

## Trading Up

### The New American Luxury

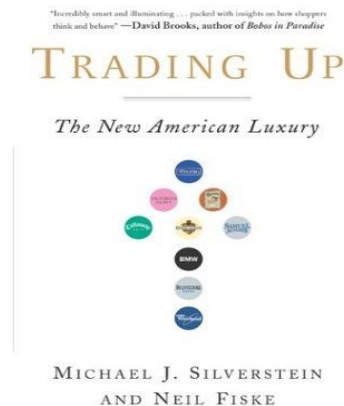
#### About the Authors



Mr. Silverstein joined The Boston Consulting Group in 1980. His second book, *Treasure Hunt*, was published in May 2006 and has received critical acclaim. With Kate Sayre, he is coauthor of a third book, *Women Want More*, which is being published in September 2009.



Neil Fiske was named Chief Executive Officer in June 2007. He was recognized as "Marketer of the Year" and "Retailer of the Year" in 2004 and 2005 by *Women's Wear Daily*.



**Authors: Michael J. Silverstein and Neil Fiske**  
**Publisher: Penguin Books, 2003**  
**ISBN: 1 59184 013 9**  
**316 pages**

#### ■ The Big Idea

Why do people happily pay \$6 for a Panera Panini instead of \$3 for a sandwich at the deli?

Or \$28 for a Victoria's Secret bra instead of \$12 for a generic brand?

Or \$30,000 for a BMW instead of \$20,000 for a Chevy?

Trading up has become a fact of life.

These purchases reflect an important worldwide behavioural shift. Consumers today are willing to pay a significant premium for goods and services that are emotionally important to them and that deliver the perceived values of quality, performance, and engagement. But in other categories that aren't emotionally important, they become bargain hunters: a passionate Mercedes driver will shop at Target every weekend; a construction worker who splurges on a \$3,000 set of Callaway golf clubs will also buy store-brand groceries.

For many companies today, trading up is a smart strategy for achieving growth and profitability in a world of cost-cutting and shrinking margins. In dozens of categories, new luxury brands are selling at premiums of 20 percent to 200 percent over conventional goods and in much larger volumes than traditional "old luxury" goods.

The authors estimate that in just twenty-three categories, mass luxury goods amount to \$350 billion in annual sales with tremendous potential remaining for future growth.

## Why You Need This Book

Trading Up combines social insight, rigorous research, and business acumen to tell the fascinating story of the consumers who trade up to the new American luxury and the companies that create it.

## NEW LUXURY IS MORE THAN MARKETING

New Luxury good cannot be imagined, developed, manufactured, distributed, or marketed following conventional middle-market business attitudes or practices – although many business assume they can be.

Companies assume that the New Luxury consumer will be seduced by a high price point, but New Luxury consumers do not automatically assume that if it costs more, it must be better. They are sophisticated enough to evaluate the technical and functional benefits of a product and to trust their own emotional reactions to it. We heard over and over again from consumers that the most expensive entry in a category is not always the best.

As one consumer put it, “Luxury can sometimes mean better quality and last longer, but sometimes it’s cheap and flimsy.”

New Luxury is much more than a marketing exercise, although marketing is, of course, a key part of the process. But New Luxury goods are not created solely in the marketing. They are created through all the management disciplines – and often through unconventional marketing methods.

## THE PRACTICES OF NEW LUXURY LEADERS

New Luxury leaders and their companies follow a set of management practices that are different from those of conventional or Old Luxury goods creators. Using them, New Luxury companies have shattered conventional beliefs in nearly all aspects of product creation and distribution, including ideas about price ceilings, price ranges, brand extendibility, consumer sophistication, market stability, and the innovation cascade.

