuries. The biggest cuts in spending came from women, young affluents and ultra-affluents.

WHAT'S HOT, WHAT'S NOT IN THE PERSONAL LUXURY MARKET, DETAILS

Various fashion accessories posted strongest growth year-over-year while personal electronics were among the biggest losers

	Personal Luxury Winners & Losers in Share of Affluent Consumers Wallet	2014	2013	%Chg
		Avg. Spending	Avg. Spending	2014-2013
Among the categories growing fastest in the personal luxury segment, as measured by change in spending, are shown in the table to the right. Many items in the fashion accessories category were ranked among the winners.	Biggest Winners			
	Women's Brief Cases, Carry Alls, Wallets, etc.	138	81	71.5%
	Men's Wallets, Brief Cases, Lap Top Carry Alls, and other men's accessories	123	74	66.2%
	Luggage for Men & Women	103	67	54.5%
	Women's Fashion Accessories (such as scarves, belts, shawls, pashmina, etc.)	201	134	50.4%
	Key Holders/Chains, Bag Charms, Mobile Phone Accessories	82	59	39.1%
	Personal Care Appliances (such as shavers, dermabrasion, massagers, etc.)	30	24	23.9%
	Men's Outerwear	169	147	14.8%
	Women's Handbags	591	528	12.0%
	Fragrance, Perfume, Cologne, etc.	109	98	11.6%
In the losers category were a number of personal electronics products, as well as jewelry and watches.	Sunglasses for Men & Women	206	185	11.4%
	Biggest Losers			
	GPS Devices	51	124	-58.4%
	MP3 Players, iPods and other personal audio devices	108	190	-43.3%
	Men's Jewelry	266	451	-41.1%
	Digital Book Reading Device, such as Kindle, Nook, etc.	142	222	-36.0%
	Dress/Formal Men's Watches	900	1,352	-33.4%
	Cameras and/or camera equipment and supplies	137	205	-33.2%
	Laptop or Personal Computers and/or computer equipment and accessories	304	426	-28.5%
	Casual/Sports Men's Watches	844	1,126	-25.0%
	Women's Jewelry	2,723	3,439	-20.8%
	Casual/Sports Women's Watches	671	843	-20.4%

Figure 26: Top Fastest Growing Products and Biggest Losers in Personal Luxury Market

TOP SHOPPING DESTINATIONS FOR PERSONAL LUXURY PRODUCTS

Department stores took the lead in clothing, fashion accessories and beauty, while specialty stores were tops for wine and spirits, jewelry and personal electronics. Direct to consumer, such as internet was tops in watches this year.

Top Three Shopping Destinations by Product Category and Direction of Change Last Quarter (as measured by share of spending)	2014 Avg. Spending	2013 Avg. Spending	%Chg '14-'13
Clothing & Apparel Shopping Choices (overall -5.6%)			
Department Store	665	722	-7.9%
Through Internet, Mail Order or TV Shopping	434	386	12.6%
Luxury Branded Shop or Boutique, such as Armani, Burberry, Chanel, Gucci, etc.	374	389	-3.9%
Fashion Accessories Shopping Choices (overall +21.4%)			
Department Store	416	330	26.0%
Through Internet, Mail Order or TV Shopping	343	281	21.8%
Luxury Branded Shop or Boutique, such as Armani, Burberry, Chanel, Gucci, etc.	299	320	-6.7%
Fragrance, Cosmetics, Beauty Product Shopping Choices (overall + 1.1%)			
Department Store	177	182	-2.7%
Through Internet, Mail Order or TV Shopping	145	118	23.1%
Personal Care, Beauty, or Cosmetics Specialty Store	132	151	-12.5%
Wine & Spirits Shopping Choices (overall - 4.7%)			
Specialty Wine and Spirits Store	227	252	-9.9%
Neighborhood Liquor Store	152	152	0.4%
Grocery Store, such as Albertsons, Kroger, Safeway, etc., also Trader Joes, Whole Foods and others	119	110	7.5%
Jewelry Shopping Choices (overall - 23.2%)			
Jewelry Store and/or Specialty Gift Store	928	1,266	-26.7%
Luxury Branded Shop or Boutique, such as Armani, Burberry, Chanel, Gucci, etc.	450	645	-30.3%
Department Store	363	461	-21.3%
Watch Shopping Choices (overall - 22.9%)			
Through Internet, Mail Order or TV Shopping	753	839	-10.3%
Jewelry Store and/or Specialty Gift Store	695	1,114	-37.7%
Luxury Branded Shop or Boutique, such as Armani, Burberry, Chanel, Gucci, etc.	607	807	-24.7%
Personal Electronics Shopping Choices (overall -10.4%)			
Electronics and/or Computer Specialty Store	660	849	-22.3%
Through Internet, Mail Order or TV Shopping	582	634	-8.2%
Discount Store, Outlet Store and/or Warehouse Club	198	190	4.0%

Figure 27: Top Shopping Destinations for Personal Luxury Products

The top shopping destinations for personal luxuries this year were department stores for clothing, fashion accessories and beauty products; specialty stores for wine and spirits, jewelry and personal electronics. A notable exception was luxury watches, where internet and other direct-to-consumer channels captures the greatest share of affluents' purchases in 2014.

