

A Guide to Affluent Consumer Behavior

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MARKETING

A Guide to Affluent Consumer Behavior Executive Summary

The affluent market is an attractive arena to promote and sell a product because of the market's higher spending power. If acquired as customers, this consumer base could potentially lead to more profit for one's company or organization. But the introspective marketer knows that understanding trends affecting these consumers is just as important as targeting the affluent consumer. Such trends that are drawn from affluent consumers' behaviors include their want for personal attention and personal services, convenience and all-inclusiveness.

This guide will cover trends of affluent consumers in a variety of industries. In the wealth management industry, the focus will be geared towards estate planning and why many affluent people are procrastinating in this area. Additionally there will be information on the importance of client-centric advisors.

The real estate section of the guide is centered on the wants and needs of the pending affluent Baby Boomer retirees—where do they want to live, what types of communities would be ideal, and what is holding some of them back when it comes to real estate.

In the non-profit sector, there is a sizable untapped section of the affluent market. The guide explores trends in what attracts the wealthy to donate. Furthermore, the importance of family-centered events is an important trend to recognize within the affluent market.

Retail and travel industries are very much complementary in the area of what the affluent customer desires. The experience and personal service are very important aspects to the wealthy individual, as well as quality.

If one is motivated to be continually educated and updated on trends of the potential client, customer, or donor, in his or her own industry as well as other industries, it would greatly improve marketing campaigns and sales. The consumer recognizes when someone understands their desires and actually follows through. Making that personal connection is important in all industries.

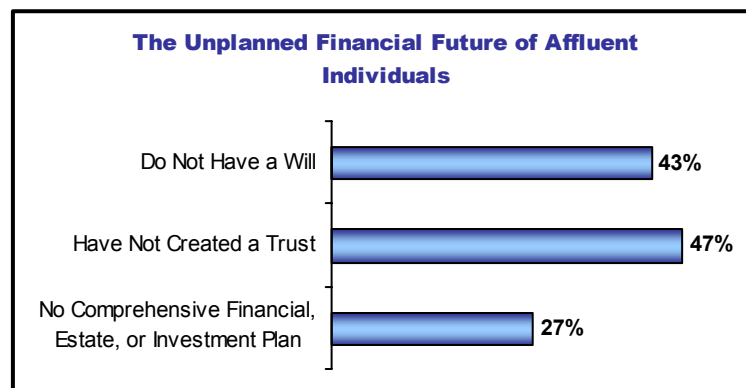
A Guide to Affluent Consumer Behavior

The affluent market is important to veritably all businesses and organizations. They many times generate the largest amount of sales in retail, wealth management, real estate, travel, and are some of the largest donors of non-profit organizations. But what do all these industries have in common? First, they all need to understand the behavior of the affluent in order to produce effective marketing campaigns and selling methods, which in turn will generate profit. This guide is broken down into industry sectors, but does not suggest the information will not be meaningful to all markets.

Wealth Management

This hotly contested market has garnered the attention of small and large wealth management firms, banks, in addition to trust companies and CPAs. One reason for this is the needs of the affluent in developing a comprehensive plan. If one focuses on estate planning, in particular, they will see a significant untapped market and also an opportunity to improve relationships with current clients.

The graph here illustrates that there is still a large percentage of affluent individuals without wills or trusts. The majority of people who lack estate planning cite procrastination as the culprit.¹



Source: PNC's Wealth and Values Survey (2005); based on individuals with over \$10 million in investible assets

Why are people procrastinating?

Allstate Corporation's "Retirement Reality Check" survey segments pre-retirees into five categories according to his or her personality type. The "procrastinators" make up three of the five segments. They are as follows:

- Optimists: they aren't worried about planning for retirement; most have saved less than \$100,000
- Pessimists/Worriers: they have careless spending habits
- Realists: they believe they will have to work later in life and the majority are nervous and dread retirement²

¹ MainStay Investment's 2006 Across Generations Survey from the article, "Intergenerational Referrals," *Financial Planning*, by Marshall Eckblad, December 1, 2006.

