

Part One

Trading Up to New Luxury

Trading Up to New Luxury: An Overview

America's middle-market consumers are trading up.

They are willing, even eager, to pay a premium price for remarkable kinds of goods that we call New Luxury—products and services that possess higher levels of quality, taste, and aspiration than other goods in the category but are not so expensive as to be out of reach. So many middle-market consumers want to trade up, and so many can now afford to, that New Luxury goods have flouted the conventional wisdom that says, “The higher the price, the lower the volume.” They sell at much higher prices than conventional goods *and* in much higher volumes than traditional luxury goods and, as a result, have soared into previously uncharted territory high above the familiar price-volume demand curve. In category after category of consumer goods and services, New Luxury winners have emerged, traditional leaders have been dethroned, and the entire category has been transformed. The phenomenon forces us to think in new ways about the relationship between consumer needs and consumer goods, and it offers a huge opportunity for business leaders to pursue their own aspirations and realize growth and profit as well. America is trading up, and it's good for both business and society.

The trading-up phenomenon is happening in scores of categories of goods and services, at prices ranging from just a few dollars

to tens of thousands. It involves consumers who earn \$50,000 a year and those who earn \$200,000. Single moms do it, retired couples do it—working singles, families with kids, and even their pets do it. We have interviewed hundreds of middle-market consumers, observed hundreds more in their homes and workplaces, and conducted a survey of more than 2,300 people earning \$50,000 and above. Ninety-six percent of them say they will pay a premium for at least one type of product. With forty-seven million households in the United States with incomes of \$50,000 or more, and an average household size of 2.6 people, that's nearly 122 million Americans with the means and the desire to trade up.

Who are these consumers and what are they buying? All kinds of people trade up every day to many types of goods and for many reasons—some of them unexpected and counterintuitive. Perhaps the most startling traders up we talked with were a group of consumers who were ecstatic about a product category that most people would like to forget—a washer-dryer combination from Whirlpool® called Duet®. The pair sells for more than \$2,000, compared to about \$600 for a conventional washer-dryer combination. Believe it or not, consumers made the following comments about these European-styled front-loading machines: “I love them.” “They are part of my family.” “They are like our little mechanical buddies—they have personality.” We are not making this up, and these people are not paid spokespeople or company employees. These are both women and men, with a range of demographic characteristics, who told us, again and again, that Duet makes them feel happy, like a better person, less stressed, prouder of their children, loved and appreciated, and accomplished. In our fifty combined years of listening to consumers, we have never heard more heartfelt expressions of emotion about a product that even industry insiders think of as mundane and unworthy of much attention. Five years ago, the Whirlpool brand managers, in their wildest dreams, had not imagined there could be that much unit volume for a washer-dryer at that price. Even today they are astonished by their own success—and are struggling to build enough machines to keep up with consumer demand.

Another trader up who stands out is Jake, a thirty-four-year-old construction worker earning about \$50,000 a year, whose great pas-

sion is golf. It took Jake a year to save enough money to buy a complete set of Callaway golf clubs—\$3,000 worth of premium titanium-faced drivers, putters, and wedges—although he could have bought a decent set from a conventional producer for under \$1,000. During the eight-month golf season in Chicago, Jake works the 6 A.M. shift so he can be on the course by 2 P.M.; he plays eighteen holes nearly every weekday after work and—again, believe it or not—twice on Saturday and twice more on Sunday. He is a three-index golfer, which means he is in the top 1 percent of all recreational golfers in terms of skill. We played a round of golf with him at a public course, during which he described in detail the technical differences and performance benefits of his Great Big Bertha clubs. “But the real reason I bought them,” he told us at last, “is that they make me feel rich. You can run the biggest company in the world and be one of the richest guys in the world, but you can’t buy any clubs better than these.” Then, looking at us with a hint of a smile, Jake said, “When I kick your butt on the course, I feel good. I feel equal. I may make a lot less money than you do, but I think I have a better life.” After the round (during which he did, in fact, kick our butt), Jake carefully placed his clubs in his pickup truck and said, “Thank you, Mr. Callaway, for another fine day.” In 1989, Callaway Golf was not a top-ten golf equipment supplier. Within three years of the introduction of the Big Bertha driver in 1990, Callaway soared to number one in the world.