The above chart shows the top three places where affluents purchased personal luxury goods in 2014 with change over 2013. For analysis purposes pay special attention to categories where the shifts in one particular channel vary markedly from the category average. For example, while the fashion accessories category grew by 21.4%, luxury branded shops declined by 6.7%, meaning these stores lost share of the growth in the category as a whole and so lost market share.

LUXURY MARKETERS>> GET INSPIRED

Decoding the fashion choices of the affluent

It should come as no surprise that the moneyed class shop for fashion more frequently and more fervently than any customer segment in the market. In 2014 the affluent consumers, defined as those at the top 20 percent of U.S. households based on income, accounted for about 40 percent of the total \$368.9 billion fashion market, according to statistics from the Bureau of Labor Statistics and Bureau of Economic Analysis.

<i>U.S. Personal Consumption (in millions)</i> <i>Source: BEA, NIPA 2.4.5U</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Clothing and footwear	320,558	338,946	354,287	362,506	368,863
% Chg. Previous Year		5.7%	4.5%	2.3%	1.8%

Figure 28: U.S. Personal Consumption Fashion, 2010-2014

The affluent's generous spending was responsible for the lion's share of growth in the fashion market as well. Over the past ten years the affluent spent twice the amount as the average household on fashion. That means the affluent top 20 percent are worth twice as much to a fashion retailer or fashion brand as is the average customer.

That puts into perspective the importance of a new Unity Marketing study of the high-end fashion customer, entitled *The Fashionable Affluent: Decoding the Fashion Choices of Affluent Men and Women Shoppers* (published in June 2013). The affluent fashion shoppers are the heavy lifters in the consumer economy, who account for a far greater share of any company's revenues and profits, whether they intentionally target the affluent segment or not.

Marketers need to understand the current mindset of fashion shoppers in order to create successful marketing and branding strategies

Based upon a survey of 1,269 affluent consumers (average income \$264,300; 42 percent male/58 percent female; 46 percent aged 24-44 years/54 percent aged 45-70), Unity Marketing took the pulse of the customers that matter most to fashion retailers, marketers and designers: shoppers with discretionary income that allows them to update their wardrobes at will. Three-fourths of the luxury consumers surveyed plan to make a fashion purchase over the next twelve months. Further 25 percent of planned clothing buyers and 20 percent of fashion accessories buyers expect to spend more in the coming year as compared to last; a very positive perspective.

But marketers shouldn't make the mistake to think it will be easy to get their share of the affluents' bigger fashion budget through 2014. There are significant challenges ahead given the current mindset of these shoppers. The aim in this study is to put some of the common misconceptions about the well-off fashion customers to rest and reveal the true profile of the affluent customer who will be shopping in the future.

Among the key findings:

- **Women's and men's fashion profiles vary widely** – When it comes to fashion shopping, men are definitely from Mars, and women from Venus. Women are far more likely to plan to shop for casual clothing, while men will invest more in

professional, business attire. Fashion accessories remain the obsession for women, but with a planned accessories budget averaging about \$1,500 in the coming year, that doesn't allow for the purchase of too many Louis Vuitton purses or pairs of Louboutin heels.

- **Time for fashion designers to recognize the mature woman and her needs** – Fashion designers in general have been slow to embrace the customer who doesn't fit the body image that they like to see on the runway which is young and thin. Traditionally, the fashion business has been a youth-skewing business with styles fitted to a younger woman's figure. But in this survey we found mature women aged 55-70 years were just as active planning clothing purchases as those aged 24-34 years. Retailers and designers need to be ready to meet this overlooked customer segment with fashions styled and sized for her and appropriate for her lifestyle.
- **The affluent, just like the rest of us, want to save when shopping for fashion** – While the affluent have plenty of money to spend, they simply don't want to pay full price when it comes to fashion. Affluents estimate that more than half of the fashion items bought in the past year were on sale or at a discount. Further store sales and discounts are a key factor that sends them to the store to shop. In the latest survey price rose in relative importance in the affluent's purchase decision, as compared with a similar survey conducted in 2011. Today's affluent shopper is far more interested in finding attractive styles sold at discounted prices. Designers and retailers that hit the right combination of price and style, coupled with a strong designer brand will attract more of his or her spending.

Three unique personality segments in the fashion market are studied – Successful marketers must understand how to sell to each

The Fashionable Affluent report also explores the prevalence of three distinct personalities of fashion shopper and their unique shopping patterns. Only about one-fourth of the affluent consumer market is defined as a 'fashion-forward' shopper, who spends lavishly and shops often for new fashion items. The other two personalities, fashion pragmatist and fashion minimalist, both spend far

less on fashion than the fashion-forward personality, thus challenging designers, retailers and marketers in how to encourage them to buy their wares. Customizing customer service to each personality is key.

Overall the research uncovered how important the store sales associate and their customer service is to turn lookers into buyers. Fashion sales assistants need to be trained to understand the different types of fashion customers and how best to sell to their unique consumer psychology. A highly-confident fashion-forward personality is looking for something entirely different when shopping than is the minimalist or the pragmatist. One-size-fits-all sales efforts will not be effective. Retailers need to work with their sales staff to understand the different types of fashion customers and to service each of them properly in order to satisfy their special needs and desires.

