# The Rise of HENRYs

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## ABSTRACT

HENRYs is a buzzword to refer a new segment of social class. It is an abbreviation for "high earners, not rich yet." In recent years, they have played an influential role in the world economy given their share of consumption, especially in the luxury goods market. Yet marketers have little understanding of this important group of consumers. This article therefore investigates consumer behaviors of HENRYs to provide insights for brands and marketers to devise strategies to target HENRYs.

**Keywords:** HENRYs, Buying Behavior

## INTRODUCTION

HENRY—high earners, not rich yet—is a buzzword originated from an article written by Shawn Tully in the March 2003 issue of Fortune magazine (Tully, 2003). The word, HENRY, in the original article refers to a segment of family earnings between 250,000 and 500,000 USD, but after taxes not having much left for schooling, housing and family expenses, not to mention savings after retirement (Tully, 2008). Equifax (2016) characterizes an average HENRY as a 43-year old individual with income of 136,000 USD and asset of 214,000 USD where 19 percent of assets are invested in stocks, 37 percent in mutual funds and 34 percent in deposits.

HENRYs contribution to the U.S. economy grew dramatically during the early-2000s and mid-2010s. Their financial assets increased by nearly 60 percent, from 5.2 trillion in 2002 to 8.3 trillion USD in 2010, and the total value of their annual household income increased by 55 percent from 3 trillion to 4.1 trillion USD (Breman, 2012; Strategic Business Insights, 2012). More importantly, HENRY households spend considerably on discretionary goods and services, about 68,000 USD annually on clothing and home furnishing, dining out, nightlife, travels, groceries, sports and entertainment, as well as personal services (Equifax, 2016).

The importance of HENRYs in the economy is even more striking when examining international consumption of luxury goods. HENRYs account for about 42 percent of world-wide personal consumption in luxury expenditures in the third quarter of 2016 (World Luxury Association, 2015). Moreover, the top spenders are not U.S. nationals. Roughly 65 percent of the European economy rely on luxury goods whose top spenders are individuals from elsewhere, in particular China, Russia, India, Ukraine, the United Arab Emirates and Southeast Asia (World Luxury Association, 2015). CBRE predicted that China will be the largest market for luxury brands in 2020, growing from 15 percent of global sales in 2005 to 40 percent in 2020 (CBRE, 2015). These HENRYs elsewhere are the key factor for a mature market such as the luxury market and the retail market, to continue to grow, particularly when the luxury brands are doing poorly in the markets

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like Japan due to the popularity of Japanese minimalism Zen living life style and North America from the rise of e-commerce (Shoji, 2017; Bumrerb, 2016, p. 148.).

Given their importance in global consumption, it is imperative that brands and marketers clearly understand consumer behaviors of HENRYs so as to boost their profits. This article therefore discusses recent challenges and opportunities in consumer behaviors arise from HENRYs.

## BACKGROUND

The idea of luxury is rather abstract. It is determined by personal and interpersonal motives and primarily built on the perception of prospective buyers. Dubois and Laurent (2001) found that consumers' attitudes towards the concept of luxury vary considerably. Due to the fluidity of the concept, different people define luxury in different ways, but they must conceptualize luxury based on two dimensions: the context and an individual concern although luxury is often considered as a subjective matter.

Consumers' attitudes towards the concept of luxury are highly influenced by the social class they belong to which in turns result in different market segmentation of luxury goods as follows.

### Social Class

Social class describes a system in which people are grouped based on their income, occupation, education and material interests (Tarkhnishvili & Tarkhnishvili, 2013, p. 6).

The **upper class** is a group composed of individuals who are rich, born with a silver spoon, powerful, or a combination of those. They usually gather the greatest political power. In some countries being wealthy alone is not sufficient to be into the upper class, while in others only one born or married into certain aristocratic bloodlines can be considered a member of the upper class (Brown, 2009, p. 953).

