Barron’s September 18th, 2000

The Wealth Revolution

The ranks of the New Rich are exploding. Marketers are taking note.

By Leslie P. Norton

On a chilly day in November, Larry Samuel found himself pursuing two well-heeled 20 somethings through the trendy SoHo neighborhood of New York City. Samuel, 43, spied on them at Catherine, a store known to carry sexy boots and expensive handbags trimmed in peacock feathers, then followed the girls to Fresh, which sells costly soaps made from honey and other natural ingredients. He trotted along to the Cupping Room Cafe, a boit prized by its denizens for being "cute." Still later, the bookish, good-looking Samuel shadowed them to a nightclub, where some boys they knew were playing in a band.

There is a type of middle-aged New Yorker that preys on beautiful young women for sport. But on this particular evening, Samuel, a self-styled cultural anthropologist, was hard at work. His consulting firm, Iconoculture, hires itself out to spot trends for marketers. In November, he was on assignment for J.P. Morgan, identifying and documenting the habits of the rich.

It's tougher than it sounds. The rich have long been a secretive bunch, and with good reason. Protecting assets and status from harm has long been a paramount obsession. Yet the Maginot Line defending the well-fixed against the huddled masses of the middle class has given way of late. Consider that, in the United States, the number of millionaires rose to 7.2 million last year, up from 3.4 million five years earlier, according to Spectrem Group. That's an average increase of 16% a year, and the New York City-based research firm expects those numbers to continue growing at a smart 10%-plus a year for the foreseeable future. And to qualify, people had to have $1 million or more in investable assets, meaning the value of their homes doesn't count.

Over the same period, the number of pentamillionaires -- that is, those with investable assets of $5 million and up -- has grown at a staggering 46% annual rate. There are now 590,000 of them in America, according to Spectrem's estimates, up from 90,000 in 1994. Nor does the research firm see the growth of pentamillionaires slowing anytime soon. By 2004, Spectrem projects that their number will rise to an astonishing 3.9 million.

To be sure, the pursuit of wealth is a longstanding national pastime in America. The insightful young French nobleman Alexis de Tocqueville wrote in 1835: "Men living in democratic times have many passions, but most of their passions either end in the love of riches, or proceed from it ..." And while he was hardly the first to remark on America's materialistic culture, de Tocqueville found its basis in democratic institutions: "When the reverence which belonged to what is old has vanished, birth, condition, and profession no longer distinguish men, or scarcely distinguish them, hardly anything but money remains to create strongly marked differences between them, and to raise some of them above the common level. The distinction originating in wealth is increased by the disappearance or diminution of all other distinctions. Amongst aristocratic nations, money reaches only to a few points on the vast circle of man's desires; in democracies, it seems to lead to all."

The democratization of wealth has been propelled by the explosion of the stock market, the surge in option compensation, and the boom in Silicon Valley. Today, some 33% of pentamillionaires' wealth comes from employee options and 24% from investment returns. According to Spectrem, the total value of the stock portfolios of wealthy U.S. individuals tripled to $5.75 trillion between 1989 and 1997.

Above that group are the superwealthy households, which a study by Merrill Lynch/Gemini Consulting defines as having $30 million or more in liquid financial assets. Worldwide, this group stood at about 55,000 last year, up 18% from 1998. Financial assets for this bunch totaled $7.9 trillion last year. Prominent among the ultras, according to Merrill, are the Internet zillionaires who launched such enterprises as Amazon.com, eBay, Yahoo and Red Hat.

"The wealthy aren't off writing novels these days," observes Jes Staley, head of private banking at J.P. Morgan's Morgan Guaranty Trust. "They're making money starting, building and selling businesses." He should know. When Chase Manhattan completes the acquisition of J.P. Morgan, announced last week, it will absorb a very healthy private banking business with 15,000 clients and $85 billion under management -- and twice that if you include assets held in custody for clients.

Much of the wealth of the New Rich was created by the vastly increased use of stock options as compensation over the past decade. The value of vested options swelled to $1 trillion in 1997 from $131 billion in 1989, Spectrem reports. And Bear Stearns has found that over the past three years, companies in the Standard & Poor's 500 Index expanded stockoption compensation by 48% a year. Meanwhile, the Merrill Lynch/Gemini Study found that in 1998 alone, CEOs at 92 of the top 200 U.S. firms were each granted options worth more than $10 million. Overall, these companies granted their employees shares and options in 1998 worth 2% of their outstanding stock.