Not all traders up are driven by feelings of happiness and accomplishment; many trade up to manage feelings of stress and difficulty. Frances, a divorced art director earning more than \$100,000 a year, had been dating a guy for three years. On the eve of her fiftieth birthday, he told her he was leaving her for a thirty-year-old woman and they were going to start a family. “It sounds like a bad novel,” Frances told us. “I was unhappy. During that time, I bought a lot of jewelry, not only because it was beautiful and I loved it, but because I knew there wasn’t anybody who was going to buy it for me.” She realized what she was doing, and she didn’t jeopardize her financial well-being to do it. “At that particular time,” she said, “I just felt like I needed to give myself a happy pill.” With more women working in the United States, divorce rates on the rise, people marrying later,

and more singles choosing to stay that way, there are a lot of consumers—men and women—looking for an emotional lift in the form of a New Luxury purchase.

Trading up spans so many categories and appeals to such a broad range of consumers, that it has come to represent a major and growing segment of the economy. In twenty-three categories of consumer products and services worth \$1.8 trillion in annual sales, New Luxury already accounts for 19 percent of the total, or about \$350 billion per year—and it's growing 10 to 15 percent annually. And the demand is highly elastic because it can be created in categories that have never had a premium offering before and because even a category that has been transformed by a New Luxury product can be traded up again.

The Characteristics of New Luxury

From our analysis of the most successful New Luxury goods in more than thirty categories, we have identified three major types.

“Accessible superpremium” products are priced at or near the top of their category, and at a considerable premium to conventional offerings. They are still affordable to the middle-market consumer, however, because they are relatively low-ticket items. For example, Belvedere vodka sells for about \$28 a bottle, an 88 percent premium over Absolut at \$16. Nutro pet food sells at \$.71 per pound, a 58 percent premium to Alpo at \$.45 per pound. Almost anyone can afford a bottle of Belvedere or a bag of Nutro if those categories are emotionally important to him or her.

“Old Luxury brand extensions” are lower-priced versions of products created by companies whose brands have traditionally been affordable only for the rich—households earning \$200,000 and above. Mercedes-Benz, for example, has dramatically changed its product mix in the past ten years, with continual reductions in the price of the entry-level C-class coupe—now about \$26,000—and a steady increase in revenue from this model. Mercedes-Benz has also worked to keep the brand aspirational by extending it up-market as well. The Maybach sells for over \$300,000—more than ten times the price of the entry-level C-class coupe. Such Old Lux-

ury brands have mastered a neat trick: becoming simultaneously more accessible and more aspirational.

“Masstige” goods—a neologism for “mass prestige”—are neither at the top of their category in price nor related to other iterations of the brand. They occupy a sweet spot in the market “between mass and class,” commanding a premium over conventional products, but priced well below superpremium or Old Luxury goods. Bath & Body Works body lotion, for example, sells at \$9.00 for an eight-ounce bottle (\$1.13 per ounce), a premium of about 275 percent over Vaseline Intensive Care, which sells at \$3.29 for 11 ounces, or \$.30 an ounce. But it is far from the highest-priced product in the category—Kiehl’s Creme de Corps, one of many superpremium skin creams, retails at \$24 for the eight-ounce bottle, a 167 percent premium over the Bath & Body Works product, and there are many other brands that sell for far more.