CHAPTER 3: FRAGRANCE, COSMETICS, AND/OR BEAUTY PRODUCTS — PURCHASE DETAILS

- Demand & spending trends** -- Beauty product demand rose modestly from 2013 to 2013, though it remains well below 2010 and 2009 levels. Spending too has been flat over the last two years, well below historic highs reported in 2010. Demographically, men, a low purchase incidence segment, increased spending in 2014 over 2013 levels, as did mature affluents and ultra-affluents, though their increase spending couldn't make up for the decline in spending by women. Overall spending rose only 1% from 2013 to 2014, effectively flat.

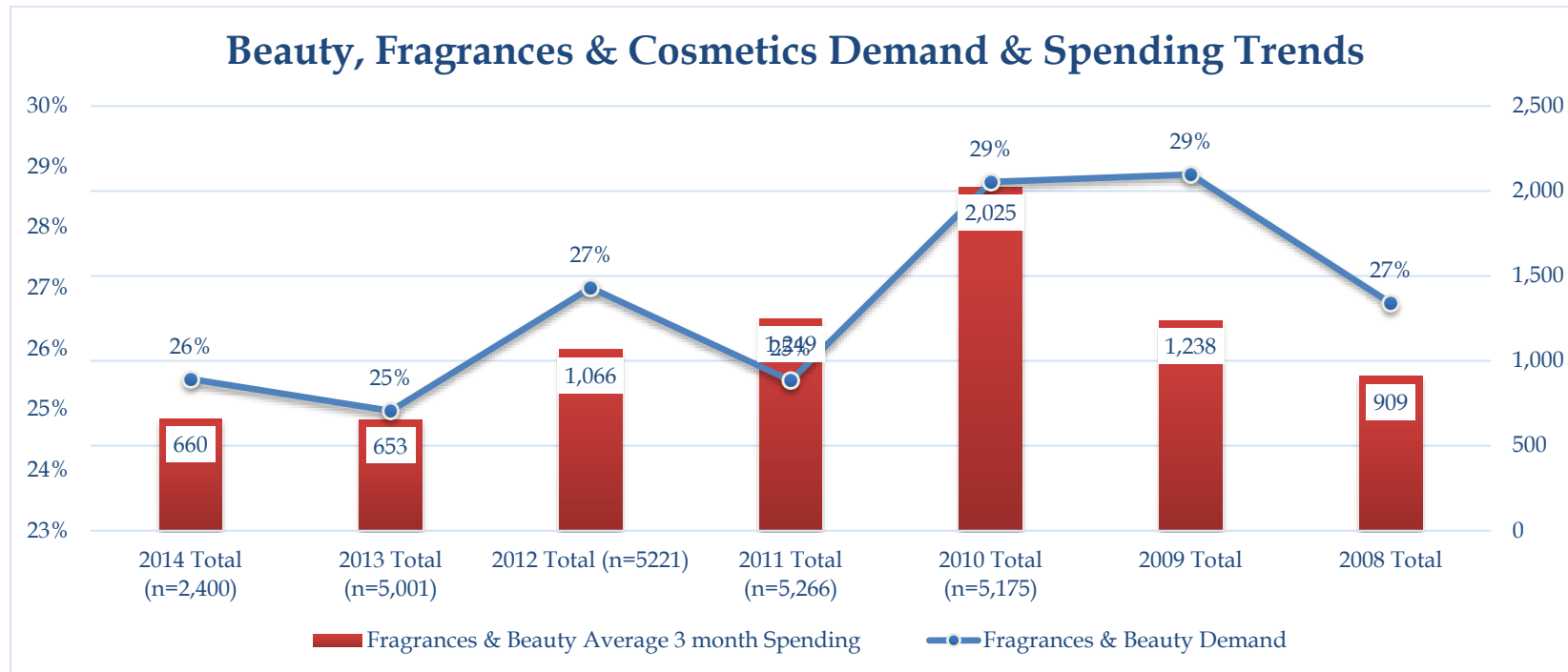


Figure 29: Fragrances & Beauty Demand & Spending Trends

Amount Spent on Fragrance, Cosmetics and/or Beauty Products

<i>Fragrance, Cosmetics & Beauty Spending by Segment</i>	<i>2014</i>	<i>2013</i>	<i>% Chg.2014- 2013</i>	<i>2012</i>	<i>% Chg.2014- 2012</i>	<i>2011</i>	<i>2010</i>
Total	660	653	1.1%	1,066	-38.1%	1,249	2,025
Gender							
Male	1,057	736	43.7%	1,466	-27.9%	1,711	3,085
Female	575	639	-10.1%	953	-39.7%	1,062	1,587
Age							
45 and Over	659	605	9.0%	887	-25.7%	905	1,377
44 and Younger	660	699	-5.6%	1,231	-46.4%	1,505	2,618
Income							
HENRYs Affluents	597	597	-0.1%	851	-29.9%	993	1,456
Ultra-Affluents	849	746	13.8%	1,423	-40.3%	1,747	3,055

