

Affluent Travelers: How They Travel and Make Travel Decisions

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2014 Marketing Outlook Forum

Affluent Travelers: How They Travel and Make Travel Decisions

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Loews Hotel

Atlanta, GA.

October 21, 2014

Today's Presentation

- Background
- Size and Composition of the Affluent Market
- Importance of Travel to the Affluent
- How the Affluent Travel
- How the Affluent Plan Their Travel
- Current Mood and Travel Plans of the Affluent
- Overview and Marketing Opportunities

Test Your Knowledge of the Affluent Market

1. On a scale of 1 to 5, with 1 being “not a priority” and 5 being “my top priority”, how many would rate travel as a 4 or 5 for spending their discretionary time and income?
a) under 35% **b)** 35% to 40% **c)** 40% to 45% **d)** over 45%
2. Which option is named most often as the preferred method for spending or using discretionary income?
a) Save or invest rather than spend
b) Divide among durable goods, local experiences, and travel
c) Travel

Test Your Knowledge of the Affluent Market

3. For planned vacation activities during the next 12 months, which of the following is named by 10% or more of the respondents?
- a) Travel to the newest chic destination
 - b) Charter your own airplane
 - c) Travel alone
4. How many millionaire households are in the U.S.?
- a) 8 to 10 million
 - b) 10 to 12 million
 - c) 12 to 14 million
 - d) Over 14 million

Part 1

Background

Key Sources of Data

- **Internal Revenue Service** Statistics of Income
- **Federal Reserve Board** Survey of Consumer Finances
- **AARC** Affluent Market Tracking Studies

My Background

- 20 years as a marketing executive in the airline, hotel, tour, and cruise industries
- 13 years as a marketing consultant in the cruise, hotel, and related industries
- Co-founder of AARC, a recognized authority on the affluent market
- Author of Market Research: Strategy and Techniques

AARC Affluent Market Tracking Studies

- Surveys conducted since 2002
- Wealthiest 10% of U.S. households
- High response rate
- Results from fall tracking study #26
- Affluent are leading indicator of economic conditions

AARC Affluent Market Tracking Studies

- **Who** Over 12M households with minimum \$800K net worth
- **What** 12 mo. outlook for economy, personal wealth, spending
- **Why** 30% of GDP; better indicator of consumer spending
- **When** Twice yearly since 2002
- **Where** National sample of total U.S.

AARC Survey Methodology

- No online panels
- **Direct Mail**
- Anonymity
- **Projectable national sample**
- Future actions
- **95% confidence**



Fall 2014 Sample Profile

Demographic Profile of Sample				
Category	Demographic Segment	Percent of Respondents	Average Income (\$000)	Average Net Worth (\$000,000)
AGE	Under 50	26%	\$370.1	\$2.5
	50-59	25	333.5	3.2
	60+	48	210.0	3.4
INCOME	Less than \$200K	47%	\$111.4	\$2.2
	\$200K +	53	436.6	3.9
INVESTABLE ASSETS	Less than \$500K	35%	\$207.7	\$1.8
	\$500K - \$1.49M	41	256.8	2.4
	\$1.5M +	25	450.5	6.3
NET WORTH	\$800K - \$1.49M	50%	\$204.5	\$1.1
	\$1.5M - \$5.9M	40	312.2	3.8
	\$6M +	10	594.5	10.8
OVERALL TOTAL		100%	\$284.2	\$3.1

Part 2

Size and Composition of the Affluent Market

Affluent and Luxury Consumers Can Be Very Different

- “Luxury” is difficult to define
- “Affluence” can be defined in an objective and quantifiable way
- Luxury consumers are typically wealthiest 1% plus some “aspirational” and “mass” affluent
- Affluent consumers are wealthiest 10% who typically are careful spenders and good savers

Household Income in the U.S.

Internal Revenue Service August 2014 “Statistics of Income”

Minimum Adjusted Gross Income (2012)	# of Individual Tax Returns (Thousands)	% of Individual Tax Returns
All Returns	142,928	
\$100,000 +	20,898	14.4%
\$200,000 +	5,252	3.6
\$500,000 +	1,098	0.8
\$1 million +	393	0.3
\$1.5 million +	223	0.2
\$2 million +	152	**
\$5 million +	45	**
\$10 million +	18	**

FRB: Wealthiest 10% of U.S. Households

- Minimum net worth of **\$942,000**; average of **\$4.0 million**
- Average income of **\$361,000**
- Earn **40%** of total personal income
- Own **70%** of total net worth of all U.S. households
- Control **90%** of all publicly traded stock and mutual funds

Affluent Market – Profile

Overview of Top 10 Percentile of U.S. Households

Number of Households (Millions)	12.2
Minimum Net Worth	\$942K
Median Net Worth	\$1.9M
Average Net Worth	\$4.0M
Average Income	\$361K
Median Income	\$183K

Age of the Affluent Market

- Average age of 60
- 16% under 55
- 42% from 55 to 64
- 43% over 64



The 11 Million Millionaires

- 80% are self made (Thomas Stanley)
- Not conspicuous or pretentious consumers
- Retain middle class values and lifestyle
- Stop Acting Rich...and Start Living Like a Real Millionaire (Thomas Stanley)
- The Middle-Class Millionaire (Lewis Schiff)
- Popular stores: Costco, Home Depot, and Target