The **middle class** is the most contested class and often broadest among the three. In the contemporary society, individuals in this group fall into the socio-economical class between the lower and upper classes. Some are against this term. One example is that in the United States the middle class appears to apply too broadly and includes all elsewhere considered the working class. Workers in this group are sometimes called "white-collar workers" (Social class in the United States, 2018).

The **lower class** classifies those who are employed to work on low wage jobs with little to no economic security. The term "lower class" is thus to indicate those with a low income (Social class in the United States, 2018).

### Luxury Goods Market Segmentation

The market for luxury products can be divided into three main segments by assets and distinctive purchasing power of the targeted consumers (excluding aspirational individuals with limited income).

**Old money** are ones who inherit wealth from one's established upper-class family or from another person, family, or lineage possessing the inherited wealth. The term typically identifies a subgroup of the rich in which families or individuals are able to maintain their wealth over multiple generations. The term is often used to describe perceived members of the practical aristocracy in societies which for historical reasons lack an officially established aristocratic class. The old money has used every luxury goods and services and tried to tear away to the tailor made and haute couture for a special personality identity.

**Nouveau riche** are rich individuals who acquire their wealth within their own generation. Most of them have their own businesses, and their preferring to party and shopping luxury products are their favorite pastimes. They buy goods and services that signal membership in the upper class.

**HENRYs (High Earners, Not Rich Yet)** are those who have earnings between 250,000 and 500,000 USD. These individuals have good tastes, knowledge and passion for luxury goods and services. When funds are available, they are ready to shop products from reasonable luxury brands. These high earners may have privileged, upper-middle-class backgrounds or be the children of immigrants. What they have in common is that they work incredibly hard to build their careers and to move ahead. Now this group of super achievers is targeted as a cash machine (Tully, 2003; Tully, 2008).

### HENRYs vs. Old Money and the Upper Class

Compared with old money and the upper class, the HENRYs seem to be less wealthy than them by a large margin. The HENRYs still have a great deal of debts, although they can earn a high income, but it is not sufficient. Many of them have a high income from their personal business but the nature of any business requires them to obtain a handsome amount of money in order to have a healthy cash flow in the business system. By definition, wealth is the total assets minus the total debts. As long as one's business still maintain in business, every time one spends, one would calculate all other expenses in order to have the money enough for the cash flow of the business.

## HENRYS AS A TARGETED MARKET SEGMENT

Thanks to their unique set of value, HENRYs are devoiced from older generations of affluent consumers. According to Danziger (2011), "Young affluent shoppers look for brands that communicate who one is and what one values" (p. 35). More precisely, there are a number of recurring themes which luxury brands ought to investigate if they would like to tap into the HENRY crowd. One theme is concerned with performance. The young affluent are likely more hyper-connected and keenly aware of the plethora of choices available to them. We would expect that they pay luxury products for more than just aesthetics, if such products come with premium prices. The products, in addition to aesthetics, must perform another or more specific functions. Such a theme may explain partially the recent surge of some luxury brands such as Canada Goose or Outdoor Voices. Actually, HENRYs are in the upper middle class but they are different. Most of HENRYs graduate with a great grade point average from a famous collage, work 80 hours per weeks and have a managing position in a company or may be a business owner. They are in the left of a money quote: rich dad poor dad.

This hesitancy within a huge category makes a great deal of luxury retailers shift away from the price, while concentrating on goods which are more reliable and tailor to the liking of both the top 2 percentile of earners and the less timid ultra-rich. It is seen that the HENRYs visit and thereby shop often at premium mass retailers, luxury discount centers and outlets.

It is a sound strategy for luxury brands to target HENRYs since it helps such brands better position themselves in the future. Although it is common for brands to focus on specific segments of consumers, today's luxury brands should explore the young. HENRY consumers are in the ages from 25 to 34. As these young, well-to-do individuals mature, their incomes are likely to rise, making this group of people the source of tomorrow's ultra-affluence. Luxury brands wanting to continue to hold onto the highest income customers need to reach out to millennials although they are less affluent today (Danziger, 2011, pp. 4-5).