A rich person in America is as likely to be a global business owner as a family with inherited wealth or a dot.com entrepreneur. Their toys are myriad: fancy golf clubs, $2,500 robot dogs, MercedesBenz snowboards, BMW sport-utility vehicles, $70,000 entry-level Hummers. It's to tap this demand that Ferrari, which builds 2,000 of its fiercely elegant $150,000 roadsters each year, bought Maserati, which makes twice that number of its luxe $75,000 sports coupes. Yet the business opportunity extends beyond such ephemera. Financial institutions, for example, are slavering at the prospect of providing the New Rich with such services as wealth management, generational planning and tax advice. It's why Charles Schwab paid $2.7 billion this year to move up the wealth ladder by acquiring U.S. Trust.

Or ask Peter K. Scaturro, chief executive of Citigroup's Citibank Private Bank, which supplies financial services to the wealthy -- and where client portfolios average $6 million. "We are capacity-constrained," Scaturro complains. Citi, which boasts 450 private bankers around the world, expects to add another 100 private bankers over the next 12 months. But Scaturro says he would add twice that many if he could find the talent.

Ironic as it sounds, the rich need help. As net worth increases, much of it is tied up in illiquid instruments like restricted stocks and limited partnerships. For example, only about one-third of the assets of people whose wealth is in the $10 million range is liquid, while those with $50 million or more have ready access to just 15%. Meanwhile, they're often engaging in complex financial transactions -- exercising stock options, starting and selling businesses, receiving inheritances. And they readily admit to a need for advice, particularly regarding trust and estate planning, stockpicking, managing income and capital-gains taxes, charitable giving and selecting foreign investments.

The New Money ultras, according to Merrill, take greater risks than Old Money. They also insist on top performance and are more demanding. Bent on accumulating even more wealth, not just preserving it, they require ready access to international tax and legal specialists and to so-called concierge services. With much of the New Money from initial public offerings, says Merrill, new ultras are poles apart from their Old Money counterparts. They're "more open about their wealth, do not require the same level of secrecy, and do not usually hold substantial assets in secure offshore accounts. For them, performance is far more important than location." Thus, strategies to lure such clients might include offering ready access to initial public stock offerings and the opportunity to buy into private companies as well.

Dot.commers aside, the rich are largely an older bunch. By Spectrem's reckoning, 77% of households with $5 million or more are headed by people 55 and up. Having achieved wealth, they're fixated on philanthropy, wondering how much money to leave their children while providing adequate incentives for the kids to lead successful lives. Once you're rich, as Scaturro puts it, "What are you going to do for the next 40 years?" (We explore one answer to that question in the following story, Giving It Away.)

Perhaps the most extensive attempt at chronicling the lives of the rich has been made by J.P. Morgan, which enlisted anthropologist Larry Samuel late last year. The effort was overseen by Paul Groncki, a portly, energetic fellow in Morgan's private banking operation who wields a research budget of $750,000. In the past, Groncki notes, private bankers were loath to share names; databases didn't exist, so what anybody knew about the rich was strictly guesswork. Then, in 1995, Groncki had an idea. He contacted clients with largely inactive checking account balances of $30,000-plus at Morgan Guaranty, overnighting them a customer satisfaction survey that included a $60 boxed book from the Morgan Library. Groncki discovered something astounding -- rich people do talk to marketers. Some 60% of them answered, and all said their net worth exceeded $1 million.

In subsequent surveys, Groncki discovered clients were wealthier than he originally thought. About a third had net worth of $15 million and up, but used providers other than J.P. Morgan. So he set out to learn their behavior, to anticipate their needs and satisfy them without being asked.

First he enlisted Spectrem to tweak its annual survey of consumers with more than $500,000, screening out anybody with less than $1 million. Then he recruited Samuel of Iconoculture and Bill Cummins, chief of Cummins Marketing Consulting in Santa Clarita, California. Cummins speaks in deep, unhurried tones and devises thoughtful questions. Among other things, he asked 300 affluent subjects to describe the relationship between wealth and freedom, to say whether wealth is a curse or a blessing, to determine at what point they felt wealthy, and to outline what they intended to do with their wealth. Cummins used an unusual method, providing his subjects with the questions and asking them to phone and leave a message of any length with the answer when they were ready.

Most had a story. They told him wealth was a blessing, and some related it to their sense of destiny. It gave them a sense of purpose and made them feel interesting. Those who felt cursed did so because "nothing changed in their lives. I guess they expected orchestral music," Cummins says drily. And for the self-made wealthy, Cummins discovered, "the notion of freedom is extremely important. They can't be the person they want to be until they're wealthy." The reason? Acquiring wealth is hard work. Once they are wealthy, though, "they can start dictating the terms themselves," he says, pointing out that this often means retiring early, sharing money with poorer family members, spending time with grandchildren, playing the great golf courses, and giving to charity. Such experiences helped define status. "The true measure of success," says Cummins, "is that you can define yourself at an earlier stage in life than other people can."