Figure 30: Fragrance, Beauty, Cosmetic Spending by Demographic Segment

Type of Fragrance, Cosmetics and/or Beauty Products Bought

Type of Cosmetics Bought	2014 Avg. Spending	2013 Avg. Spending	%Chg '14-'13	2012 Avg. Spending	2011 Avg. Spending	2010 Avg. Spending	2009 Avg. Spending	2008 Avg. Spending
Cosmetics, Makeup, etc.	163	154	6.2%	240	275	424	292	172
Face Care, Cleansers, Toners, Moisturizers, Creams, etc.	146	151	-2.9%	229	264	427	275	183
Hair Care, Shampoos, Conditioners, Styling Products, etc.	112	121	-7.7%	167	198	302	191	139
Fragrance, Perfume, Cologne, etc.	109	98	11.6%	180	213	349	221	191
Bath and Body Lotions, Gels, etc.	65	70	-7.3%	123	138	216	118	122
Personal Care Appliances (such as shavers, dermabrasion, massagers, etc.)	30	24	23.9%	57	81	151	67	45
Sun and Tanning Products, Sun Screens, Sunless Tanners, etc.	26	29	-11.4%	59	65	132	63	48
Other Beauty Products	9	6	44.0%	12	16	25	11	11
Total	660	653	1.1%	1,066	1,249	2,025	1,238	909

Figure 31: Estimated Spending on Luxury Cosmetics and Beauty Products

- Product purchase trends** – With overall spending in beauty and cosmetics flat in 2014, there were some shifts in spending by product category noted, with personal care appliances growing share, as did fragrances and cosmetics, while face care and hair care declined in share of spending. That resulted in cosmetics being the market share leader this year, with face care number two, while these two categories were in virtual tie for first place in 2013.

Where People Shopped for Luxury Fragrance, Cosmetics and/or Beauty Products

<i>Fragrance, Cosmetics, Beauty Product Shopping Choices</i>	<i>2014 Avg. Spending</i>	<i>2013 Avg. Spending</i>	<i>%Chg '14-'13</i>	<i>2012 Avg. Spending</i>	<i>2011 Avg. Spending</i>	<i>2010 Avg. Spending</i>	<i>2009 Avg. Spending</i>	<i>2008 Avg. Spending</i>
Department Store	177	182	-2.7%	285	317	474	325	288
Through Internet, Mail Order or TV Shopping	145	118	23.1%	201	227	331	199	155
Personal Care, Beauty, or Cosmetics Specialty Store	132	151	-12.5%	199	219	384	262	150
Luxury Branded Shop or Boutique, such as Armani, Burberry, Chanel, Gucci, etc.	52	38	35.3%	80	96	167	68	45
Dermatologist, Spa, Beauty Service Provider	51	52	-0.5%	99	109	183	117	74
Specialty Fashion Shop or Boutique	37	34	10.6%	56	79	125	82	76
Discount Store, Outlet Store and/or Warehouse Club	29	25	14.0%	56	76	126	71	42
Jewelry Store and/or Specialty Gift Store	17	23	-23.6%	41	56	107	44	20
Other Types of Stores Not Listed Above	19	31	-37.7%	48	70	128	71	58
Total	660	653	1.1%	1,066	1,249	2,025	1,238	909

Figure 32: Estimated Spending on Luxury Beauty by Type of Store

- Distribution trends** – Department stores remained the market share leader in distribution of luxury beauty, but internet and other direct channels took share from both department stores in first place and personal beauty care specialty stores in third. Other growth channels were luxury-branded boutiques, which were down in fashion accessories and clothing but up in this category noted for significantly lower levels of spending.