Part 3

Importance of Travel to the Affluent

Priorities for Spending Discretionary Income

- Divide among consumer durable goods and local experiences or travel: **42%**
- Save or invest rather than spend it: **32%**
- Spend on travel experiences: **11%**
- Spend on local entertainment or recreation: **8%**
- Spend on durable goods: **7%**

Priority of Travel

37% give top box score to “travel” as a way to spend discretionary time and money

	Scale of 1 (low) to 5 (high)	Among Those	Total Top Box	4	5
Age	Under 50		35%	33%	2%
	50 - 59		40	32	8
	60+		36	25	11
Gender	Male		34%	27%	7%
	Female		40	32	8
Income	Under \$200K		27%	21%	6%
	\$200K +		42	34	8
Net Worth	\$800K - \$1.49M		27%	22%	5%
	\$1.5M - \$5.49M		43	33	10
	\$6M +		59	46	13

Part 4

How the Affluent Travel

What Affluent Spend for Travel Annually

- Wide range of estimates
- Average family \$1,800 to \$3,300 (PhoCusWright)
- \$8,400 (Unity Marketing)
- **\$8,900** (AARC)
- \$15,000 (Spectrem UHNW)

Limited Luxury Familiarity

- Only 25% have stayed in Ritz Carlton or Four Seasons in past 5 years
- Another 40% are familiar with both brands
- \$300 median nightly rate for Caribbean resort in winter, for European cruise (per person), and for NYC hotel

Vacation Travel Plans

During the Next 12 Months

	Total %
Return to a favorite destination	53
Use reward points to purchase/upgrade air, hotel or cruise reservations	52
Travel with your adult children and/or with your grand-children	40
Rent a vacation home/condo/villa	37
Stay in your own vacation home/condo/villa	32
Upgrade your air, hotel or cruise reservations to a higher level	26
Buy travel insurance	23
Take an all-inclusive package tour	17
Use a hired car (as opposed to a rental car, taxi, etc.)	17
Travel alone	16
Participate in a VIP tour/activity while at your destination	9
Travel to the newest chic destination	4
Charter your own airplane	1
None of the above	11

Multi-generational Travel

Factors Influencing Destination Choice:

- Family time together: **46%**
- Family, suite accommodations: **27%**
- Authentic setting/experience: **20%**
- Multi-generational activities: **7%**

Part 5

How the Affluent Plan Their Travel

Use of OTAs to Book Leisure Travel

- Have ever used OTA: **69%** (Expedia, Orbitz, and Travelocity)
- OTA is used most often: **37%**
- Booked apartment/private home: **30%** (TripAdvisor and VRBO)

Use of Travel Agents to Book Leisure Travel

- Used traditional agency during past year: **23%**
- Use traditional agency more often: **20%**
- Book direct more often (**43%**) and via OTA (**37%**)

Leisure Magazine Readership

- One of the major magazines regularly: **33%**
- Print edition: **77%**
- Print and digital: **18%**

Sources of Influence on Vacation Destination Choice

- Print travel article: **22%**
- Online travel article: **20%**
- TripAdvisor: **18%**
- Travel counselor: **17%**
- Friend/relative: **16%**

Factors Influencing Destination Choice

Importance of food/dining experience:

Very 30%

Somewhat 38

Not very 25

Not at all 7

Influenced by Consumer Reviews Posted to Online Booking Sites

- Yes: **58%**
- Average # of sites: **2**
- TripAdvisor: **72%**
- Hotels.com: **33%**
- Post their own reviews: **17%**

Online Hospitality Sites Used to Book Lodging in Past year

- TripAdvisor: **38%**
- VRBO: **31%**
- AirBnB: **11%**
- Vacationrentals: **11%**
- Homeaway: **9%**

Online Research and Booking of Air for Non-business Travel

- Made purchase after online research: **88%**
- Made purchase with no online research: **12%**
- Made purchase online by computer: **84%**
- Made purchase online by mobile device: **5%**
- Made purchase by phone: **10%**

Online Research and Booking of Lodging for Non-business Travel

- Made purchase after online research: **89%**
- Made purchase with no online research: **11%**
- Made purchase online by computer: **80%**
- Made purchase online by mobile device: **5%**
- Made purchase by phone: **14%**

Part 6

Current Mood and Travel Plans of the Affluent

Explanation of Indexes

	<u>Responses</u>	<u>Index</u>
Positive/Better/Higher	30%	30
Neutral/Same	45	100
Negative/Worse/Lower	<u>25</u>	<u>(25)</u>
Total	100%	105

	<u>Responses</u>	<u>Index</u>
Positive/Better/Higher	20%	20
Neutral/Same	55	100
Negative/Worse/Lower	<u>25</u>	<u>(25)</u>
Total	100%	95

