Middle-market consumers are trading up, going from Chevys to Beamers, from Bud to Sam Adams. Understanding their desires offers an immense opportunity for profit.

America's middle-market consumers are trading up to higher levels of quality and taste. The members of the 47 million households that constitute the middle market (those earning $50,000 and above in annual income) are broadly educated and well traveled as never before, and they have around $3.5 trillion of disposable income.1 As a result, they are willing to pay premiums of 20% to 200% for the kinds of well-designed, well-engineered, and well-crafted goods—often possessing the artisanal touches of traditional luxury goods—not before found in the mass middle market. Most important, even when they address basic necessities, such goods evoke and engage consumers' emotions while feeding their aspirations for a better life. We call these new-luxury goods. Unlike old-luxury goods, they can generate high volumes despite their relatively high prices.

Businesses offer a wide variety of new-luxury products and services—including automobiles; home furnishings; appliances; consumer electronics; shoes and other apparel; food; health, personal, and pet care; sports equipment; toys; and beer, wine, and spirits. Companies at the new-luxury forefront are achieving levels of profitability and growth beyond the reach of their conventional competitors.

Consider, for example, Panera Bread, a bakery-café chain that offers freshly made sandwiches with seasonal ingredients. Panera customers line up to spend around $6 for a chicken panini and share a meal with friends and colleagues in pleasant, comfortable surroundings. For the first three quarters of 2002, Panera’s sales were 41% higher than they were for the same period of 2001. By contrast, sales at Burger King—where consumers pay about $3 for a chicken sandwich and sit on hard plastic chairs—were flat. At $750 million, Panera's projected U.S. sales for 2002 are only a fraction of Burger King's $8.5 billion in U.S. sales that year, yet its market capitalization...
Luxury for the Masses

by Michael J. Silverstein and Neil Fiske
is now about two-thirds of the $1.5 billion that Burger King was sold for that year.

Companies have enjoyed similar results in three major types of new-luxury goods:

Accessible Superpremium. These products are priced at or near the top of their category, but middle-market consumers can still afford them, primarily because they are relatively low-ticket items. For example, Belvedere Vodka, which undergoes four rounds of distillations for a smoother taste, is able to command about $28 a bottle, a 75% premium over Absolut at $16. Nutro pet food, which contains nutritious ingredients, sells at 71 cents a pound, a 58% premium over Alpo, which costs about 45 cents a pound. Starbucks, an iconic new-luxury brand, charges around $1.50 for a tall coffee, about a 40% premium over a similar-sized Dunkin' Donuts cup, which costs about $1.10.

Old-Luxury Brand Extensions. These are lower-priced versions of goods that have traditionally been affordable only by the rich—households earning at least $200,000 annually. In 2002, unit sales of BMW 325 sedans—which consumers buy for their advanced technology, their work-hard, play-hard image, and the excitement of driving them—were up 12% over 2001 levels. The Chevy Malibu, by contrast, fails to offer any technological features its rivals lack, or to give drivers any special pleasure in driving or owning it—what might be called technical, functional, and emotional benefits, the three rungs of a product’s ladder of benefits. Despite the Malibu’s $19,000 list price, $10,000 less than the 325’s, its sales were down 4% in 2002. In 2001, BMW—with total sales of 172,505 vehicles in the United States—achieved a greater profit worldwide, $2 billion, than any other carmaker. General Motors earned just $600 million on U.S. sales of more than 4 million vehicles; both Ford and Daimler-Chrysler suffered losses.

Also on the list of old-luxury companies extending their brands are Mercedes-Benz, Ermenegildo Zegna, Tiffany, and Burberry, offering affordable products alongside their traditional ones.