The last piece of the puzzle was anthropologist Samuel, who would stalk the rich in their native habitats. A former advertising executive, Samuel holds an MBA from the University of Georgia and a Ph.D. in American Studies from the University of Minnesota. In his spare time, he is an obsessive collector of kitsch, possessing dozens of yearbooks and more than 500 Jim Beam collectible bottles, one modeled on Bing Crosby's head, another featuring the pate of Glen Campbell. In 1992, he founded Iconoculture with partners Vickie Abrahamson and Mary Meehan, and two years ago the trio published a book titled The Future Ain't What It Used to Be, which identified 40 cultural "passion points" for marketers, including "bunkering," a trend for families to withdraw from the world and home-school their children, and "beehiving," in which communities are formed around a shared interest in a consumer brand.

For the Morgan study, the partners started out by reading scores of books, like Bobos in Paradise, an astute and entertaining analysis of today's "bourgeois bohemians," by David Brooks. They also read Palm Beach Facts and Fancies, a statistical guidebook published by the Palm Beach Chamber of Commerce. Then they divvied up several cities among them, and went to work, making swift generalizations about each. In the wealthy areas of

Washington, for example, their report to Morgan observed that "houses are evaluated in terms of their usefulness in entertaining, which is done with a vengeance. Decorating is generally bland, so houses can be sold and resold with little redecorating."

The fieldwork also involved contacting what they called "cultural fluents," individuals who could guide them through the natural habitat of the well-heeled. Through a New York interior decorator, Samuel met the two young women he was trailing in SoHo. He followed them for three days in all.

Samuel also talked to concierges at fancy apartment buildings and, with a tiny camera, photographed visual trends at Bergdorf Goodman and other entrepots of the rich. In Palm Beach alone, he shot 12 rolls of film. He visited yachts and car dealerships, and checked out every country club until he was thrown out. He and his partners covered Philadelphia, Chicago, Dallas, Seattle, Orange County, Los Angeles, San Francisco and Silicon Valley.

The result? The threesome divined six types that predominate among the wealthy, whose values were expressed through typical behaviors. One is called "Wired." This person most recently traveled from New York to San Francisco to Tokyo, idolizes John Chambers of Cisco Systems, recently bought a home theater, owns a favorite black leather jacket and an Aibo dog, drives a BMW X5 and reads the Industry Standard. Another, "Wellville," recently visited a spa in Napa Valley, venerates Chicago Bulls coach Phil Jackson, recently bought a bonsai tree, adores Gore-Tex, drives an electric car, meditates and owns a cat, a fish and a dog.

Other types include "Legacy," which keeps corgis, does volunteer work, drives a Mercedes and reveres Warren Buffett. Then there's "The Good Life," which wears Prada, keeps a Weimeraner, goes heli-skiing and reads The New New Thing and Cigar Aficionado Magazine. Next comes "Unplugged," a group that admires Jesse Ventura, gardens, has rescued a dog from the ASPCA and drives a Chevy 4X4. Samuel's own favorite group is "Artisan," which recently traveled to Prague, worships architect Frank Gehry and the glasswork of Dale Chihuly, spends time collecting, owns a French bulldog, wears vintage Chanel and drives an Audi TT Coupe.

For now, Morgan has nascent plans to use these conclusions by organizing recruitment around specific events -- museum openings for Artisans, say, or golf tournaments for Legacys -- or by advertising in outlets like Spa Magazine or sponsoring spots on National Public Radio to appeal to Wellvilles and Wireds. Artisans might also be enticed by displays of regional art in J.P. Morgan offices, while Wireds might appreciate news and analyses of venture-capital firms and projects on Morgan Online, the bank's Website. Meanwhile, joining private banking with the idea of "financial wellness" might draw Wellvilles.

Samuel believes his research has wider applications than banking. Such values will probably resonate in future advertising for all sorts of products, he says.

Knowing how advertisers plan to part us from our money isn't a comfortable prospect. What's more, one should be warned that the pleasures of wealth can be fleeting, a fact divined by Tocqueville 165 years ago. "The desire of acquiring the comforts of the world haunts the imagination of the poor, and the dread of losing them that of the rich," he wrote. "Many scanty fortunes spring up; those who possess them have a sufficient share of physical gratifications to conceive a taste for these pleasures, not enough to satisfy it. They never procure them without exertion, and they never indulge in them without apprehension. They are therefore always straining to pursue or to retain gratification so delightful, so imperfect, so fugitive."

If he were writing today, Tocqueville might add, "BMW dealers, take note."