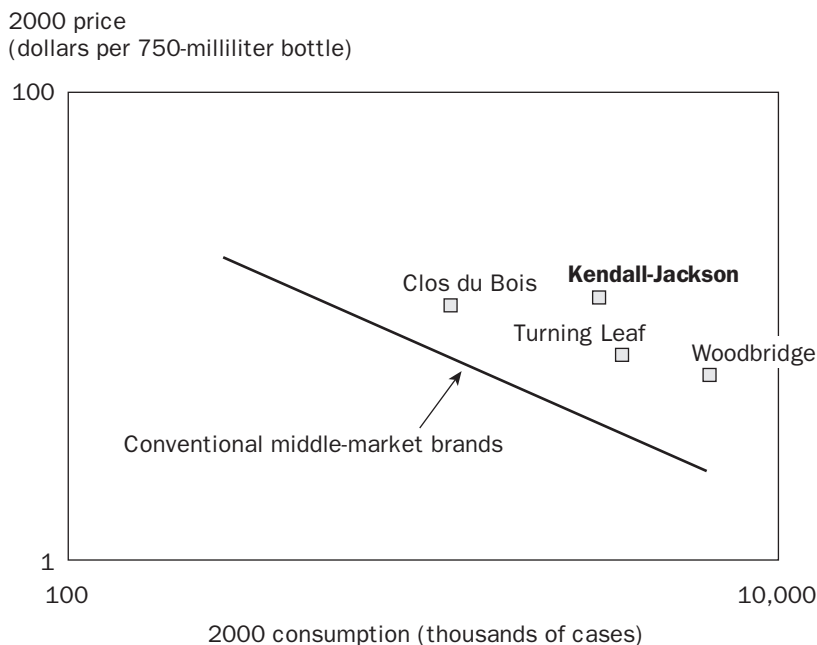
Despite the wide price range of New Luxury goods and the variety of categories in which they appear, they have particular characteristics that are common across all categories and prices—and they are different from those of superpremium or Old Luxury goods, and also from those of conventional, midprice, middle-market products. Most important, New Luxury goods are always based on emotions, and consumers have a much stronger emotional engagement with them than with other goods. Even relatively low-ticket items, such as premium vodkas that sell for around \$30 a bottle, have a well-defined emotional appeal for their consumers. The engagement tends to get more intense and long lasting with big-ticket items, such as home appliances and automobiles. BMW drivers, for example, are particularly engaged with their cars. Dr. Michael Ganal, a BMW board member, told us that BMW owners wash their cars more frequently than owners of other cars do. They park them on the street and then turn back to gaze lovingly at them as they walk away. They say that the first sight of their BMW in the airport parking lot is like a warm welcome home. By contrast, very expensive Old Luxury goods—such as Chanel handbags and Rolls-Royce cars—are based primarily on status, class, and exclusivity rather than on genuine, personal emotional engagement. And the

appeal of traditional middle-market goods is based more on price, functionality, and convenience than on emotional connection: it's a rare Taurus driver who can be found gazing fondly at his parked car.

Emotional engagement is essential, but not sufficient, to qualify a product as New Luxury; it must connect with the consumer on all three levels of a "ladder of benefits." First, it must have technical differences in design, technology, or both. Subsumed within this technical level is an assumption of quality—that the product will be free from defects and perform as promised. Second, those technical differences must contribute to superior functional performance. It's not enough to incorporate "improvements" that don't actually improve anything but are intended only to make the product look different or appear to be changed. (American carmakers played that game for years.) Finally, the technical and functional benefits must combine—along with other factors, such as brand values and company ethos—to engage the consumer emotionally. Most consumers make one dominant emotional connection with a product, but there are usually others involved as well.

When a New Luxury brand solidly delivers the ladder of benefits, it can catch fire. It will take hold in the minds of consumers, quickly change the rules of its category, grow to market dominance—as Starbucks, Kendall-Jackson, and Victoria's Secret have—and force a redrawing of the demand curve. As that happens, the category tends to polarize. Consumers shop more selectively. They trade up to the premium New Luxury product if the category is important to them. If it isn't, they trade down to the low-cost or private-label brand, or even go without. They scrimp and save across a broad swath of spending in order to afford their New Luxury purchases—polarizing the household budget. Almost every American engages in this practice of "rocketing"—spending a disproportionate amount of his income in a category of great meaning. The combination of trading up and trading down leads to a "disharmony of consumption," meaning that a consumer's buying habits do not always conform to her income level. She may shop at Costco but drive a Mercedes, for example, or buy private-label dishwashing liquid but drink premium Sam Adams beer.