Mass Prestige or “Masstige.” These goods occupy a sweet spot between mass and class. While commanding a premium over conventional products, they are priced well below superpremium or old-luxury goods. An eight-ounce bottle of Bath & Body Works body lotion, for example, sells for $9, or $1.13 per ounce. That’s a premium of 276% over an 11-ounce bottle of Vaseline Intensive Care, which sells for $3.29, or 30 cents an ounce. But it is far from being the highest-priced product in the category: An eight-ounce bottle of Kiehl’s Creme de Corps, one of many superpremium skin creams, retails for $24, a 167% premium over the Bath & Body Works product—and many brands cost considerably more. Coach similarly positions its leather goods at prices below Gucci’s, but well above those of Mossimo at Target.

When a new-luxury brand takes hold, it can quickly change the rules of its category, achieve market leadership—as Starbucks coffee, Kendall-Jackson wines, and Victoria’s Secret lingerie have—and force the price-volume demand curve to be redrawn. In laundry appliances, for example, conventional industry wisdom held that washers and dryers could not appeal to consumers’ emotions. People would therefore never pay more than $800 for the two. Then Whirlpool created the Duet, a front-loading washer/dryer set that costs around $2,100. Due in large

When a new-luxury brand takes hold, it can quickly change the rules of its category and achieve market leadership.

part to their European styling and speedier, gentler cycles, these machines have become immensely popular. Now Whirlpool cannot keep up with demand.

As consumers shop more selectively, the categories new-luxury goods occupy tend to polarize. Consumers tend to trade up to the premium product in categories that are important to them but trade down—buying a low-cost brand or private label, or even going without—in categories that are less meaningful to them. Consequently, people’s buying habits do not invariably correspond to their income level. They may shop at Costco but drive a Mercedes, or they may buy private-label dishwashing liquid but drink Sam Adams beer. Left in the cold are midpriced items that fail to distinguish themselves on any of the three rungs of a product’s ladder of benefits. Companies unable to match the prices of low-cost products or promise the emotional engagement of new-luxury goods face what we call death in the middle. It may be a retailer like Sears, which the mass merchandisers and specialists in particular categories of goods are beating on price, or it may be a cosmetics and personal-care line like Max Factor, which does not deliver on the ladder of benefits or offer a cost advantage.

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The trading-up phenomenon already affects almost every category of goods—including consumables and durables—and services. Still, new-luxury goods are most often developed by entrepreneurs who are outsiders to the category (as were Ely Callaway of Callaway Golf and Jess Jackson of Kendall-Jackson) or imaginative corporate leaders who are able to think like outsiders (such as Leslie Wexner, who built Victoria's Secret). Instead of relying solely on polling and focus groups, they cast a critical eye at categories in which products and services have become expensive and stale, or cheap and undifferentiated. They then spend time interacting with their target customers, often one-on-one.

Even in these difficult economic times, the trading-up phenomenon is powerful. We estimate that new-luxury goods already represent about $350 billion—or 19%—of the combined $1.8 trillion in annual sales of 23 consumer goods categories and that the new-luxury segment is growing 10% to 15% annually. What's more, companies can quickly realize the profit potential of such goods. New-luxury entrepreneurs can move rapidly from idea to prototype, sometimes in as little as a year. They can create initial product runs in low volumes with minimal capital investment. They can often build out their businesses within five years. And when they're ready to sell, they find eager buyers.

Take Pleasant Rowland. In 1985, she had a vision for a new kind of doll—a series of girl characters, each based in a historical period, with expressive faces and high-quality, historically accurate accessories. Each doll would cost $84, about six times the price of a Barbie. Rowland developed her initial product concepts in the course of a single weekend, and, on a $1 million investment, went to market in the fall of 1986. In the first three months of operation, the Pleasant Company achieved $1.7 million in sales. In 2000, Rowland sold the company to Mattel for $700 million.