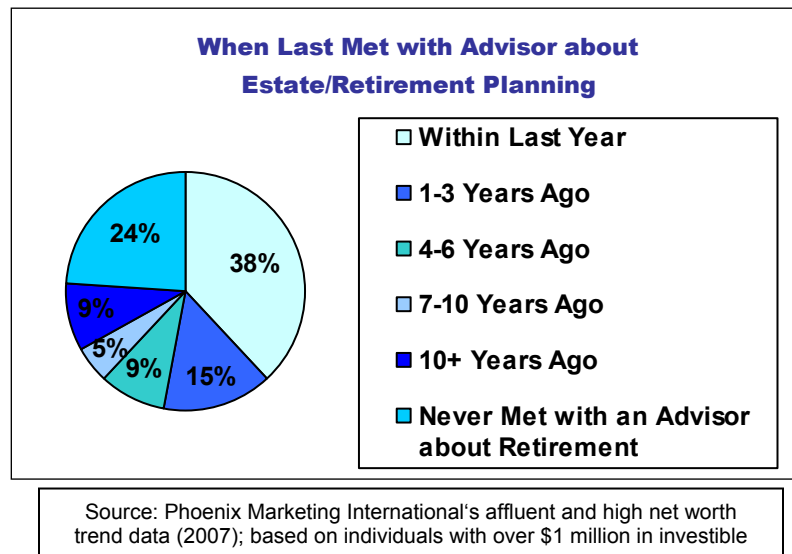
² Gary S. Mogel, "Personality drives retirement savings," *Investment News*, November 14, 2005, 6 (includes all bullet points).

Being educated on and understanding why a potential client is not properly saving for retirement allows you to mold your sales pitch specifically to each person's individual needs. Of the many different surveys that focus on retirement trends; the one thing to take away is that there is still a segment of the affluent market that has not seriously planned for retirement, and by understanding their situation, it will help you build solid relationships.

Some wealth advisors lose touch with their clients who have started retirement and estate planning. This lack of contact can diminish relationships and eventually profits. In a CEG Worldwide publication titled "Capturing the High-Net-Worth Investor," the authors contend, "Today's affluent investors want more.

They want real relationships with their financial advisors."³ They want to be involved in their financial planning; they want the personal experience, which can also be seen as important to affluent consumers in other industries. The researchers of the executive summary also found that "client-centric" advisors are rarer than "investment-centric" advisors, but the former had around 30 times more assets than the latter.⁴ This information can assist you whether you specialize in estate planning or another aspect of financial planning to the affluent. And if one looks at the graph above, there is surely room to improve and maintain contact with clients cost-efficiently.

Affluent individuals are somewhat lagging in the area of retirement planning for a variety of reasons, and it is an opportunity for wealth managers to capitalize. Additionally advisors should recognize the profitability of nurturing relationships with their clients. Both of these areas can be improved through event campaigns that allow personal time with clients or potential clients. Beth Allan, of Phoenix Marketing International states, "The higher you go up on the food chain, the more important one-on-one sessions are."⁵ Events are beneficial means to harvest



³ John J. Bowen, Jr., Russ Alan Prince and Patricia J. Abram, "Capturing the High-Net-Worth Investor," CEG Worldwide, LLC, 2004, 2.