## STRATEGIES FOR HENRYS

**Magnificent Obsessions as a Defense Mechanism.** As suggested by Freud's psychoanalytic theory, one of the most influential psychological ideas, the magnificent obsession of the HENRYs towards luxury products is a defense mechanism one may apply not only to maintain one's self schema but also against anxiety and unacceptable impulses. These mental struggles such as manipulation, denial, or distortion of reality typically include repression, or burial of a painful feeling about one's awareness. Such a feeling likely resurfaces in a symptomatic fashion, which incorporates an object into oneself and one's rationalization, and justify one's behavior and motivations by substituting "good," acceptable reasons for the actual motivations (Defence mechanism, 2018).

**More Luxurious, More Confidence.** Based on such a defense mechanism, the HENRYs as a newbie in the social spotlight are not confident. They need something to protect themselves from social pressure and social expectation. An item can save them from the social storm and can be a shelter when they feel insecure. In the past an object that can safeguard people when they encounter social insecure occasions is a military power. Those who have a military force are ones who can define the social rules. when one can rule, he or she can obtain gains, acquire power and eliminate threats that lead to insecurity. In the present day we no longer can show off military power. The object that can replace an army force is money, but one cannot show off money to everybody in the society.

**Luxury Experiences and Social Proofs Tendency.** About 71 percent of U.S. millennials believe that experiences are the most important thing in life (Contiki, 2016). We know that experiential campaigns and social media go hand in hand. This is the Social Proofs Tendency (SPT) in action: a psychological phenomenon where people assume the actions of others reflect acceptance and correct behaviors. For instance, one is more likely to join a queue for a restaurant based on the assumption that the restaurant must be a good one if everyone else believes so. Brands can use SPT to drive sales because of peer-to-peer advocacy of consumers through their social sharing. Hermès' Silk Bar experiential campaign embraced such an idea to push the exclusive identity of the brand through services as opposed to the point of price (Daly, 2013). In preparation for the 80th anniversary of its scarf division, Hermes, the luxury fashion house, set up a series of retro-style luxury laundromat pop-up stores allowing visitors to bring in their own silk scarves for a custom dye by a professional team of experts. The Silk Bar also housed an interactive play space with activities including hopscotch, miniature golf, hula hooping, and a photo booth.

**Gender is Less Important than Marital Status.** Gender often plays a decisive role in marketing strategy. However, in home-related purchases, especially among the affluent, marital status is far more important. Because the vast majority of the affluent, both the HENRYs and ultra-affluent, are married and largely make decisions as a couple. Indeed, marital status is a key demographic characteristic, since often such households take in two incomes to propel them into the top percentile group.

## OPPORTUNITIES

### A Market Segment for Growth

Although HENRYs have signalized their future potential in the consumer electronics market, they are crucial for the success of some emerging and relatively expensive gadgets like smart speakers, IOT smart home systems and smart watches. In the retail market, brands like Best Buy, Walgreen and Newegg have recently tweaked their product mix in no small part to attract customers (Vision Critical, 2015).

There are five reasons why a marketer should pay attention to the HENRYs.

1. HENRYs constitute the next mass crowd for a wide spectrum of brands regardless of the pricing of their products because the middle class has recently lost much of the purchasing power because of the negative effects of economic crises in Europe and North America. The importance of HENRYs to brands is expected to grow.

2. HENRYs have spared money to spend—and there are plenty of such individuals. A great deal of HENRYs whose household incomes are in the top 20 percentile of the population, earning anywhere between 100,000 and 250,000 USD a year. Because their incomes are more more those of the middle class, HENRYs on average have more purchasing power and can afford more expensive products. More importantly, HENRYs are growing in numbers. From 2010 to 2013, the number of HENRY households increased 11 percent, according to Business Insider. In the same period, the total number of households only grew 2.5 percent (Vision Critical, 2015).

3. The 2016 marketing report announced by McCann New York in 2017 found that there were ten times as many HENRYs as ultra-affluent individuals entering the market. For a mature market to continue to grow, the HENRYs have become the messiah (Vision Critical, 2015).