Trading up is a trend born of a restless and mobile society. In the post–World War II era, the homogenizing effects of the draft and a whole society's mobilization behind a single overriding purpose produced an appetite for middle-market, mass-produced goods. After a decade's psychic and material hardships, Americans wanted cars, refrigerators, and household goods in unprecedented quantities. Thanks to capabilities developed and sharpened in the hurry-up production of wartime matériel—including Jeeps, uniforms, and K rations—U.S. industry was ready and eager to meet the demand.

Although many new-luxury brands are global, and the demographic, economic, and cultural forces shaping Americans' buying habits in the United States are at work abroad, nowhere else have the shifts been so pronounced, or are the ensuing opportunities so large. Americans today are much more sophisticated, demanding, and self-absorbed than that World War II generation, and their tastes are accordingly more fragmented. Yet U.S. businesses have the right set of skills and capabilities to satisfy Americans' emergent desires.

The Demand-Side Forces

In terms of demand, trading up is being driven by a combination of demographic and cultural shifts and powerful emotional needs that have been building for years.

A New Division of Markets

<table>
<thead>
<tr>
<th>Goods Category</th>
<th>New Luxury</th>
<th>Middle Market</th>
<th>Old Luxury</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>Diesel</td>
<td>Gap, Levi Strauss</td>
<td>Brooks Brothers, Chanel</td>
</tr>
<tr>
<td>Autos</td>
<td>BMW, Mercedes-Benz</td>
<td>Pontiac, Ford</td>
<td>Cadillac, Rolls-Royce</td>
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<td>Beer</td>
<td>Sam Adams</td>
<td>Coors, Miller</td>
<td>Heineken</td>
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<tr>
<td>Coffee</td>
<td>Starbucks</td>
<td>Maxwell House</td>
<td>Blue Mountain</td>
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<td>Kitchen appliances</td>
<td>Viking Range</td>
<td>Hotpoint</td>
<td>Aga</td>
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<td>Leather goods</td>
<td>Coach</td>
<td>Wilsons</td>
<td>Louis Vuitton</td>
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<tr>
<td>Lingerie</td>
<td>Victoria's Secret</td>
<td>Maidenform</td>
<td>La Perla</td>
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<tr>
<td>Personal care</td>
<td>Aveda</td>
<td>Suave, Revlon</td>
<td>Kiehl's</td>
</tr>
<tr>
<td>Pet food</td>
<td>Nutro</td>
<td>Alpo</td>
<td>sirloin</td>
</tr>
<tr>
<td>Restaurants</td>
<td>Panera Bread</td>
<td>Burger King</td>
<td>Morton's</td>
</tr>
<tr>
<td>Retailing</td>
<td>Pottery Barn, Williams-Sonoma</td>
<td>Sears</td>
<td>Neiman Marcus</td>
</tr>
<tr>
<td>Spirits</td>
<td>Belvedere, Grey Goose</td>
<td>Absolut, Smirnoff</td>
<td>Bombay Sapphire</td>
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</table>
Luxury for the Masses

Higher Real Incomes. U.S. households have more money to spend on premium goods. Real household income rose by more than 50% from 1970 to 2000. But averages do not tell the whole story, because household income for the top quintile—those earning more than $82,000 per year—rose at a much faster rate than for any other quintile, nearly 70% in real terms over the same 30-year period. As a result, these 21 million households have increased their share of aggregate income from 43% in 1970 to 50% in 2001 and now control nearly 60% of discretionary purchasing power.

Moreover, their income growth has substantially outpaced their spending over the past decade, leaving an untapped pool of potential spending. The next-highest quintile, earning $53,000 and above, has also experienced a strong, though less pronounced, rise in real income. These households, too, have sufficient discretionary income to pay the premiums that new-luxury goods command.

Not only are these households heavy consumers, but their growing wealth and restless search for a better life also create market niches at the upper limits of their consumption categories. To serve these affluent consumers, carmakers such as Mercedes and BMW have started producing models priced higher than $150,000. Before too long, the technology and other innovative features developed for them will cascade to the middle market.