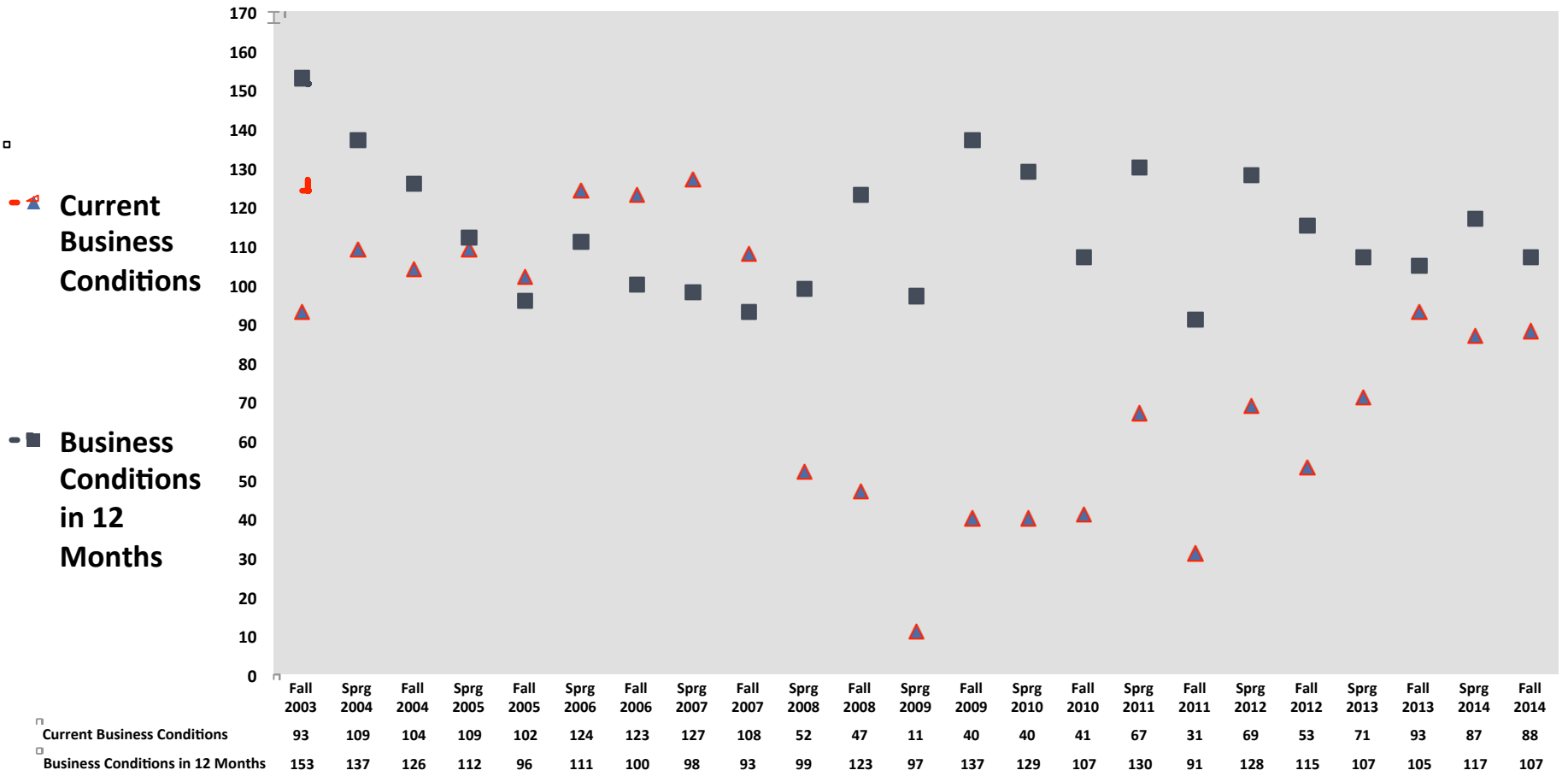
Indexes of 12 Month Outlook

Future Business Conditions	
Expectation	% of Respondents
Better	27%
Same	52
Worse	20
Total	99%
Index	107