As consumers buy more selectively, trading up and trading



Kendall-Jackson wines are off the price-volume demand curve, selling at higher prices and in higher volumes than conventional wines and than competitive premium labels.

down, they increasingly ignore the conventional, midprice product that fails to deliver the ladder of benefits. Why bother with a product that offers neither a price advantage nor a functional or emotional benefit? Companies that offer such products are in grave danger of “death in the middle”—they will be unable to match the price of low-cost products or the emotional engagement of New Luxury goods. They will lose sales, profitability, market share, and consumer interest. To survive, they must lower prices, revitalize and reposition their products, or exit the market.

The Forces Behind New Luxury

What has caused the rise of New Luxury, and what forces are fueling its growth? We believe that the trading-up phenomenon has come about as the result of a confluence of social forces and business

factors. Not since the spread of suburbia and the rise of “convenience” goods in the post–World War II era have we seen this kind of alignment of consumer wants and needs with the capabilities and drives of industry. At that time, consumers’ desire for manufactured goods soared in an arc parallel to that of industry’s ability to produce them. After the emotional and psychic hardships of the war, Americans wanted cars, refrigerators, and household goods in unprecedented quantities. And thanks to newfound capabilities developed and sharpened in the hurry-up production of war materiel, including aircraft, weapons, uniforms, and packaged goods, American industry was ready and eager to meet the demand. Americans wanted to put the pain of war behind them and stretch their new muscles of world dominance. Similarly, today the American consumer is in a state of heightened emotionalism, and, similarly, American businesses have at their command a new set of skills and capabilities. And, like that earlier consumer-goods boom, New Luxury is no fad: it is driven by fundamental, long-term forces on both the demand and supply sides, forces that will keep it thriving for years to come.

On the demand side, trading up is being driven by a combination of demographic and cultural shifts that have been building for decades.

Most important, American households simply have more discretionary wealth available to be spent on premium goods than ever before. Real household income has risen for all Americans over the past thirty years, and it has risen fastest for the highest earners. Income for the top fifth or quintile—households earning over \$82,000—has risen nearly 70 percent in real terms. As a result, those twenty-one million affluent households control nearly 60 percent of the nation’s discretionary purchasing power. Home ownership has also contributed to consumers’ increased wealth. Homeowners, on average, have \$50,000 worth of equity in their homes, and the entire pool of U.S. home equity is \$7 trillion. Another less obvious contributor to consumer wealth is the savings that have been passed on to them by large discount retailers. Over the years, mass retailers have reduced costs and compressed margins so much that they have reduced the cost of living for middle-market consumers. We esti-

mate that in 2001, approximately \$100 billion was freed up in this way and became available for New Luxury spending.

Just as important as the increased wealth of Americans is the newly dominant role played by women, both as consumers and as influencers of consumption. The percentage of women in the workforce has risen steadily and dramatically over the past four decades, and the percentage of married couples with a wife in the paid labor force has nearly doubled. Not only are more women working, they are earning higher salaries than ever before; nearly a quarter of married women make more money than their husbands do. Women feel they have the right to spend on themselves. Over and over again, they told us, “I earned it. I can spend it however I want, including on myself.”

Partly as a result of these demographic shifts, the traditional American family is becoming less dominant—only 24 percent of American households contain a married couple with kids living at home. Both men and women are getting married much later in life and they are having fewer children together. The result is that there are more singles with more money to spend on themselves. And because families are smaller and have higher incomes, there is more per capita wealth. Although people are getting married later, they are no more successful in making their marriages work. Half of all first marriages end in divorce; a third of all marriages fail in the first ten years. When couples break up, their consumption patterns change dramatically—the new singles spend more of their money on themselves, both to rebuild their personal brand (how they present themselves to the world) and as a salve for their emotional distress. Although women tend to have less wealth after a divorce than when they were married, divorced women are pronounced rocketers—they tell us they spend disproportionate amounts of their money on a wide range of goods that they believe will make them more attractive and help to ease the pain of the breakup.