Rising Home Equity. Home ownership has also contributed to Americans’ increased wealth. The average home in the United States represents $50,000 worth of equity; the entire pool is $7 trillion. Someone who put down 10% in 1995 earned a return on equity of over 200% by 2001; someone who put down the more traditional 20% earned a return in excess of 100%. Low mortgage rates have made more-valuable homes easier to afford or have freed cash for spending on consumer goods.

Cash Windfalls, Courtesy of Discount Retailers. Large discount retailers have passed savings on to consumers, thereby contributing to their wealth. Over the years, the reduced costs and compressed margins of mass retailers such as Wal-Mart, Costco, Home Depot, Lowe’s, Kohl’s, and Circuit City have allowed consumers to enjoy “everyday low prices” on many goods and, as a result, to lower their cost of living. We estimate that in 2001 at least $70 billion was freed in this way and became available for new-luxury spending. That trend is likely to continue.

The Role of Women and a Changing Family Structure. According to U.S. Census Bureau data, the percentage of married women in the paid labor force increased steadily from 30% in 1960 to 62% in 2000. Today, 76% of women in their peak earning years, aged 25 to 54, participate in the workforce. Not only are more women working, but they are also earning higher salaries than ever before. Real median income (in 2001 dollars) for women employed full-time rose from $21,477 in 1970 to $30,240 in 2001, an increase of 41%. Nearly a quarter of married women currently earn more than their husbands do.

Both men and women are getting married much later in life. According to Census Bureau data, in 1970 the median age of first marriage was 20.8 years; by 2000, it had risen to 25.1 years. Because they’re marrying later, young people are spending more time and money on dating, forging an identity and an image for themselves, and experiencing the world. And more young people are choosing not to marry at all. So, as time goes on, they accumulate increasing amounts of discretionary cash. Of those who do eventually marry, many begin their first marriage with substantial incomes and savings, which they can apply to purchases for the home and family.

Partly as a result of marrying later, women are becoming mothers later in life as well. Over the past three decades, the median age of first-time mothers has risen from 22.5 to 26.5 years, and the percentage of women having their first child after 30 has risen from 18% to 38%. As a result, the financial demands of child rearing set in at a point when they are likely to consume a smaller proportion of total household income. Starting a family later in life is one of the many factors (the proliferation of single-person households is another) responsible for the shrinking of average household size, from 3.11 people in 1970 to 2.60 in 2000.

Higher Divorce Rates. Although people are getting married later in life, divorce rates remain at or near an all-time high. From 1973 to 1995, the probability of a marriage’s ending in divorce in its first decade rose from 20% to 33%. More than 50% of all first marriages are likely to end in divorce, and 58% of second marriages are likely to fail. When couples split up, their consumption patterns change dramatically. In their new single state, people tend to spend money on making themselves feel better, changing their self-image, and attract-
ing a new partner – even though women in particular tend to be less wealthy after a divorce than they were during the marriage. Divorced men and women dine out more often than their married counterparts and take more "adventure" vacations (trekking, white-water rafting, and the like); spending by women on shoes and hair care also jumps.

**Higher Levels of Taste, Education, and Worldliness.** Because American middle-market consumers are better educated, more sophisticated, better traveled, more adventurous, and more discerning than ever before, they want products that engage their curiosity and imagination. In 1970, 3 million Americans visited Europe; in 2000, 11 million did. Many have acquired a taste for goods that combine advanced technology with the sort of elegant design and sense of style they've encountered in their travels and through other broadening experiences.

**Greater Emotional Awareness.** Middle-market consumers are more attuned than ever to their emotional states. Self-help books and talk shows preach the importance of self-fulfillment, self-acceptance, and self-esteem. Consumers believe many new-luxury products will help them manage the stresses in their lives, better leverage their time, and achieve their aspirations. Such products are among the ones Oprah endorses, Martha promotes, and Sarah Jessica Parker and her costars on *Sex and the City* display.