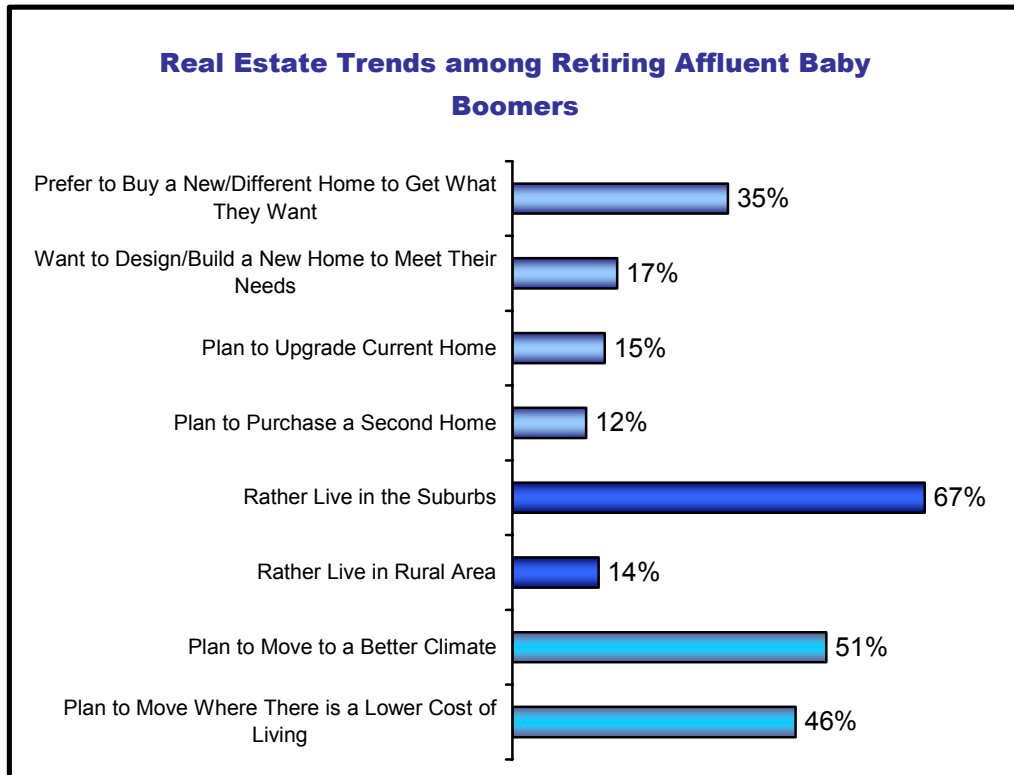
⁴ Ibid, 4.

⁵ Charles Paikert, "Marketing efforts to affluent taking on a personal touch," *Investment News*, May 16, 2005, 44.

interest in your firm among potential clients or in particular estate planning clients, in a more personal manner.

Real Estate

The Baby Boomers are setting a trend in the real estate industry. As Baby Boomers begin to retire, they are looking for a comfortable place that suits all their needs. The graph below illustrates what the affluent Baby Boomer is looking for in a retirement home, whether they keep their present house or purchase a new one.



Source: Study commissioned by Hanley Wood, 2006; respondents were homeowners between the ages of 50 and 60, with annual household incomes of \$100,000 or more

This graph illustrates Baby Boomers' desire to follow their personal pursuits, and one of the top desires of this demographic segment is a house in a warm suburban area. What does this mean for developers and real estate agents? A noticeable shift of retirees moving away from high-priced housing markets to climate-friendly markets. The U.S. Census Data pinpointed increased movement away from high-priced areas such as the Northeast and Midwest, towards lower-priced markets in the South and West (mountain area).⁶ Moving to these markets will allow retirees to put additional savings into their investment accounts; they do not have the additional assets to invest in real estate.⁷

⁶ Broderick Perkins, "Americans Are Moving To Cheaper Housing Markets," *Reality Times*, April 28, 2006.

⁷ Broderick Perkins, "Baby Boomers Let It Roll On Real Estate," *Reality Times*, May 31, 2006.

Mass affluent individuals (\$250,000 to \$1 million) are somewhat cautious when it comes to real estate because:

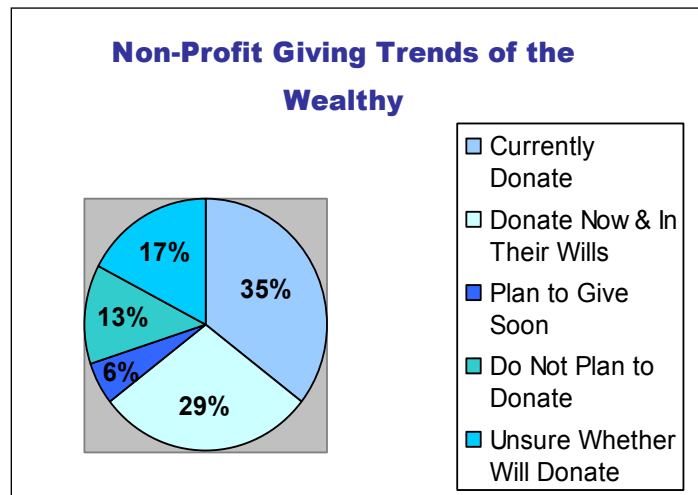
- They already have a little less than half of their total assets in real estate
- They need more readily available cash—real estate is illiquid
- Real estate is becoming more risky
- Emotions weigh more than potential returns⁸