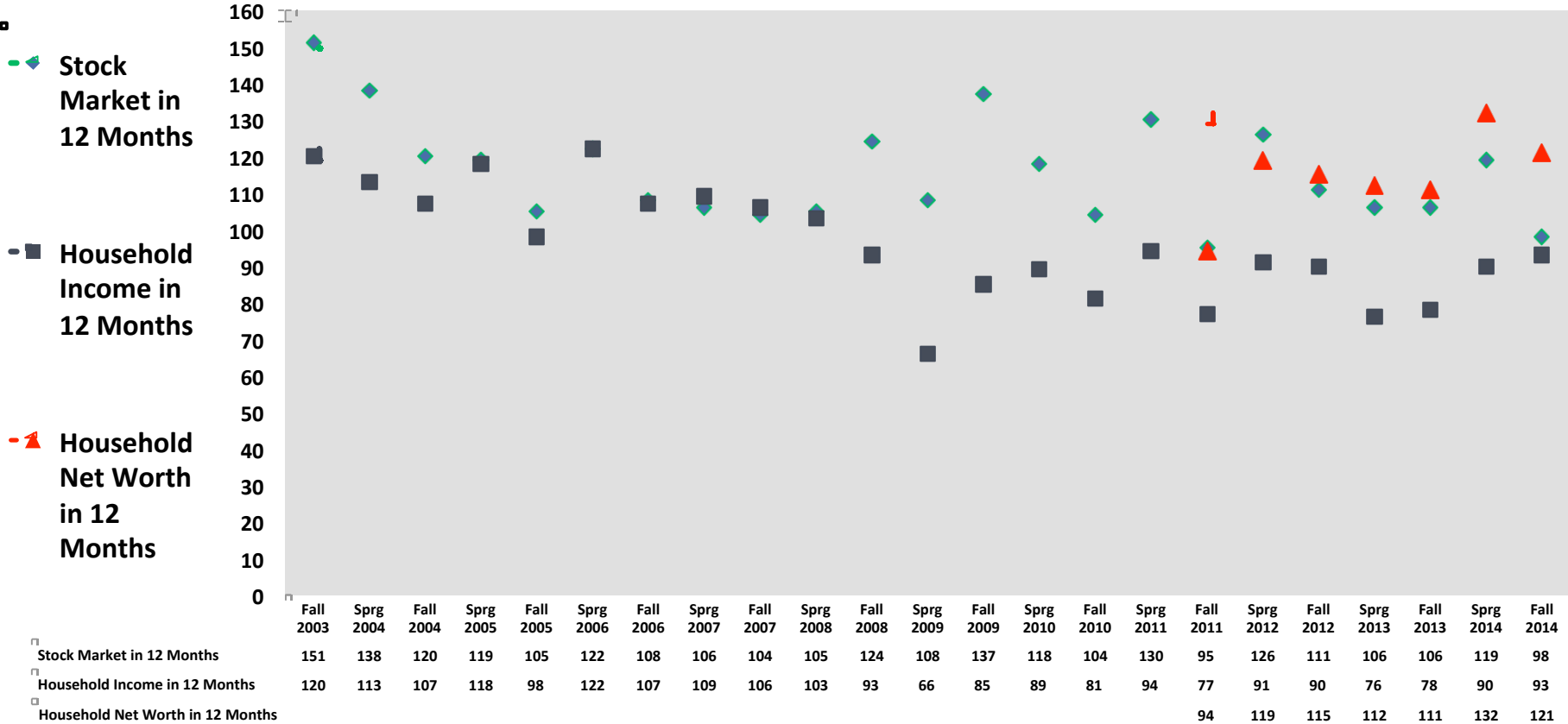
Stock Market Expectations	
Expectation	% of Respondents
Higher	25%
Same	47
Lower	28
Total	100%
Index	98

Household Income Expectations	
Expectation	% of Respondents
Higher	19%
Same	55
Lower	26
Total	100%
Index	93

Indexes for Assessment of Business Conditions



Indexes of 12 Month Outlook for Stock Market, Household Income, Net Worth



Expected Change in Net Worth

Expected Change in Household Net Worth During Next 12 Months

Expected Change	Total	% of Respondents			Gender		Income		Net Worth		
		Under 50	Age 50-59	60+	Men	Women	Under \$200K	\$200K+	\$800K - \$1.49M	\$1.5M- \$5.9M	\$6M +
More	38%	50%	44%	29%	48%	31%	23%	53%	36%	38%	49%
About the same	45	28	43	54	35	53	59	30	45	44	45
Less	17	23	13	16	17	16	18	17	19	18	6
Total	100%	101%	100%	99%	100%	100%	100%	100%	100%	100%	100%
Index	121	127	131	113	130	115	106	136	117	121	143

Impact of Economic Conditions on Spending

(Percent of Respondents)

