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The Affluent Shopper

Insights on this key, fast growing consumer segment

September 2016



THE AFFLUENT HOUSEHOLD: A SEGMENT ON THE RISE

The U.S. segment defined as "Mass Affluent" has grown in size and discretionary income in the past 40 years. This growth has created a key opportunity for retailers.

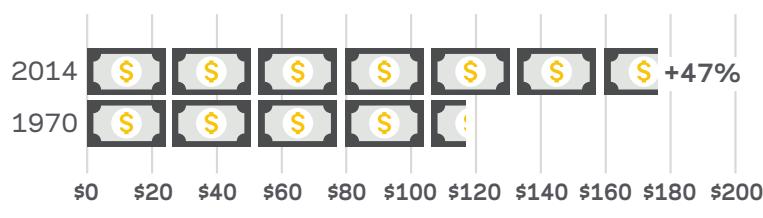


Retailers have an opportunity to better understand how the changes in income distribution affect the buying choices and preferences of the Affluent.

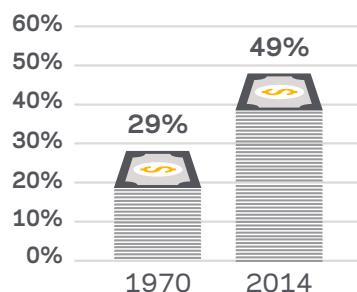
According to Pew Research, the segment of the population defined as upper income has grown in size and income in the past 40 years. In 2014, upper-income households had 49% of aggregate income, up from 29% in 1970. Additionally, the average income of the upper-income segment grew from \$118,617 in 1970, to \$174,625 in 2014, an increase of more than 47%.*

UPPER INCOME SEGMENT:

INCOME GROWTH



% OF U.S. AGGREGATE HOUSEHOLD INCOME



With the growth of the Affluent shopper segment, there is an opportunity for retailers to better understand this key population. To learn who they are, what motivates them, and what they want, Synchrony Financial conducted a survey of Mass Affluent (MA) and High Net Worth (HNW) consumers in February 2016. All data in this white paper is sourced from this consumer study unless otherwise noted.

Survey Methodology

Self-administered online survey of U.S. population conducted from February 24 through March 1, 2016.

Total Respondents include:

- ✓ 352 Core
- ✓ 350 Mass-Affluent (Random & Augment)
- ✓ 350 High Net Worth (Random & Augment)

Age 18+, financial decision makers.

Core: Household income of at least \$20K.

Mass Affluent (MA): Household income of \$100K - <\$250K AND assets of \$250K - <\$1MM.

High Net Worth (HNW): Household income of \$250K+ AND assets of \$1MM+.

* "The American Middle Class Is Losing Ground." Pew Research Center, Washington, D.C. (Published: Dec. 9, 2015) www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/. July 25, 2016. Upper income households are defined as households with incomes of more than double the median, adjusted for household size. For example, in 2014, an upper-middle income household with three people lived on about \$126,000 to \$188,000, and the highest income household lived on more than \$188,000.

CHARACTERISTICS OF THE AFFLUENT SEGMENT

Affluents skew male, older, and are more likely to be married. They are not only highly educated and optimistic about the future, but are both upwardly and physically mobile as well. They love to travel and are more likely to say they will travel in the future.

SKEW MALE AND OLDER



50 AVERAGE AGE **58**

MOST ARE MARRIED

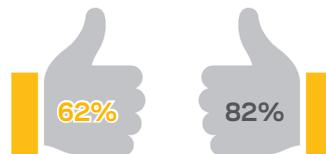


MORE LIKELY TO BE HIGHLY EDUCATED

POSTGRADUATE DEGREES

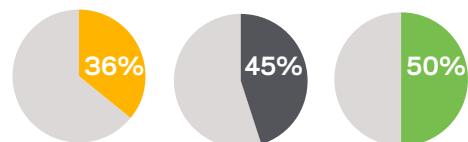


OPTIMISTIC ABOUT THE FUTURE

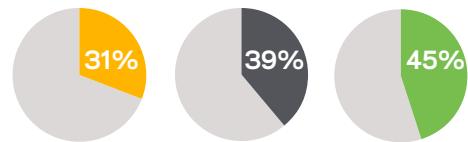


SPEND MORE ON TRAVEL, AND PLAN TO CONTINUE

SPENT MORE ON TRAVEL
2015 VS. 2014



EXPECT TO SPEND MORE ON TRAVEL IN 2016



█ = CORE POPULATION

█ = MASS AFFLUENT (MA)

█ = HIGH NET WORTH (HNW)

HOW SHOPPER CHARACTERISTICS VARY BY INCOME LEVEL

Our survey shows that income levels of \$100K and \$250K mark a significant difference in demographics and attitudes.

We found that those earning between \$100K and \$250K are much more likely to be male, have postgraduate degrees and maintain retirement accounts. They are also more optimistic about the future, and are willing to pay a premium for quality life-enriching experiences.