Cost-efficient, active communities in warmer areas will appeal to the affluent Baby Boomer demographic segment. However, they are not going to sacrifice luxuries and amenities to which they are accustomed. The pending retirees who have not properly saved for retirement will be more cautious when it comes to real estate, but for the retirees that have saved, they will be looking for somewhere that fits all their needs and desires.

Non-Profit Giving

The affluent philanthropic donor is very important to non-profit institutions because they make up a large part of total contributions. But there are still many available donors that need a little encouragement to begin his or her philanthropic endeavors.

This graph demonstrates that about half of the respondents to the Luxury Institute's survey are not currently donating. This is a great opportunity for non-profit organizations to garner support for their causes.



Source: The Luxury Institute and Charles Maclean's (PhilanthropyNow) survey Philanthropic Beliefs and Behaviors of the Wealthy, 2007; the surveyed had an average household income of \$330,000 and average net worth of \$2.4 mill.

What are effective measures to attract affluent donors?

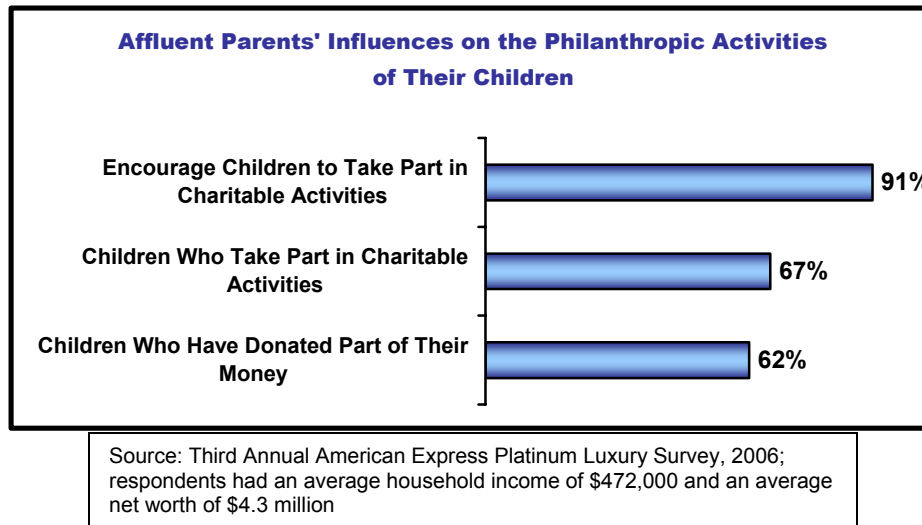
- Challenge the norm with your message
- Do not appear wasteful
- Create diverse and invigorating communications across all avenues
- Generate a dialogue between your values and their values
- Focus on life stages and events⁹

⁸ Broderick Perkins, "Affluent Often Don't Boast Realty Investments," *Reality Times*, April 14, 2006 (includes all bullet points).

⁹ Mike Spicer, "Donor Dilemma," *Campaign*, October 6, 2006, 7 (includes all bullet points).

These points will assist in accumulating returns on marketing campaigns because new and fresh messages are essential in a market that constantly targets the same people. An organization needs to stand out and make a connection with the recipient in order to harvest interest in one's cause.

Another way of getting people excited about your cause is special events, not just for mature individuals, but for the whole family.