Cosmetics, Beauty Products, Fragrances Brand Usage

Beauty Products Brand Usage (Ultra-affluents = HHI \$250k+)	2014 Total (n=5,166)	2014 Ultras Total (n=1,722)	2013 (n=5,001)	Ultras 2013 (n=1,659)	2012 Total (n=5,221)	Ultras 2012 (n=1,722)	Total 2011 (n=1,202)	Ultras 2011 (n=309)	Total 2010	Ultras 2010
Any Luxury/Prestige Brands (Net Any)	40.5%	44.7%	44.8%	50.3%	48.2%	56.5%	49.8%	59.7%	53.6%	66.1%
Clinique	11.8%	11.1%	13.3%	13.8%	12.9%	14.3%	11.9%	11.0%	12.7%	10.9%
Lancome	6.9%	8.2%	8.4%	9.8%	8.6%	8.5%	8.7%	7.8%	10.5%	12.8%
Chanel	5.8%	7.9%	6.1%	8.7%	8.3%	12.2%	8.5%	13.8%	8.7%	14.1%
Bare Escentuals	5.6%	6.0%	6.7%	7.4%	7.4%	8.4%	8.2%	9.0%	9.0%	11.5%
M*A*C	5.5%	5.7%	6.6%	7.3%	7.6%	9.4%	7.1%	7.7%	7.7%	9.9%
Estee Lauder	5.2%	4.6%	5.9%	4.9%	6.9%	5.8%	7.6%	7.8%	8.0%	8.0%
Bobbi Brown	4.4%	6.3%	4.6%	6.2%	5.4%	8.4%	5.4%	8.8%	5.3%	9.1%
Philosophy	4.0%	3.8%	4.3%	4.4%	4.5%	4.1%	4.4%	4.7%	4.2%	5.3%
Smashbox	3.6%	3.7%	3.6%	3.8%	4.1%	5.0%	3.7%	4.1%	3.5%	4.6%
L'Occitane	3.4%	5.0%	3.9%	5.6%	4.6%	6.7%	4.4%	6.9%	5.2%	8.9%
Dior	3.3%	4.8%	4.3%	6.0%	5.4%	7.4%	5.2%	8.0%	5.3%	9.8%
Kiehl's	3.0%	4.5%	4.2%	7.6%	3.7%	5.8%	3.0%	3.4%	3.6%	5.5%
Origins	2.9%	3.2%	2.7%	3.2%	3.3%	3.7%	3.5%	5.2%	3.6%	5.8%
Laura Mercier	2.8%	3.8%	3.6%	5.4%	4.5%	6.9%	4.2%	7.6%	4.5%	8.2%
Bliss	2.8%	5.1%	2.8%	4.8%	3.4%	5.7%	4.3%	8.6%	4.9%	10.5%
NARS	2.6%	3.7%	3.2%	5.6%	4.4%	6.2%	3.6%	6.0%	3.6%	5.7%
Yves Saint Laurent	2.2%	3.0%	2.3%	3.2%	2.5%	3.3%	2.4%	2.9%	2.1%	3.8%
Clarins	2.1%	3.1%	2.3%	4.2%	3.2%	4.8%	3.5%	6.3%	3.5%	6.9%
Elizabeth Arden	1.8%	2.2%	2.3%	2.4%	2.6%	3.0%	3.2%	4.7%	3.1%	4.6%
Laura Geller	1.3%	1.7%	1.6%	2.4%	2.6%	4.4%	2.6%	4.4%	3.5%	7.6%
Givenchy	1.1%	1.6%	1.4%	2.3%	1.3%	1.2%	1.6%	1.9%	2.3%	4.6%
La Mer	1.0%	2.0%	1.4%	2.6%	1.6%	2.6%	1.7%	3.3%	1.6%	3.3%
LAB Series	0.8%	1.2%	1.1%	2.3%	2.0%	4.0%	2.1%	3.1%	1.6%	3.1%
Prescriptives	0.7%	0.8%	0.8%	1.1%	1.5%	2.2%	1.5%	2.6%	1.9%	2.9%
La Prairie	0.5%	0.8%	0.9%	2.1%	0.7%	1.2%	0.8%	1.7%	0.6%	1.0%
Kinerase	0.3%	0.5%	0.7%	1.4%	0.9%	1.6%	1.4%	2.4%	1.6%	3.2%
None of the above	59.5%	55.3%	55.2%	49.7%	51.8%	43.5%	50.2%	40.3%	46.4%	33.9%

Figure 33: Premium/Luxury Beauty Brands Purchase Incidence

Luxury Beauty Snapshot Report

<i>Beauty Products Brand Usage (Ultra-affluents = HHI \$250k+)</i>	<i>2014 Total (n=5,166)</i>	<i>2014 Ultras Total (n=1,722)</i>	<i>2013 (n=5,001)</i>	<i>Ultras 2013 (n=1,659)</i>	<i>2012 Total (n=5,221)</i>	<i>Ultras 2012 (n=1,722)</i>	<i>Total 2011 (n=1,202)</i>	<i>Ultras 2011 (n=309)</i>	<i>Total 2010</i>	<i>Ultras 2010</i>
Any Mass Brands (Net Any)	42.7%	39.3%	43.0%	42.7%	48.5%	51.2%	52.4%	58.5%	52.6%	59.8%
Olay	15.2%	12.9%	15.2%	12.4%	18.5%	17.1%	19.4%	17.2%	18.7%	17.6%
Cover Girl	14.6%	14.8%	14.8%	15.9%	16.0%	17.1%	17.0%	19.4%	16.1%	18.9%
L'Oreal Paris	14.4%	12.8%	16.0%	16.4%	17.3%	19.6%	17.9%	21.4%	17.1%	20.8%
Maybelline	13.9%	13.1%	13.9%	13.1%	15.2%	15.6%	14.4%	12.2%	15.4%	17.1%
Revlon	10.3%	7.3%	11.1%	9.9%	11.5%	10.3%	11.9%	10.9%	11.7%	12.2%
Sally Hansen	5.4%	4.5%	5.8%	4.6%	6.0%	5.2%	5.8%	3.7%	5.0%	4.3%
Avon	5.0%	4.9%	5.2%	4.6%	7.6%	10.1%	8.4%	10.6%	9.0%	12.1%
Max Factor	3.8%	5.5%	4.2%	5.7%	5.4%	8.3%	6.7%	11.8%	6.7%	9.6%
Coty	1.8%	3.7%	1.7%	3.3%	3.8%	7.4%	4.3%	9.7%	5.5%	13.1%
None of the above	57.3%	60.7%	57.0%	57.3%	51.5%	48.8%	47.6%	41.5%	47.4%	40.2%

Figure 34: Mass Beauty Brands Purchase Incidence

- Brand trends** -- In prestige brands, top brands for 2014 were Clinique and Lancome with Chanel, Bare Escentuals, MAC and Estee Lauder virtually tied for third. For the ultras, Bobbi Brown also moved into that third place tie. At mass, the top three were Olay, followed by a tie for second among Cover Girl, L'Oreal Paris, and Maybelline. It is worth noting that mass-brand Olay with a purchase incidence of 15.2% is well ahead of the leading prestige brand Clinique with 11.8% purchase incidence overall.