At the \$250K level, there is a significant shift, as these characteristics are much more pronounced. At no other income levels are the differences between groups so dramatic.





MEETING THE NEEDS OF AFFLUENT SHOPPERS

A growing population possessing record amounts of disposable income, Affluents are clearly a very important retail segment. Even so, retailers have had a hard time meeting their needs.

Our survey reveals that Affluents do not feel store loyalty programs reward them sufficiently for their spend. In addition, the higher the income, the less shoppers were impressed by the loyalty programs in place. There is an opportunity for retailers to better engage the Affluent segment by designing loyalty programs that entice and reward them.



ALL SEGMENTS VALUE EXPERIENCES

Today's consumer values experiences higher than things. About 68% of survey respondents consistently state they would rather have experiences and plan to spend more on experiences in the future. This is consistent across generations as well as income groups.

WHAT AFFLUENT CONSUMERS VALUE

For retailers to better serve this critical segment of the population, they must first understand what Affluent consumers value. Affluent shoppers are more likely to:

BELIEVE QUALITY IS MORE IMPORTANT THAN BRAND

CORE **77%**
MA **85%**
HNW **89%**



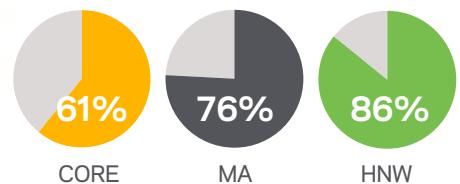
FAVOR QUALITY OVER PRICE



CORE MASS HNW



PAY A PREMIUM FOR EXPERIENCES THEY FEEL ARE VALUABLE



SPEND MORE ON TRAVEL

CORE **31%**
MA **39%**
HNW **45%**



PAY MORE FOR CONVENIENCE

CORE **40%**
MA **49%**
HNW **59%**



= CORE POPULATION

= MASS AFFLUENT (MA)

= HIGH NETWORTH (HNW)

WHERE THEY SHOP

Affluent consumers do shop upscale brands, but they also shop everywhere else. Our survey shows that the same percentage of Affluents shop at non-luxury retail stores as do other income groups. Only 19% of Mass Affluents and 17% of High Net Worth segments say they always buy upscale brands. Quality, convenience and the values of the brand are more important factors in their buying decision.

STRATEGIES FOR ATTRACTING THE AFFLUENT

Outlined on the following pages are eight strategic steps that retailers can take to maximize the opportunity to attract the Mass Affluent and High Net Worth segments.

1

CREATE A SHOPPING EXPERIENCE

Tap into the current sentiment of valuing experiences by **creating a fun or memorable experience for your customer**. Some retailers do this by creating a rock climbing wall or presenting cooking demonstrations.

Tap into the emotion or need the customer is trying to fill rather than what they are buying. This may require creativity, but it will be worthwhile in free amplification through social posts and repeat visits.

2

CUSTOMIZE THE EXPERIENCE TO ADD VALUE

- Enhance the shopping experience to make your best customers feel special. Similar to First Class boarding on airlines, some retailers have created dedicated checkout lines for their best shoppers. Other retailers sponsor special events or free alterations and next-day shipping. These programs make shoppers feel special by giving them an exclusive experience.
- Customize your products. New retailers have emerged that create customized clothing, shoes and make-up. Shoppers can design their own items based on their taste and measurements, giving them a much more unique and personal experience. This trend is a result of the preference of the Affluent to eschew designer labels and pay more for quality and personalization.

3

CREATE A HIGHLY INTERACTIVE DIGITAL EXPERIENCE

The Affluent are more likely to own and use multiple digital devices. While **about 80% have smart phones**, Affluents are more likely to combine tablets, desktops and smart phones in a single household. This group is very comfortable with digital technology and they interact with it constantly. Retailers who use technology to engage Affluents have a competitive advantage.

"The mobile device is essential in connecting with the often on-the-go Affluent shopper," says Maya Mikhailov of GPSHopper, a retail mobile technology company. "Mobile applications have created an entire tier of on-demand services ranging from travel, to beauty, to personalized meals and chefs. When it comes to shopping, luxury shoppers expect a higher tier of service both in and out of stores, and this is where mobile technologies can create memorable on-demand brand experiences. Being able to connect to a preferred associate from a personalized mobile application, or empowering in-store associates to be able to globally pull up sizing and preference information is essential in meeting the expectations of the Affluent customer."

4

CURATE ITEMS TO SAVE CUSTOMERS TIME

Since Affluents value convenience highly, look into retail tools that curate items based on their particular taste. The online tool Stitch Fix®, for example, sends customers a box of clothing every quarter, using their preferences from social media (such as Facebook likes and Pinterest pins). This eliminates the need to browse endless aisles for the right look. Other curation sites design entire living rooms, giving the shopper the option to purchase all the elements in the room at once, or an item in the room individually (e.g., Houzz.com).