**The Supply-Side Forces**

Supply-side forces have been equally essential to the rise of new luxury.

**Entrepreneurs on a Personal Journey.** Like the consumers of their goods, entrepreneurs are better educated, more sophisticated, and more knowledgeable about their customers than ever before, and they are less willing to create ordinary goods or lead dull business lives. New-luxury leaders often talk about being inspired to create their companies by their personal experiences. Howard Schultz of Starbucks fell in love with the Italian coffee experience and bet that other U.S. consumers would, too. Pleasant Rowland—looking for a gift for her niece—became dissatisfied with the dolls she found on the market and wanted to create a product that was both educational and fun. Gordon Segal, founder of Crate & Barrel, wondered why American stores did not offer the kind of beautifully designed and affordable home goods he enjoyed while living in Europe. Such experiences make for especially passionate and committed leaders.

**Changes in Retailing.** Like the middle market itself, retail is polarizing. The "mallng" of America has made it possible for premium specialty retailers, such as Williams-Sonoma and Crate & Barrel, to expand quickly and bring new-luxury goods to middle-market consumers throughout the United States. By offering a mix of name- and own-brand goods, often made in small quantities, these companies have contributed to the success of new and smaller new-luxury makers.

At the low end, a variety of mass merchandisers such as Costco, and cost-focused category killers such as Home Depot's Expo Design Center and Best Buy, have also played an important role in new luxury's spread. Costco, for example, now stocks the largest selection of premium wine and sells more of it than any other retailer. Costco presents middle-class consumers with an almost irresistible value proposition: It offers them the best products at the lowest prices. But traditional department stores are stuck in the middle—offering consumers neither the lowest price nor the most gratifying shopping experience—and are suffering a sustained decline as a result.

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### Per Capita Income Grows

Real household incomes increase...while household size shrinks.

![Graph showing per capita income growth and average household size decline](source: U.S. Census Bureau)
Access to Flexible Supply-Chain Networks and Global Resources. Companies of almost any size can take advantage of foreign labor markets and construct and manage complex global networks for sourcing, manufacturing, assembling, and distributing their goods. The reasons are twofold: International trade barriers have eased, and providers of global supply-chain-management services have emerged. Hong Kong–based Li & Fung has created the world’s largest network of contract manufacturers, operating in 40 countries. China has emerged as a key player in that network. Direct manufacturing investment there, combined with low wages, increasingly skilled labor and stricter quality control, has furthered companies’ ability to deliver upscale goods at moderate prices.

These supply-side factors make it possible for entrepreneurs and companies to raise capital to research, develop, and manufacture goods quickly as well as cost-effectively, and for companies to scale up volume when demand increases.

New-luxury leaders have an abiding belief in the elasticity of demand.

The New Consumer’s Needs

Consumers have always had a love affair with products, but today they have more money, a greater desire to examine their emotional side, a wider variety of choices in goods and services, and less guilt about spending. They seek goods that make positive statements about who they are and what they would like to be and that help them manage the stresses of everyday life.

In the course of our research to better understand our clients and their needs, we defined the four “emotional pools” that most affect consumers’ behavior, particularly in their encounters with new-luxury goods. The appeal of a given product can encompass more than one set of emotions.

The first emotional pool, Taking Care of Me, involves overcoming the effects of too much work and too little time. Most working Americans—working women with families, in particular—are looking for ways to get a few moments alone, reward themselves after a tough day, rejuvenate the exhausted body, soothe the frayed emotions, and even restore the soul. They don’t see the point of working hard and earning good money if they can’t spend some of it on themselves. As one female consumer explained, “Women today think their mothers did not get to spend money on themselves because they were not earners, but they get to do that now. The financial independence of women leads to an ‘I can buy it if I want to’ attitude.” Such consumers say that a $9 bottle of Aveda shampoo—with its all-natural formula, calming aroma, and environmentally friendly image—can make them feel refreshed, renewed, and good about themselves in ways that a lower-priced bottle of conventional shampoo cannot. Personal care items, bath and body products, spas, gourmet groceries and prepared foods, linens and bedding, and home electronics are important Taking Care of Me categories.