1. ***Never underestimate the customer.*** In every New Luxury category, consumers are more affluent, better educated, and more sophisticated than ever before. In the categories they care about, they consider themselves to be knowledgeable and even expert. These consumers appreciate traditional quality, technological innovation, and emotional authenticity. They care about the heritage and history of a brand and are interested in the category as a whole.
2. ***Shatter the price-volume demand curve.*** The masstige segment, for example, is 20 to 40 of many personal-care categories and growing at twice the industry average. Sub-Zero shattered the conventional wisdom that there was no substantial household-appliance market above the \$1,000 price point. BMW is the most profitable car company in the world, with unit volume of its New Luxury models ten times that of other superluxury cars.
3. ***Create a ladder of genuine benefits.*** Perhaps the most important of the New Luxury practices is ensuring that the products deliver a ladder of genuine differences --- technical, functional, physical, and emotional.
4. ***Escalate innovation, elevate quality, and deliver a flawless experience.*** The market for New Luxury is rich in opportunity, but it is also unstable. This is because technical and functional advantages are increasingly short-lived, as new competitors enter the market, and because of the relentless downward pressure of the innovation cascade. What was luxurious and different today becomes the standard brand of tomorrow.
5. ***Extend the price range and positioning of the brand.*** Many New Luxury brands extend the brand upmarket to create aspirational appeal and down-market to make it more accessible and competitive and to build demand.
6. ***Customize your value chain to deliver on the benefit ladder.*** New Luxury creators often work outside the established value chain in order to overcome the structural barriers that stand in the way of small producers. They put the

emphasis on control, rather than ownership, of the value chain and become masters at orchestrating it.

**7. Use influence marketing; seed your success through brand apostles.** In New Luxury goods, a small percentage of category consumers contribute the dominant share of value. An intense, continuing focus on these core customers will yield early signs of a shifting market and ideas for next-generation variants, features or products.

**8. Continually attach the category like an outsider.** New Luxury creators look beyond their own categories for the trends and patterns that will generate the next breakthrough.

## THE WORLD IS A SEXY PLACE

Looking and feeling sexy is a powerful emotional place for New Luxury.

### *Lessons From New Luxury Lingerie – Victoria's Secret*

- Over the past twenty years, the brand has traded up its customers to higher levels of taste and aspiration across multiple categories. The brand took its customers from bland department store staples to more fashionable foundations. And then Wexner traded them up again to a \$34 functionally superior, emotionally engaging bra, which became a bestseller.
- Brands are able to draw emotional responses but only when there is a level of quality that serves as a tangible and relevant foundation.
- By steadily increasing the upper price limit, the Victoria's Secret brand has increased its average unit retail price for bras by almost 200 percent in five years.
- The most important brand apostles for Victoria's Secret are the supermodels. They wear the lingerie and are brand advocates. They create the aspiration of joining a club of the most beautiful women in the world.
- The brand keeps topping itself. Today, Victoria's Secret owns the emotional space of feeling and looking sexy for American women.

## EATING AS AN EMOTIONAL EXPERIENCE

Americans love to eat and always have, but the eating habits and preferences of middle-market eaters are changing.

### *Lessons From New Luxury Food Suppliers – Panera Bread*

- Customers of Trader Joe's and Panera Bread have proved that when offered a higher-quality and emotionally engaging alternative to the norm, they will go out of their way for the experience, and they'll happily pay a premium for it.
- Carol, the administrative assistant, claims that she loves taking first timers to Panera Bread. Word of mouth enabled Trader Joe's to build a 42 billion retail franchise despite the out-of-the-way store locations and lack of broadcast advertising.
- Like Robert Mondavi in the wine industry, Panera Bread CEO Ronald Shaich, used his position as an insider to understand the opportunities presented by the shortcomings of the status quo.

## INSIDE THE NEW AMERICAN HOME

The changing character of the American Home is one of the clearest indicators of major shifts in our society.

### *Lessons From New Luxury Home Players – Whirlpool*

- Targeting the “average customer” and testing against the “general population” are common pitfalls of traditional market research.
- Whirlpool Duet is disproving the conventional wisdom that there is limited volume in premium-priced household durables.