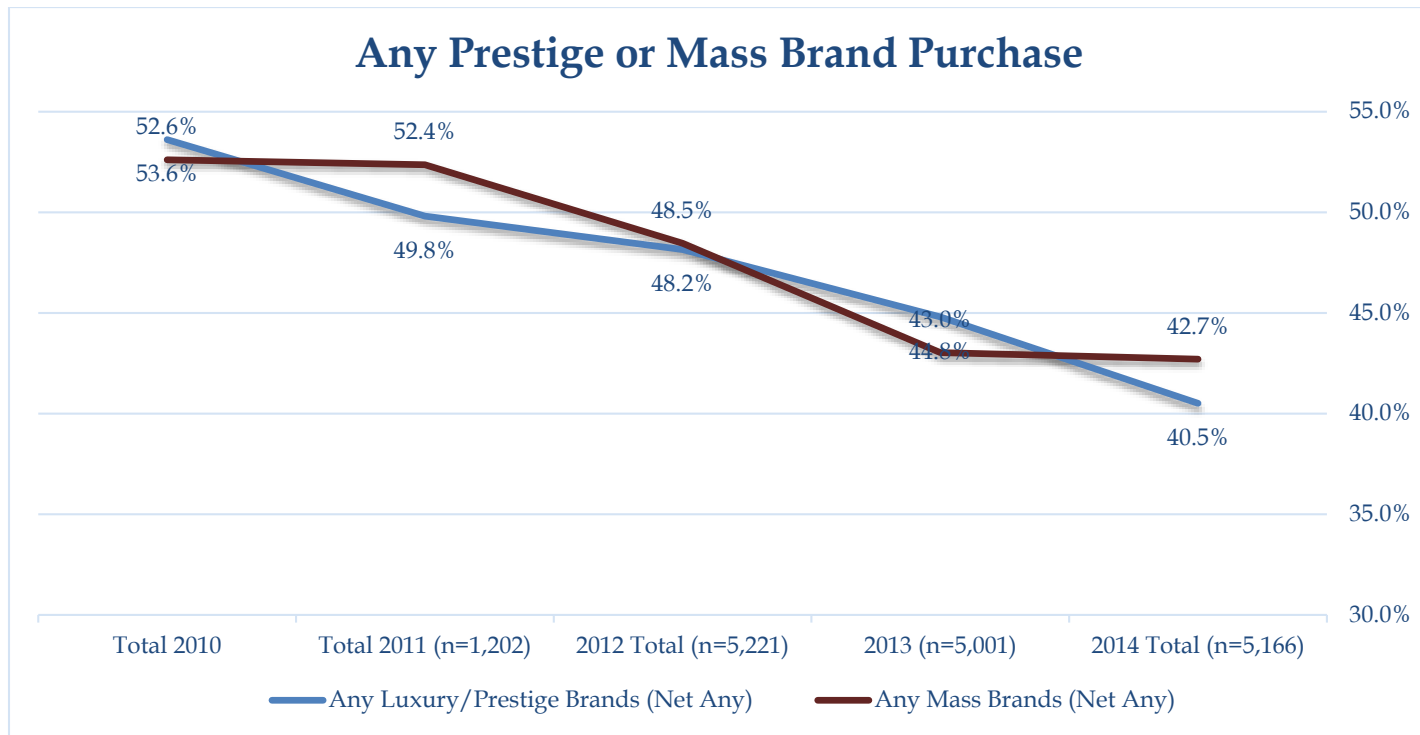


Figure 35: Any Prestige or Mass Beauty Brand Purchase

- Trend toward purchases of any prestige or mass beauty brands included in the tracking survey are down from 2010 to 2014.

Luxury Marketers>> Get Inspired by L'Oreal and the new age of beauty

As the Baby Boom becomes the face of affluence, beauty marketers must prepare to court the mature market in new ways. With the leading edge of the Baby Boom turning 69 this year, we've all grown accustomed to seeing mature faces in advertising. Everything from cars to cookware is advertised with the Baby Boomers in mind, as this generation, as it always has, turns the focus of consumerism on itself and its current life stage.

Perhaps the last hold-out, however, has been the world of beauty products. In a culture that has always considered youth to be beautiful, it's far more common to see a beauty product commercial that promotes ways to look younger, even if (or especially if) the target market is beginning to see a few grey hairs.

That's why the recent L'Oreal Paris Age Perfect campaign caught my eye. Featuring the beautiful 69-year-old actress Helen Mirren, the commercial promotes its product by celebrating age rather than battling it.