The profile of the American consumer is also changing. The middle-market consumer of today is better educated, more sophisticated, better traveled, more adventurous, and more discerning than ever before. Today, more than half of all Americans over the age of twenty-five have completed some college. Educated consumers are

eager to know about the products they use and the context of their categories. In 1970, three million Americans visited Europe; eleven million visited in 2000. And their travels have exposed them to the styles and tastes of other countries, particularly those of Europe. Well-traveled consumers seek out the tastes and styles they discovered in foreign places in goods they can buy and enjoy at home.

Finally, middle-market consumers are more aware of their emotional states and are more willing to acknowledge their needs, talk about them, and try to respond to them. We all receive countless messages every day—especially from media influencers and celebrity endorsers—urging us to reach for our dreams, fulfill our emotional needs, go for the gusto, self-actualize, take care of ourselves, and feel good about who we are. What’s more, these messages are often intertwined with, or linked to, New Luxury goods. Oprah Winfrey endorses products, Martha Stewart sells them, Sarah Jessica Parker and her friends on *Sex and the City* display them.

These factors have transformed the profile of the “average” middle-market American consumer from an unassuming and unsophisticated person of modest means and limited influence into a sophisticated and discerning consumer with high aspirations and substantial buying power and clout.

The supply-side forces have been just as important in producing the New Luxury business endeavor. Perhaps most important is the increased acceptance and role of the “outsider”—the entrepreneur or innovator who gathers ideas and inspiration from sources outside the category, rejects the conventional wisdom of the leaders, and works outside the system. (At least initially: often the “outsider’s way” eventually becomes the established system.) Like the consumers of their goods, these innovators are usually more knowledgeable, more sophisticated and emotionally driven, and less willing to settle for creating conventional goods than established managers in the category. Pleasant Rowland, for example, created the American Girl doll because she wanted to buy a gift for her niece but was completely dissatisfied with Cabbage Patch Kids and the other dolls she found on the market. She built her company into a \$300 million business, selling dolls with historical characters and finely detailed and accurate accessories at \$84 each.

Changes in retailing have also contributed to the trading-up phenomenon, by increasing the availability of New Luxury goods in retail outlets across America. The proliferation of malls throughout the country has made it possible for premium specialty retailers, such as Williams-Sonoma and Victoria's Secret, to expand quickly. Mass merchandisers have also played an important role in the spread of New Luxury goods, stocking more and more premium items on their shelves. Costco, for example, now stocks a larger selection and sells a larger volume of premium wine than any other retailer. Costco stores sell more first-growth wines from the Bordeaux region in France than any other retailer, including wine specialty chains. As retailing has polarized, traditional department stores have found themselves stuck in the middle. They offer similar assortments of goods, display them in similar ways, and provide little emotional engagement or uplift for the shopper. As a result, traditional department stores are in a state of decline.

New Luxury creators have also benefited from the globalization of business and trade. The easing of international trade barriers, the improving capabilities of global supply-chain-services providers, and the reduced costs of international shipping have enabled companies of almost every size to take advantage of foreign labor markets and put together and manage complex global networks for sourcing, manufacturing, assembling, and distributing their goods.

These supply-side factors have made it easier for New Luxury companies to attract investment for the creation of their goods, to develop their products faster and produce them at lower cost, and to quickly increase production volume when consumer demand increases.

Seeing the Pattern

There is a fascinating exercise (developed by Dr. Otfried Spren, who is not a New Luxury creator, but rather a developmental psychologist at the University of Victoria in British Columbia) that is used to study the dynamics of human perception, learning, and creativity. Participants in this exercise are shown a piece of white paper that has a number of black shapes printed on it. The shapes seem to be randomly

organized and disconnected. The participants are asked to study the paper and then describe the complete image that the pieces suggest. Some make a guess; others are stumped. Next, the psychologist shows the participants a second piece of paper that has more black shapes—more elements of the larger graphic—and the pattern instantly becomes clear: the image is of a cowboy sitting on his horse. With the new pattern as a frame of reference, the psychologist then shows the participants the original picture. The new frame of reference completely changes the participants' perception of the original page and unlocks the pattern that was there all along. "It's a cowboy on his horse," they now say of the first graphic, with force and conviction. Psychologists conclude from this exercise that our perception of reality is based on past patterns—our frame of reference—even if that frame of reference doesn't apply to or fully explain reality itself. Breakthroughs in creativity and innovation come from finding a new frame of reference, a new pattern to explain a changing reality.