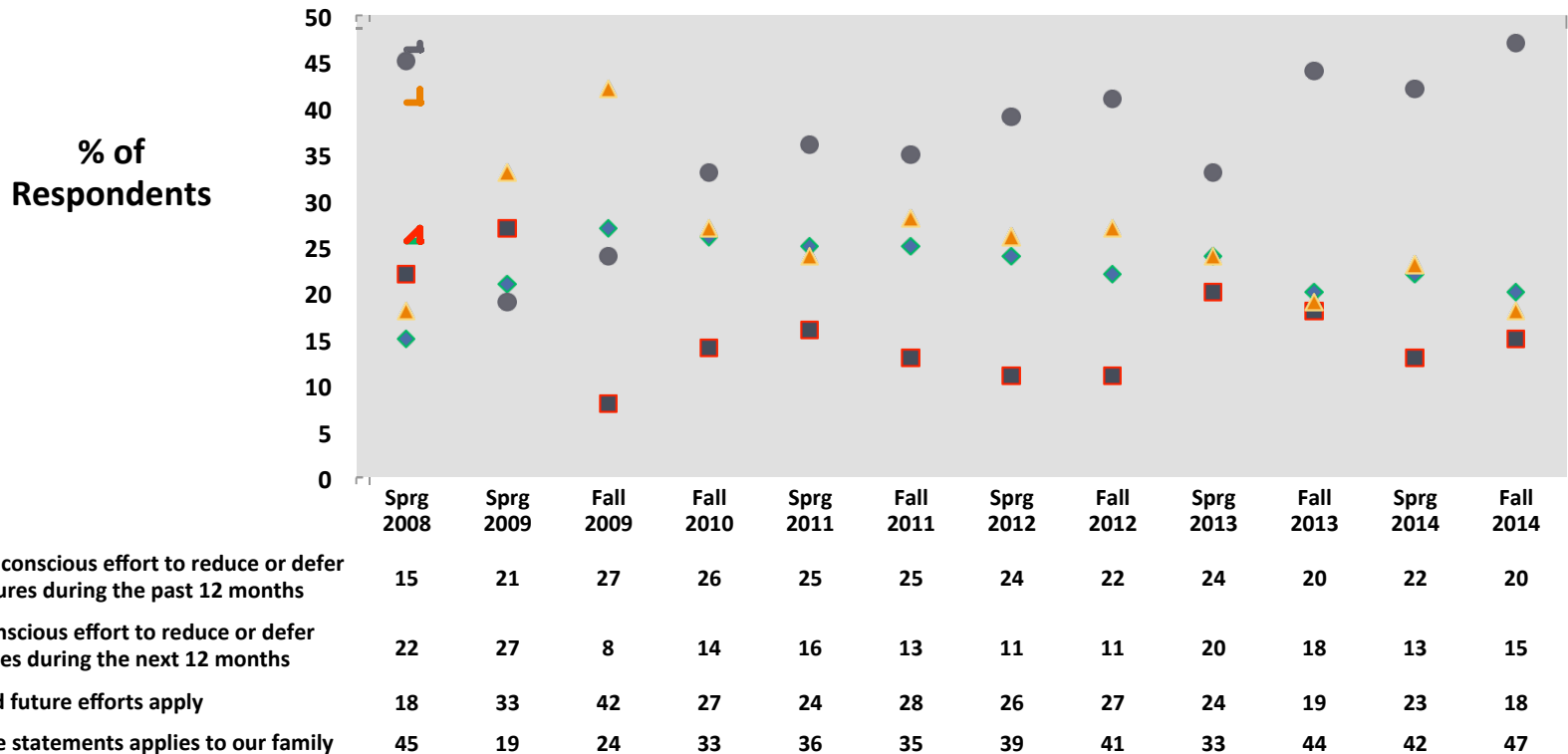
Actions Taken (or Not) to Reduce or Defer Expenditures

Actions	% of Respondents								
	Total	Age			Income		Net Worth		
		Under 50	50-59	60+	Under \$200K	\$200K+	\$800K - \$1.49M	\$1.5M- \$5.9M	\$6M +
Have made a conscious effort to reduce or defer expenditures during the <u>past</u> 12 months	20%	25%	18%	19%	24%	18%	18%	21%	24%