The second pool, Questing, encompasses venturing out into the world, gaining new experiences, and overcoming personal limits. In the process, people learn new things, master new skills, and have fun. Accordingly, new-luxury consumers seek out experiences that challenge them and help define who they are in their own eyes and those of others. Travel, cars, sports equipment, dining out, computers, and wines are Questing categories.

The third pool, Connecting, involves finding, building, maintaining, and deepening relationships. Connecting includes three subpools: attracting mates, spending time with friends, and nurturing family members. People connect by sharing a dinner out, using state-of-the-art kitchen appliances, exchanging gifts, and indulging in some types of travel such as cruises.

The last pool, Individual Style, comes from using the sophistication and currency of one’s consumer choices to demonstrate one’s success in life and express one’s individuality and personal values. It is often associated with Connecting, especially mating, because people choose particular goods to send signals to prospective partners about who they are and what they’re looking for. A person’s personal combination of choices can also create in him or her a sense of uniqueness. Apparel, fashion accessories, cars, spirits, and travel enable consumers to express their style, knowledge, taste, and values.

The Practices of New-Luxury Leaders

In every transformation of a category of goods we have studied, we can identify eight practices that new-luxury leaders follow:

1. Never underestimate the customer. Jess Jackson of Kendall-Jackson rightly believed he could convert middle-market wine drinkers into upscale wine drinkers, although no one had done it before. In the categories new-luxury consumers care about, they consider themselves knowledgeable and even expert. These consumers
It took France four centuries to build the most respected wine industry in the world. It took Americans less than three decades to adopt aspects of the French model, elevate the quality and taste of domestic wines, and make the result available to the mass middle market. Today American vintners, along with a number of influential wine critics, contend that the best American wines stand side by side in quality with the best from Bordeaux or Burgundy.

The improvement in American wines has helped to transform the entire category. Since 1965, average annual wine sales in the United States have grown 8%. Per capita annual consumption doubled from about one gallon in 1966 to more than two gallons in 2001. Wine consumption now exceeds hard liquor’s by almost 5%, and the last five years have produced the largest volume and price increase of the last 25 years.

More striking than sales growth, however, has been the dramatic shift in the kind of wine consumed. In the mid-1960s, table wines (750-milliliter bottles) accounted for less than half of total U.S. wine consumption, with jug and bulk wine representing the dominant share. Today, table wine holds an 85% share. Similarly, better “varietal” wines—named after particular types of grapes such as Chardonnay and Pinot Noir—have overtaken cheaper, less sophisticated blends at a remarkable rate.

One of the most successful new-luxury wine brands is Kendall-Jackson—last year the number one brand of table wine in the United States, with more than $600 million in retail sales. Kendall-Jackson Wine Estates has won more awards in the last decade than any other California winery. The company was founded, as are most new-luxury brands, by an industry outsider, Jess Jackson. He was a successful San Francisco attorney with no experience in wine making before getting involved with the industry in the early 1980s. More than any other vintner in Napa Valley, Jackson was responsible for closing the gap between super-premium and jug wine. According to Jackson, “I realized there was a hole in the market I could drive a truck through, really good wines that the average person could afford.” Rather than make wines identified by the vineyard name, Jackson started by defining the complex, subtle, and unique taste profile and character of the wine he wanted to produce. He was betting that a breakthrough in the technical aspects of wine making would lead consumers to care more about the taste of the wine itself than the specific vineyard from which it came.