With the sort of moxie that only Dame Helen can bring to a scene, the actress struts through her environment, wearing a leather jacket and fire-engine red lipstick with a confidence that women half her age would envy. Rapid cuts to her face show those famous sparkling eyes in a halo of pewter-blond hair, not bothering to cover an ample number of wrinkles that crinkle her eyes and face as she smiles. Those lines are a proud testimony of a life well lived. And she uses Age Perfect because she still has a lot of living to enjoy.

But L'Oreal Paris isn't luxury. Many affluents beg to differ!

L'Oreal Paris has done what marketers across the spectrum of luxury products and services need to do – understand the mature affluent consumer, and make their current time of life seem to be the most exciting, sexiest time to be alive. The Baby Boomers don't see their glory days as having gone by; they see them as still to come, and they still have the aspirations to prove it. Marketers need to tap into these aspirations to effectively sell their products.

The fact is, marketing to the affluent luxury consumer isn't what it once was. The modern affluent woman acts differently, wants different things, and shops differently than previous generations. Take her perception of luxe beauty brands as compared with those more widely available like L'Oreal Paris.

While the luxury brands like to think of the affluents as their exclusive target, more affluent women bought L'Oreal Paris in 2014 than Clinique, the leading luxury beauty brand. Further the affluent's patronage of most mass brands included in ACTS, such as Cover Girl, Maybelline, Olay and Revlon, dwarfs that of such prestige brands as Bobbi Brown, Estee Lauder, Lancome, M*A*C or any other besides Clinique.

It is clear the affluent shopper is finding high-performance beauty solutions in the drug store more often than in the department store

L'Oreal knows how to tap the greater spending potential of the affluents by communicating with her in a meaningful way and delivering beauty solutions that work just as well — if not better than — the prestige brands, but at a price that doesn't insult her intelligence. Understanding where these affluent beauty customers shop, what brands she favors, how much she is willing to spend and why she buys is key to targeting them.

Put your best face forward

Cosmetics brands can't keep doing the same things they always have done and expect things to change. Brands need to start by understanding the customer and work from there to create a brand that is relevant and fills a gap in the marketplace. There are many customers out there who will embrace aging with open arms as long as the destination looks like Dame Helen Mirren!

Luxury Marketers>> Get Inspired by Bluemercury & Macy's

Bluemercury, a brand that describes itself as a luxury apothecary and spa chain,” has made a name for itself by offering customers a personalized beauty shopping experience. Found in Georgetown, DC, Bluemercury makes beauty products shopping personal by offering up not just customized spa services, but customized beauty routines as well.

Founder Marla Malcolm Beck explains how personalization sets her shop apart from the traditional way people shop for cosmetics, “We are really trying to deliver very high customer service in the purchase of cosmetics. If you look at the department stores and the way their cosmetics departments are structured, it is all brand by brand. And employees are paid by the brand. So if you go to the Clinique counter in Macy's or Neiman Marcus, they are going to sell you Clinique products, period. Whereas our staff are trained in every brand and don't have compensation based by brand. So when a customer walks in the door and says, ‘I need a new face cream,’ we look at all the brands to find the one that is best for that client. In a department store, on the other hand, there might be a product at another counter a couple of feet away that would work better for that client, but the sales person won't recommend it.”

That is what makes the recent announcement that Macy's has acquired the Bluemercury brand so interesting. While Macy's plans for the brand are not yet finalized, the initial announcement reports it will bring separate Bluemercury boutiques offering Blue mercury's distinctive customer service strategy to the Macy's customers, all the while continuing to operate the brand's stand-alone stores.

Selling across brands is a new idea in luxury beauty retail

In the world of cosmetics retailing, selling across brands is a pretty revolutionary concept, but one that only makes a world of sense for the customer. Sephora, the cosmetics retail chain owned by luxury leader LVMH, offers up a similar broad mix of brands, but as Marla explains, Sephora is a self-service concept and doesn't embrace the high customer service levels you can find at Bluemercury.

The difference is not so much what they sell, but how they sell it. And that all comes down to the approach Bluemercury takes in hiring its staff members. Marla says, “The first thing is about hiring the right people. We take our hiring very seriously. All of our

staff absolutely adore beauty products. We ask questions in the interviews that reveal if somebody loves products, and if they love products, they also must love helping people find products.”

Because selling beauty products is so highly personal, the Bluemercury store design and layout also creates a sense of intimacy between the shopper and the sales professional. “Our staff doesn’t stand behind the counters; they stand in front of them. So the store is designed for us to shop with the client. We try to break down a lot of barriers in that sense. We make all of the products accessible, so everything on the shelf is tagged with prices so the client can shop on their own if they want to. And we’re there to help them if they want. And the lighting is real critical to us, because we’re showing people foundation and makeup colors. The lighting has to be good so people don’t look different at home than they do in our store.”

The level of intimacy that Bluemercury creates with its customers translates into a deep, heart felt devotion among its shoppers. Marla explains, “The kind of products we carry help people solve problems that are very personal. So someone might come in with acne, and if we can prescribe products that really solve their acne problem, the word of mouth is unbelievable. You can get a customer for life if you can fix a personal care problem for them.”