Will make conscious effort to reduce or defer expenditures during the <u>next</u> 12 months	15	15	18	13	14	15	15	15	13
Both past and future efforts apply	18	11	23	19	17	18	23	13	20
Neither of the statements applies to our family	47	49	42	50	44	49	44	51	42
Total	100%	100%	101%	101%	99%	100%	100%	100%	99%

Impact of Economic Conditions on Spending

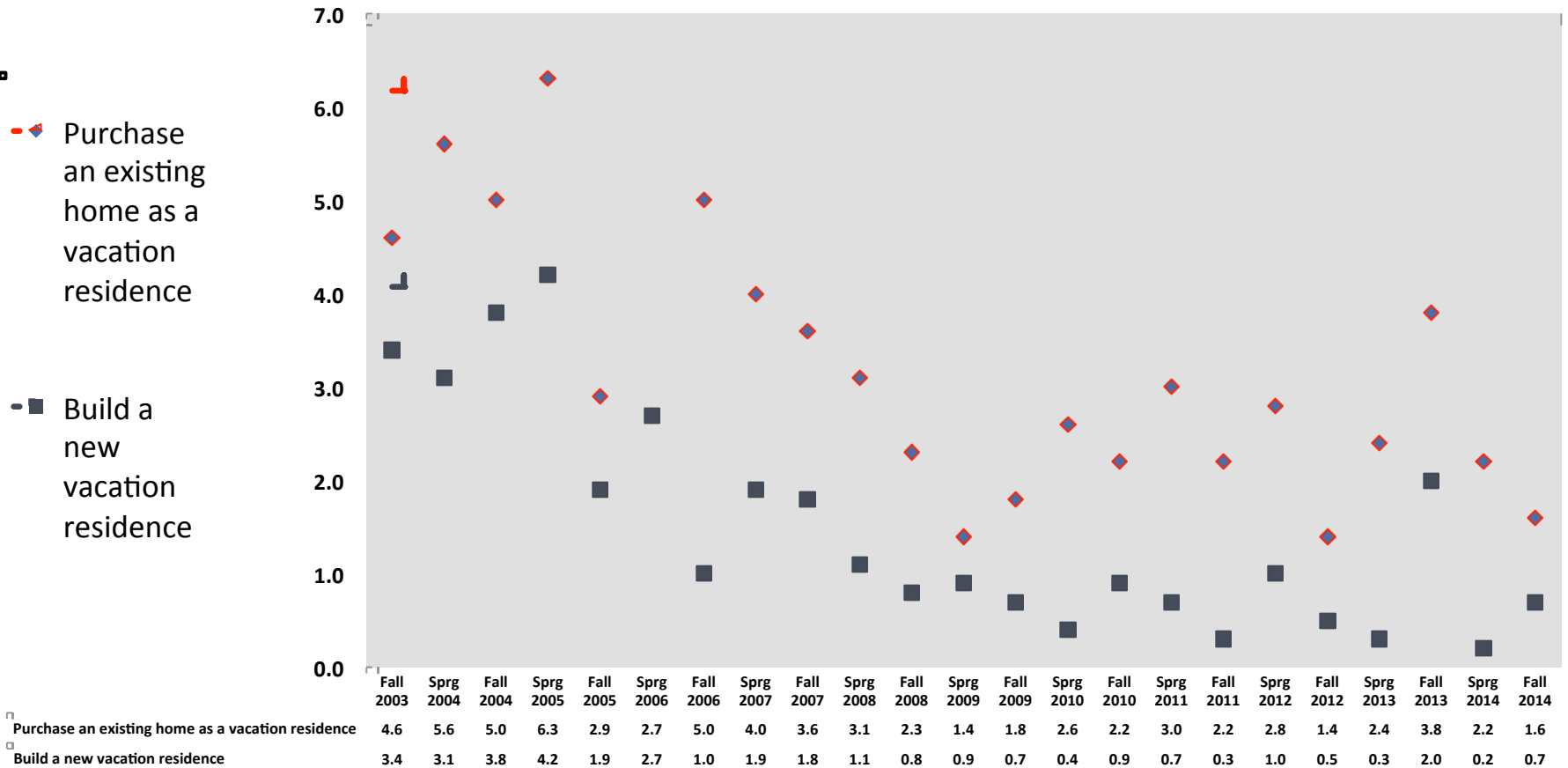
(Historic Actions Taken (or Not) to Reduce or Defer Expenditures)