Such an approach allowed Jackson to use a production model of open sourcing. He grew few of his own grapes. Instead, he negotiated buying agreements with vineyards whose grapes fit into one of his “flavor domains.” Jackson hired skilled wine makers to work with him in assessing each vineyard’s crop. He also concentrated on the art and science of blending. In this way, Jackson was able to produce premium wine on a large scale with little variation. “Control,” he says, “is everything. You have to control every element of the production process.”

The price of his first wine, the 1982 vintage’s Vintner’s Reserve Chardonnay, placed it in the “massige” (mass prestige) market segment. At $5 a bottle, it was well below the $10-plus price of the boutique wines of the day, but it was above the $2 price of economy wines. The wine won Best American Chardonnay honors in the American Wine Competitions and sold out in six months. Jackson used the awards to acquire legitimacy in the eyes of the trade and create excitement among consumers. But Jackson faced a major size disadvantage in distribution and marketing, so he built an unusually large sales team to supplement the wholesale-broker channel and ensure that his wines got the right retail exposure.

In the 20 years since he founded his company, Jackson has adapted and extended his winning model to offerings selling at a premium to the Kendall-Jackson label and to wines from far-flung countries such as Chile and Australia.

**Off the Demand Curve**

As this chart shows, Kendall-Jackson commands a price premium without sacrificing volume.*

*To save space, the scale of the axes is presented in logarithmic form.


Kendall-Jackson continues to innovate, knowing that competitors are never far behind. "It used to be that a major advance in wine making came every 50 years or so," Jackson says. "That fell to every 20. Now it's every three to four years. Styles in taste and methods of production seem to become obsolete every ten years. We have to keep reinventing ourselves."
appreciate quality, technological innovation, and an aura of authenticity. They care about brand heritage and keeping up with the product category as a whole.

2. Shatter the demand curve. Jackson redrew the demand curve for the wine industry. He saw the potential to create a market segment in which higher prices and volumes would generate substantially greater profits. Leaders in all new-luxury categories seek to do as Kendall-Jackson did. Like Whirlpool’s Duet, Sub-Zero disproved the conventional wisdom that no substantial market existed for household appliances above the $1,000 price point. New-luxury leaders have an abiding belief in the elasticity of demand—that it can be created in virtually any category by products that offer the right combination of consumer benefits.

3. Create a ladder of genuine benefits. As stated earlier, successful new-luxury goods connect with the consumer on three levels—technical, functional, and emotional. Jackson’s breakthrough in the wine category, for example, was to create technical differences in grape selection and wine blending that produced genuine differences and improvements in taste. The ladder of benefits applies to all categories, even those in which it might seem improbable. Pet lovers, for example, buy gourmet pet food such as Nutro because it is technically different (with added nutrients and organic ingredients), functionally superior (its special formulas produce a shinier coat or a calmer disposition), and emotionally satisfying (owners feel they are taking exceptionally good care of a beloved family member). The compound annual growth rate for conventional pet food is 1% to 2%; it is 9% for premium and superpremium pet-food segments, which now account for almost one-third of the total pet-food market.

4. Escalate innovation and elevate quality. The market for new luxury is rich in opportunity, but it is also unstable. That’s because technical and functional advantages are increasingly short-lived, as new competitors enter the market and standardize innovations that were once the distinguishing features of high-priced goods. Nearly 80% of all cars come with standard features (anti-lock brakes and power door locks, for instance) that were exclusively luxury features only a few years ago. Consumers won’t remain emotionally invested in a well-established brand if its technical and functional benefits do not differentiate it from the pack.

Winners in new-luxury markets render their own products obsolete before a new competitor does it for them. These companies strive to shorten the development cycle, and they invest heavily in production improvements, but they control only those elements of the supply chain that are critical to maintaining quality and preserving the heart of the brand.