Bluemercury works hard to build and maintain their shoppers’ trust through personalized product recommendations and beauty regimes. It starts with a passion for beauty products, but the staff members are all carefully trained to be the experts across categories and brands. “We have an extreme focus on being experts at what we do and being known as experts. All of our staff are focused on knowing more every day, learning more, training. We also truly believe that honesty is always the best policy. We will tell you if something won’t for you, and we stand by that. A customer might ask a staff member how they like something, and they might say, ‘I don’t like that product as much as I like this one.’ We take it to the extreme, where if we’re not sure that that Bumble & Bumble [hair care] product is right for you, we would prefer that you take home a sample and try it, rather than spend your money on something that’s not going to work for you. It’s not a focus of trying to get that sale that day. We know our clients will come back to us. So it’s really the honesty and a true drive to helping you find the right thing,” Marla says.

And the way the Bluemercury folks find out about how new product lines work is equally intimate: they personally test each one. Marla says, “We are stringent about high quality merchandising. We try not to go on trend. For example, a product might be hot just because it is hot. We are strict in merchandising a line. It has to be high quality; it has to have staying power; it has to have beautiful, functional packaging. We don’t just pick up anything to be trendy with some new ingredient we don’t believe in. For example, we have \$250 skin care creams that we think are worth it and we have \$10 skin care creams that we think are worth it for the price. We won’t take on a luxury skin care line just because it is high priced and trendy. We must feel and believe it is worth the price.”

Cosmetics Store Brand Usage

- New to ACTS tracking in 2014 were beauty/cosmetic stores with overall usage of 35%, which is fairly evenly distributed among HENRYs and ultra-affluents.
- Top brands are Sephora (more favored by ultra-affluents) and Ulta (more popular with HENRYs), followed by MAC and Bare Escentuals boutiques.

<i>Cosmetics/Beauty Store Usage</i>	<i>2014 Total (n=5,166)</i>	<i>2014 Ultras Total (n=1,722)</i>
Any Beauty/Cosmetic Store (Net)	34.5%	37.2%
Sephora	18.6%	20.3%
Ulta	15.0%	11.4%
M A C boutique	4.6%	5.3%
Bare Escentuals Boutique	3.9%	7.0%
Bluemercury	2.7%	4.8%
Art of Shaving	2.6%	4.1%
Merle Norman	2.1%	4.0%
None of above	65.5%	62.8%

Figure 36: Cosmetics/Beauty Store Brand Usages

Let Unity Marketing Be Your Research Partner

Today's consumer marketers face an increasingly competitive environment with many business and marketing challenges.

Unity Marketing leads with research to help businesses gain insights into their core customers and their best target customers – the affluent who have discretionary income to spend.

Unity Marketing's 2015 Research Initiatives

Our goal: To deliver more actionable insights to marketers about the best potential customers in the U.S. consumer market today – the affluent top 20%.

- Affluent Consumer Tracking Study
 - Two full-on waves
 - Spring Product & Services Track
 - Fall Shopper Track
- Millennials on the Road to Affluence
 - New study with important implications for every brand that wants to continue to do business after 2020
- Declaration of Independents
 - A follow up to a 2013 study conducted among independent specialty retailers, the results of which provide direction and guidance to manufacturers that sell through independents, as well as to independents themselves to grow their businesses

Unity Marketing Leads with Research

Unity Marketing is a boutique marketing research and consulting firm. We work with clients to understand their customers' needs, desires and motivations and consult with clients to deliver research-led marketing and branding strategies.

We specialize in business insights into mind of affluent consumer for companies, clients and brands that serve that customer. We offer:

- Qualitative expertise
 - Focus groups, IDIs
 - Expert, influential & channel partner studies
- Quantitative expertise
 - Survey design
 - Data analysis including statistical data analysis
 - Analyzing survey results for key take aways
- Marketing & branding consulting
 - We use research to create more powerful brands and more compelling marketing

Does Your Company Need More Data?

Unity Marketing can provide more data about the affluent consumers, combining both qualitative and quantitative research strategies. Specifically:

- Greater access to new AFFLUENT consumer SAMPLES

- In-depth data about HIGH-END & LUXURY customers
- Understanding of BRAND USAGE & AWARENESS
- Key COMPETITOR BRAND usage & awareness
- Purchase & usage TRACKING STUDIES
- CUSTOMER SURVEYS and studies to identify new opportunities

Do You Need Help To Use Data More Effectively?

Unity Marketing can help you use the research data you have on hand to greater effect to drive growth for your business. We consult with companies of all sizes, from small to mid-sized to large multi-nationals. We support retailers, manufacturers and marketers in both B2C and B2B marketing strategies.

- UNDERSTAND your best prospective CUSTOMERS' needs and desires
- Get the COMPETITIVE EDGE
- Develop more effective MARKETING STRATEGIES
- RESEARCH your market
- SHARE customer KNOWLEDGE & INSIGHTS
- Evaluate NEW PRODUCTS
- Find best CHANNELS OF DISTRIBUTION
- Track TRENDS in the market

Call us at 717.336.1600, email to pam@unitymarketingonline.com or visit www.unitymarketingonline.com to connect.