Retailers who partner with bloggers and site curators may also gain access to new customers, providing an additional channel for finding potentially loyal, Affluent customers.



5

DEDICATE A PORTION OF YOUR STORE OR WEBSITE TO THE LUXURY BUYER

Similar to airlines and cruise lines that create different sections for a luxury experience, retailers are starting to use similar strategies. For instance, some major department stores or online mass merchants feature separate sections that cater specifically to high spenders. These special sections provide personalized white-glove service and are often physically set apart from the general store experience with different colors or decor. For online mass retailers, the website experience for the luxury section is often clearly differentiated from the main section. The idea of opening stores-within-stores isn't new, but it does seem to be "taking on more importance than in the past" as retailers look to maximize profits and make stores more enticing, said Arnold Aronson, partner and managing director of retail strategies at consulting firm Kurt Salmon.¹

6

CREATE BUZZ WITH NEW TECHNOLOGY

New technology is rapidly emerging in the retail space. "Few people in the retail industry understand how the world has changed as technology driven innovation accelerates," said Gary Hawkins, CEO of the Center for Advancing Retail and Technology Change.² Since Affluent consumers are often early adopters of new technology, gadgets and devices, leveraging new technology can successfully attract and engage these shoppers. Some examples include:

Virtual reality. A computer-simulated reality creates sensory experiences the user can interact with. Progressive retailers are already using VR to create personalized immersive shopping for customers, either in-store or at home. Although not widely used yet, the forward-thinking retailer may use VR as a cool differentiator for the Millennial (those born between 1980 and 1998) crowd while generating a good amount of buzz.

Wearable technology. These include headsets, smart watches, fitness devices and bespoke fashion design. According to a study by eMarketer, eight in ten shoppers interested in wearables want devices that enhance their in-store experiences.³

The Internet of Things. Innovative retailers are using low-cost micro devices and sensors ("Things") in a wide variety of retail categories. The benefit to the retailer includes more data collected in more places—providing rich and invaluable insights into consumer behavior. The Internet of Things also helps retailers create additional revenue streams through new products and services, like watches and jewelry.



7

STAND UP FOR A CAUSE

47% of Mass Affluents say they like to shop at stores that reflect their values. Additionally, 37% say they would stop shopping at retailers that don't reflect their values, even if they had to pay more. Several retailers embrace this attitude in their brand positioning. Organic food sales are increasing, even though they are more costly.⁴ And retailers who live their brand, whether through hiking, running or clean living, do have an advantage when it comes to attracting the Affluent.

8

PARTNER WITH HOTELS AND TRAVEL

A major differentiating characteristic of the Mass Affluent and High Net Worth consumer is their propensity to travel. Our study shows **about 40% of Affluents expect to travel more in the coming year.** Some retailers are taking advantage of this trend by creating shopping experiences with hotels and other travel partners. Marketing programs that pull customers in from local hotels with customized travel days, or market to travel sites, offer a good way to attract frequent travelers with disposable income and more shopping time while on vacation.

¹Source: To draw customers, retailers invite other companies inside. Chicago Tribune. May 18, 2016.

<http://www.chicagotribune.com/business/ct-stores-within-stores-0518-biz-20160517-story.html>

²Source: <https://www.luxurydaily.com/are-retailers-ready-for-shift-to-virtual-reality-shopping/>

³ Source: "Are Wearables the Next In-Store Shopping Buddies?" eMarketer, 29 May 2015. www.emarketer.com.

⁴ Source: Global organic food market to grow at over 16% by 2020, concludes TechSci Research, August 27, 2015.



CONCLUSION

As the U.S. population changes, retailers have an opportunity to take advantage of an important, growing segment of consumers—the Mass Affluent. This economic group has increased significantly over the past 40 years, and has more disposable income than ever before.

Within the highly competitive retail industry, many opportunities exist to attract and retain these shoppers. Strategies include creating differentiated experiences, using digital tools and capitalizing on new and emerging technology. In order to capture their share of the Mass Affluent market, some brands may have to take steps to address this group's particular needs and desires. But the payoff is well worth the investment.

Forward-thinking retailers that implement strategies to meet and exceed the needs of Affluents can better fulfill their company goals while cultivating a strong customer base for the future.

Focus on what really matters.

Synchrony Financial is one of the premier consumer financial services companies in the United States. Our roots in consumer finance trace back to 1932, and today we are the largest provider of private label credit cards in the United States, based on purchase volume and receivables.



About Synchrony Connect™

Synchrony Connect is a value-added program that lets Synchrony Financial partners tap into our expertise in non-credit areas. It offers knowledge and tools that can help you grow, lead and operate your business.

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Marketing, analytics and research expertise to help you drive business growth

Lead

Tools for leading your organization and developing yourself as a leader

Operate

Best practices around business strategy and optimizing cost

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Author: Sue Yasav—Vice President, Thought Leadership and Market Insights

Contributors: Judy Lahart—Vice President, Research Insights

Sara Zupnick—AVP, Research Insights



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