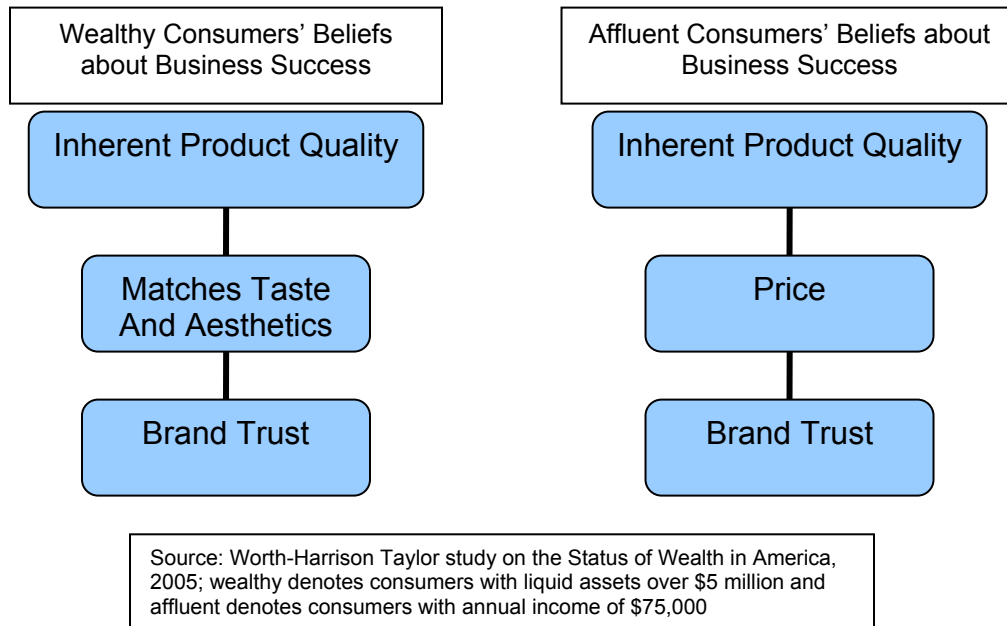
The preceding graph illustrates that affluent families are very interested in getting their children involved in and educated about philanthropy. Non-profit organizations can capitalize on this and implement family-oriented events in order to obtain two generations of donors. Not only do parents influence their children, but children are having more influence over their parents than in the past. A child's interest in a cause is a type of consumer-to-consumer marketing, so family events can be quite effective.

A potential donor's connection with a cause is one of the most important aspects of a marketing campaign, whether in direct or event marketing, since that usually triggers him or her to become a donor.

Retail and Travel

The wealthy consumer has similar desires when it comes to retail and travel. For many wealthy consumers, fulfillment of their needs and wants is very important in their purchasing process.

Consumer Beliefs Comparison



If one looks at the charts above, the wealthy and the affluent consumer have some similar and some different ideas about what they look for in a product or service. The major difference is that price, in itself, is not an issue for the wealthy. Rather, it is more important if the product or service matches what they have in mind or their tastes. On the other hand, price matters to the affluent consumer.

So what are some services that wealthy individuals desire? According to the Yesawich, Pepperdine, Brown & Russell's 2006 Portrait of Affluent Travelers survey, some attributes that are appealing to affluent consumers when choosing a hotel are:

- Complimentary delayed check-out (89%)
- Express checkout (89%)
- Security staff to ensure safety (87%)
- Premium bedding (85%)
- Concierge staff and services (81%)
- Choice of newspaper daily (78%)

Convenience, comfort, and personal services are among the top desires of affluent travelers. Again, the focus is on the personal needs of the consumer. Personal experiences that tap into the specific tastes of the wealthy consumer are important in travel and retail sales. When marketing to the wealthy consumer, concentrate on the experience, rather than the product. When marketing to the affluent consumer, focus on the price to value ratio; this is more important to them than the experience and matched tastes, although it is a plus for the affluent consumer if the product or service does match the aesthetic he or she had in mind.

Conclusion

The affluent consumer has specific needs and wants in the different markets discussed in this guide. Although, there are some common threads that run through different markets—affluent individuals want personal attention and connections with the provider of potential products or services they may purchase. Convenience and all-inclusiveness also are important to the time-pressed wealthy individual. Although there are common themes, all individuals act in their own ways. Therefore, the more prospects one acquires, and the creation of a clean, concise, and convincing marketing campaign increases the chances of a profitable return for the company or organization.



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