4. HENRYs are growing dramatically. Not only in China but in Southeast Asia and all the corners round the world, HENRYs become a new segment that influences the luxury market and the masstige market

5. HENRYs are the gateway for brands to penetrate the ultra-affluent, and high net worth. Indeed, a great deal of HENRYs are rather young with an age in the range between 24 and 35 and are climbing up their career ladders. As they advance in their careers, we can expect that they will have more earnings and obtain a higher discretionary income to spend in the future (Vision Critical, 2015).

If HENRYs in China are idyllic of the grace, the HENRYs in Southeast Asia are the blooming and driving force of the economy and sales of brand name products (Schwarzkopf, 2014). In the Chinese mainland, many luxury brands expand their stores in all corners in big cities like Shanghai, Beijing, Guangzhou or Shenzhen. They bring hope like a fountain of youth to the luxury market, giving them the vitality. It is better to target the HENRY's rather than the ultra-wealthy "as a slowing economy and a government that frown on official excesses usher in an era of less showy spending" (Bumrerb, 2016, p. 140.).

## Disruptive Changes: Sharing Economy

One of the important trends in recent years: the sharing economy should not be neglected. Young adults view access as the new ownership rather than the conventional right of possession. Four out of five consumers now feel that there exist real advantages of renting or leasing or time sharing over possession. Moreover, in a PricewaterhouseCoopers report issued in 2015 on the sharing economy found that one fourth of Americans participating in the sharing economy earned an annual income more than 100,000 USD. It is a vivid example showing that a substantial portion of affluent consumers perceived and appreciated the value in renting or leasing versus owning. Such examples are more sensible as the prices of shared assets decrease due to technological advances such as the Internet and smartphone, drastically removing transaction barriers or reducing transaction costs. A seminal example was the JetSmarter App. It allowed customers to access unused private jets, allowing such individuals to plan their trips and book a seat on a plane for a small fraction of the original price (PricewaterhouseCoopers, 2015).

What is more intriguing is that the sharing economy may be the missing link between traditional luxury companies facing more and more obstacles in their transitional phases, and the young and affluent. Many top managers of luxury brands are aware that the sharing economy has infiltrated the luxury market, but they do not believe such a trend to last or stay. Instead, these managers feel that the main or maybe the only reason why some consumers would like to rent or lease instead of owning is attributed to the fact that they do not have the financial means to do otherwise. For example, flying a private jet and buying a seat on a private plane are dramatically different. While one buys privacy and time convenience if owning, buying a seat on a private plane certainly reduces the travel time but one must share the plane with strangers and lose the luxury to depart freely. In other words, buying a seat on a private plane is to buy a better experience than what commercial flights deliver. The experience from buying a seat on a private plane remains drastically different from that derived from buying out the entire plane.

The sharing economy, however, gives the HENRYs a taste of what true luxury services are felt like. Such experiences deliver something entirely new to the HENRYs. Just one or two decades ago, if the young affluent would like to experience luxury, they could only access to the lower spectrum of luxury products, which were often mass produced. Now they can enjoy a ride in a black car. Thanks to the Uber. They can purchase a seat on a private plant. They can also book a personal concierge to deliver unique financial services, lifestyle and nightlife by various apps. They are, consequently, way more aware and in some ways more educated about luxury and what it delivers and means. Thus, the HENRY's can fulfil their luxury needs and wants by enjoy what the sharing economy offers, but ultimately there present more reasons to become true luxury consumers through their experience with the sharing economy.

## CONCLUSION

In the future, Henrys will not only play an important role in the luxury market, but they will also expand their influence in every business sector especially in the retail business. HENRYs will be praised like a prophet. However, marketers still do not understand them well. there are still many myths associated with HENRYs. We should remind ourselves that not all HENRYs are the same. HENRYs are different from the hard worker baby boomers. They are unique and still unpredictable. Further research to gain more intelligence about them is the best way. We need to keep calm and deliver incomparable satisfaction to them. Marketers should create unique and spectacular strategies to motivate them and guide them to the right path. Otherwise, they may burst the economy system by their overwhelming consumption power and non-performing loans.

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