- In comparison to conventional washers, Duet has genuine technical differences that translate into functional beliefs that lead to unprecedented emotional engagement for consumers. How often have you heard a consumer say that she “loves” her washing machine?
- They offer unique, high quality products by scouring the world for new and interesting items. They tell product stories that appeal to consumers’ emotions and provide inspiration and guidance for product use.

## AWAKENING THE AMERICAN PALATE TO WINE

The story of trading up in wine reinforces the eight key practices of New Luxury leaders.

### *Lessons From The Master Blender’s New Luxury Practices – Kendall-Jackson Wine*

- Robert Mondavi and Jess Jackson never underestimated the customer. They believed they could trade up the middle market to high levels of quality, taste, and aspiration even if there was not a proven model to follow. It became their mission and guiding ethos.
- Jackson saw the potential to create a new segment in the market with both higher prices and higher volume. Today, his major brands continue to occupy a position off the demand curve for the industry as a whole.
- Consumers traded up based on the ladder of genuine benefits. The big breakthrough was in taste and affordability, but the category overall played to an emotional need for pleasure, social connection, affinity, self expression, and discovery. Attaining knowledge of wine became a way for consumers to make affiliation and connection with other wine enthusiasts.
- Jackson used an open-sourcing model to overcome structural barriers. He put the emphasis on control, not necessarily ownership, of the value chain. And he proved to be the master of orchestrating the value chain from an end to end.
- Mondavi and Jackson recognized that the inspiration and innovation will increasingly come from wine countries of the New World.

## DEMONSTRABLY SUPERIOR AND PLEASINGLY DIFFERENT

### *Lessons From The Callaway Scorecard*

- “You can’t fool the public,” Callaway said. “If they are going to buy your product, it has to be better, it has to be right. It has to be truly more satisfying than the existing product.”
- Callaway understood the importance of investing in technology. Callaway knew that his customers – many of whom thought of themselves as “club junkies” – wanted a steady stream of new products, and he provided them.
- Callaway has chosen not to extend the price range of its clubs as broadly as other New Luxury makers.
- Out of necessity at first, Callaway helped make gold equipment more accessible to players by offering it in sports equipment retailers off the golf course.
- In both golf and wine, Callaway saw industries that had become stagnant, and he entered the industry as an outsider unfettered by the conventional wisdom. Like all New Luxury innovators, Callaway was infatuated with his product in a way that industry lifers rarely are. “You have to be almost crazy in love with the product that you want to make or the service that you want to sell,” he said. “You have to believe in it.”

## FACTORS THAT WILL CONTRIBUTE TO THE SPREAD OF NEW LUXURY

Just as New Luxury has arisen as the result of the confluence of social changes and business capabilities, its spread will be further enabled by a number of factors:

***Greater globalization and influence of overseas markets.*** As the European Union continues to expand and accept new member nations, and as China and other Asian countries become increasingly welcoming to both businesses and

travellers, the trading-up phenomenon will become more globally influenced. Consumers will discover new tastes and styles, ideas and interests, and look for their Americanized versions back home. Businesses will have greater access, at lower cost, to ideas and supply chain services in countries throughout the world.

**Heightened role of the Web and e-commerce.** E-commerce is currently a minor source of revenue for New Luxury creators, but it is growing fast and contributing to sales and brand growth in many ways beyond the direct sales of brick and mortar stores.

**Influence of solo females.** Young singles rocket in a relatively small number of categories, but divorced women told us they rocket in as many as thirty different categories.

**Seniors as heavy spenders.** Seniors represent an enormous potential market that New Luxury goods creators have yet to fully tap. There is an opportunity to better serve the senior travel market with clothing, luggage, health care products and services, food supplements, photo and electronic imaging systems, travel planning and support services, and more.

**Next-generation consumers: smarter and more sophisticated than ever.** It is the “juniors” aged six to eighteen, however, who represent the greatest potential for continuing and expanding the trading-up phenomenon. They are interested in learning, travel extensively, and are highly attuned to brands and products.

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