- ◆ Have made a conscious effort to reduce or defer expenditures during the past 12 months
- ▲ Both past and future efforts apply
- Will make conscious effort to reduce or defer expenditures during the next 12 months
- Neither of the statements applies to our family

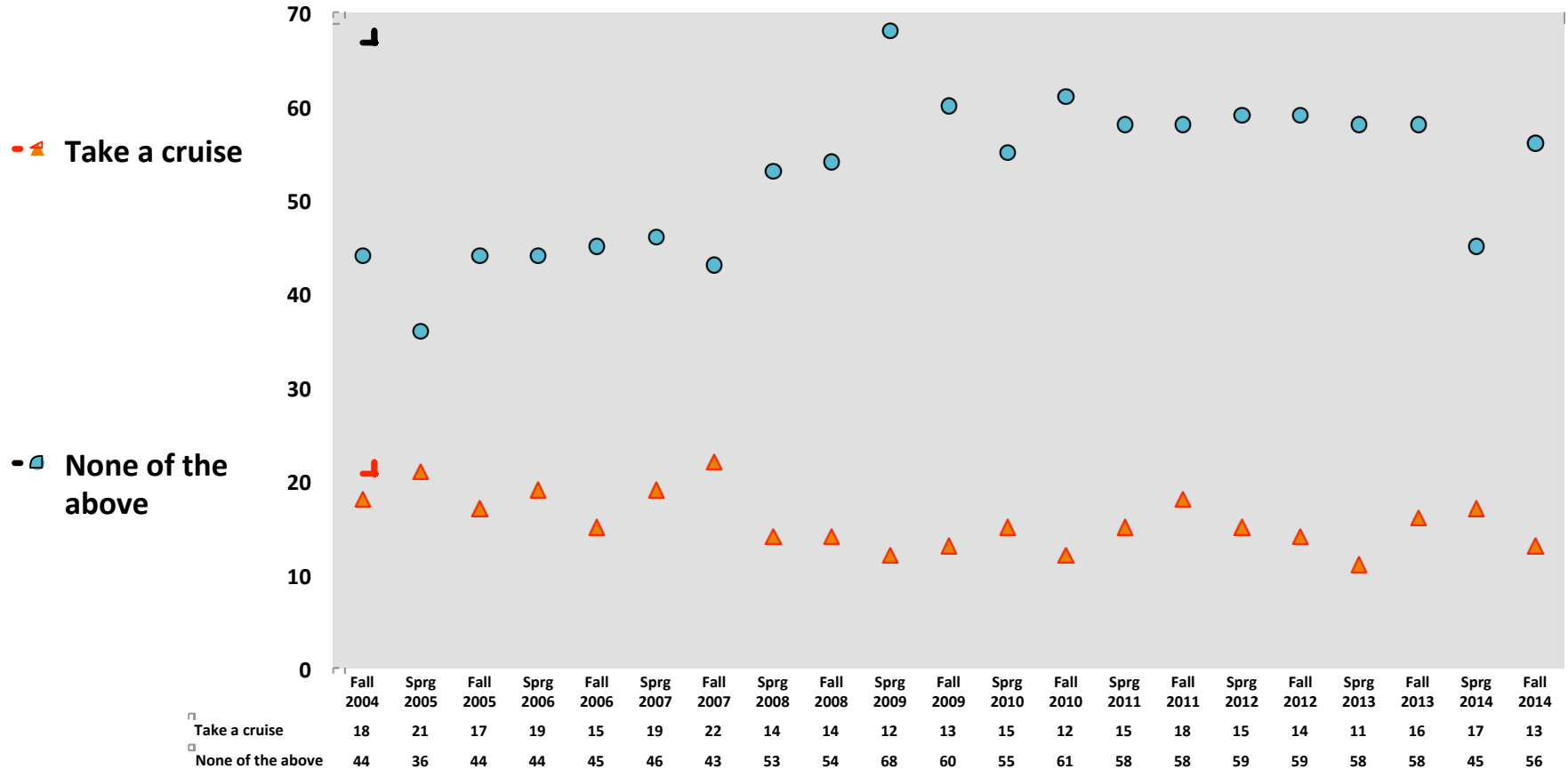


Intentions to Acquire a Vacation Home in Next 12 Months

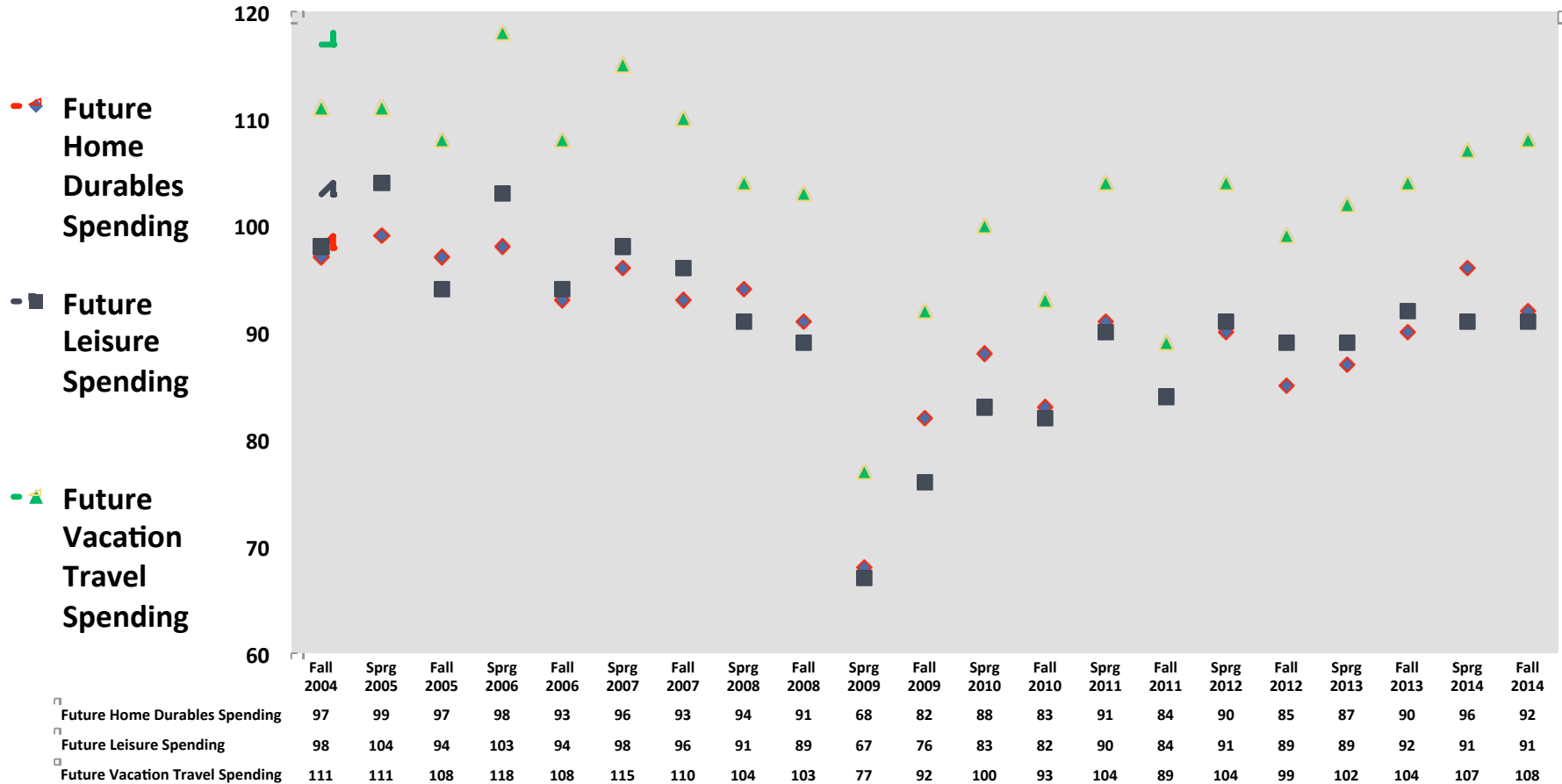
(Percent of Respondents)