5. Extend the brand’s price range and positioning. Many new-luxury brands move upmarket to create aspirational appeal and down-market to make their products more accessible and competitive. A traditional competitor’s highest price may be three to four times its lowest; for new-luxury players, it’s often five to ten times. They are careful, however, to create, define, and maintain a distinct character and meaning for every level of their products, while ensuring that they all partake of the brand essence. Every Mercedes model—from the C230 sports coupé at $26,000 to the Maybach 62 at $350,000—shares in the brand themes of advanced engineering, quality manufacture, exemplary performance, solidity and safety, and luxurious comfort, and each has the distinctive Mercedes look and “badging.”

6. Customize the value chain. Like Jess Jackson, Boston Beer founder Jim Koch emphasized control, rather than ownership, of the value chain and became a master at orchestrating it. Koch specified the process for making Sam Adams Boston Lager, which combined aspects of nineteenth-century brewing with twentieth-century methods of quality control. So, too, Koch selected the product’s ingredients and managed distribution. Without making its own hops or building its own production facilities, Boston Beer was able to grow in volume while also maintaining its reputation for well-crafted beer.

7. Use brand apostles. A small percentage of new-luxury consumers contribute the preponderance of profit in a given category. In categories marked by frequent repeat purchases, such as lingerie and spirits, 10% of customers typically generate up to half the sales and profits. Reaching those customers requires a different kind of launch, one involving carefully managed initial sales to carefully selected groups in a handful of venues. It also requires frequent feedback from early purchasers and word-of-mouth recommendations. Belvedere Vodka, for one, was launched at tasting events for bartenders. Gift bottles were also sent to key players in important markets. When introducing the Big Bertha driver, Ely Callaway understood that recreational golf-
ers — many of whom are businesspeople — would take their cues from those using the new and unusual clubs. So he enlisted Bill Gates, among others, to appear in ads.

An intense, continuing focus on these core customers will reveal early signs of a shifting market and produce ideas for next-generation features and products.

8. **Attack the category like an outsider.** Ely Callaway had a long career in textiles and then in wine before he entered the golf business at age 63. Pleasant Rowland was an educator and television reporter before she created American Girl dolls. An outsider mentality allows one to see the category without the baggage of preconceptions and to avoid making what others view as inevitable compromises.

People within new-luxury organizations think differently from those working for conventional producers as well. Ellen Brothers, president of the Pleasant Company, says that the thinking of founder Pleasant Rowland still infuses the company. “If you ask any of our 1,200 employees what business we are in,” says Brothers, “no one will say, ‘The toy business! Every one of them will say, ‘We’re in the girl business.’”

The Certainty of Change

There remains vast potential to reshape categories, dethrone market leaders, create new winners, and prod growth and rebirth in mature industries.

The transformation possibilities are almost infinite, especially for affordable superpremium goods that appeal to the trendy among us. Premium vodka has become the new single-malt scotch. What will the new vodka be? Managers of these brands must always be on the lookout for an ebbing of consumer interest, sudden shifts in taste, and the rise of a category transformer that may do to them what Belvedere and Grey Goose have done to Smirnoff and Absolut.

The dual challenge for old-luxury brand extensions is to continually enhance the brand at the high end and avoid diluting its essence at the low end.

Although massstige products in new categories have great potential, they can be attacked by products that offer similar benefits at a lower price or by premium products that deliver a greater number of genuine benefits for a small price increment. Every massstige product, therefore, is a candidate for death in the middle.

Traditionally, consumers have gotten credit for keeping the engines of production rolling merely by buying in greater quantities. Business got the credit for all the breakthroughs in technology, productivity, quality, and service. New-luxury consumers, however, are so knowledgeable, affluent, and selective that the classic distinction between enterprising producer and passive consumer has become obsolete. Businesses that have failed to note that the consumer has gotten smarter and more active need to get busy listening and responding — on every level.

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1. Our research includes work with clients over a period of ten years, a quantitative survey of 2,000 American consumers conducted in late 2002, analysis of 30 categories, demographic data research, interviews with hundreds of consumers, interviews with many new-luxury leaders, and a literature review of 800 books, articles, and related materials.

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