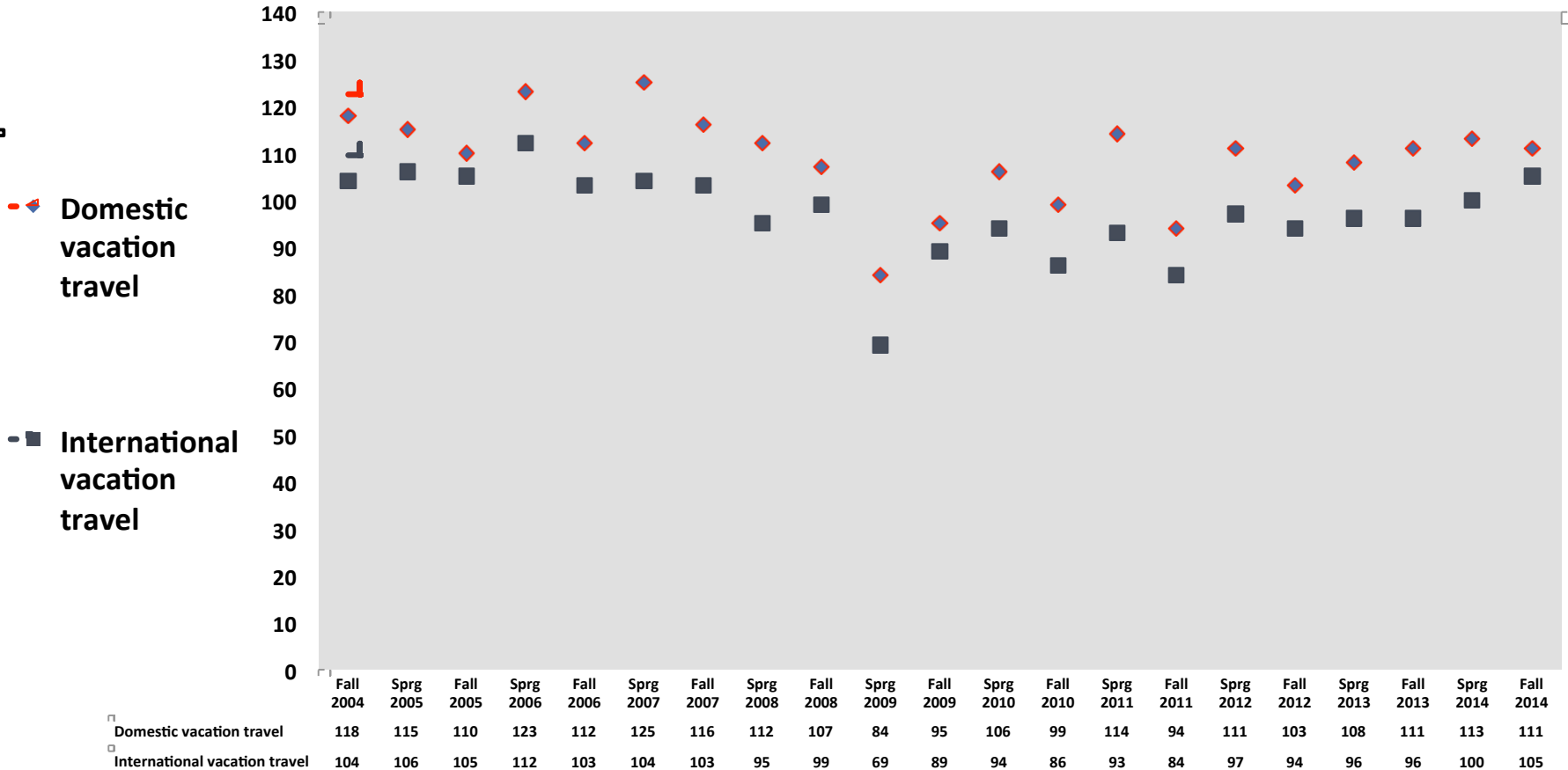
Intentions to Acquire Major Items in 12 Months (Percent of Respondents)



Indexes for 12 Month Outlook for Change in Spending for 3 Categories of Products



Indexes for 12 Month Outlook for Change in Spending for Vacation Travel



Impact of Economic Conditions on Spending Indexes

Indexes for Expected Changes in Spending During Next 12 Months

Spending Category	Total	Actions to Reduce Expenditures		12 month Net Worth Expectations		12 month Income Expectations	
		Will make effort next 12 mos	Have not & will not make effort next 12 mos	Same or higher	Less	Same or higher	Lower
Domestic vacation travel	111	99	126	118	78	117	93
International vacation travel	105	100	113	112	73	107	102
Home Durables	92	79	98	96	72	96	83
Leisure	91	80	101	97	63	95	78

Part 7

Overview and Marketing Opportunities

Correcting “Myths” about the Affluent

- The recession did not create a “new normal” for spending by the affluent.
- “Stealth wealth” and “luxury shame” were never prevalent among the affluent.
- Most of the affluent are not luxury consumers.
- The affluent are not in a mood of austerity.

The “Truth” about the Affluent

- Seek good quality and good value.
- Careful shoppers and aggressive savers.
- Live within their means.
- Need to be educated about luxury.
- True affluent are the 12M households in the top 10% based on net worth.

Travel Outlook and Marketing Opportunities

- Travel is important to the affluent, especially the more mature and wealthy.
- Increased spending for travel is likely during the next 12 months for both domestic and international travel.
- Multi-generational travel is big.
- Online research and buying of leisure travel are well established.

Thank You

To learn more about AARC **research** and our highly targeted **mailing lists** of the affluent:

www.AffluenceResearch.org