In coming to an understanding of the trading-up phenomenon and New Luxury, we have gone through a process not dissimilar to the one involved in the cowboy test—except that we had no second sheet of paper available that revealed the whole pattern. We had to create that second sheet of paper for ourselves, and it is, in effect, this book. We began studying the trading-up phenomenon nearly ten years ago, a result of consulting work with companies in a number of consumer goods categories. Early on, we identified many of the large shapes contained in the pattern—such as the redrawing of the demand curve and the transformation of certain categories—but we did not immediately guess how they might all come together. We suspected, however, that they would reveal a new and unexpected picture of the world of consumer goods. We discovered that other people who were looking at the same set of blocks had a similar suspicion and were beginning to put names to the emerging pattern. People in the fashion industry said the big picture was of "the collapsing fashion cycle." Retailers guessed it showed the "demise of the department store." Producers talked of the "globalization of the supply chain." Some observers said it depicted "the democratization of taste" or a "new consumerism." Callaway Golf talked of its mission as the "democratization of golf."

We thought the pattern was even bigger, more fundamental, and more important than these various interpretations suggested. About two years ago, we decided to do a deep dive into the subject—which we tentatively called the “democratization of luxury”—primarily to learn more about it so we could offer our knowledge to companies and help them succeed. Our research revealed such fascinating material that we thought we had, as a useful adjunct to our consulting work, a subject for a book. The publishing world agreed, so we intensified our efforts and dove even deeper into the subject, with the help of a team of colleagues and expert partners from The Boston Consulting Group. We analyzed more than thirty categories of consumer goods and services and did extensive research into consumer and economic data. We visited and talked with many New Luxury leaders, interviewed dozens of consumers around the country, and, with Harris-Interactive, we conducted a survey of 2,300 consumers about their buying habits and attitudes toward New Luxury consumption. We did field research and observation on the streets and in retail outlets. We did a literature review of more than eight hundred books, articles, and other related materials, and created a database to manage those sources. Most satisfying, we had extensive discussions among the members of our trading-up team about which shapes were the most important and how they all fitted together.

Our conclusion, as described above and further explored in this book, is that the big blocks are all fundamental forces that fit into a powerful, long-lasting, and resilient social and business pattern that we decided to call “trading up.” It is a pattern that we wanted to share with businesspeople (as well as consumers) because we believe it can provide a new lens through which we can view the world and a new path toward innovation, profitability, and growth.

The phenomenon affects, or will soon affect, a wide range of businesspeople in almost every consumer-goods category, including consumables, durables, and services. New Luxury is a business strategy and, as such, must be developed and executed by CEOs and divisional leaders of large companies, as well as entrepreneurs and innovators in smaller companies. New Luxury is product centered, and so it affects product developers as well as supply chain managers. It also requires a keen understanding of consumer motiva-

tions and buying behavior, and so it has significance for market researchers and marketers.

Trading up poses an imminent threat or presents an immediate opportunity, depending on one's circumstances and point of view. The threat is mostly felt (or should be) by companies offering conventional midprice products to the middle market, because when a New Luxury competitor enters the category, the polarization can happen so fast that it becomes difficult to escape death in the middle. The opportunity is most potent for an entrepreneur or a business with the vision and resources to enter a category that has stagnated and can be traded up. New Luxury creators can move very 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 business within five years. When they're ready to sell, there are eager buyers.

We have learned that New Luxury goods cannot be created, by either entrepreneurs or established companies, with the methods traditionally used to develop products and bring them to market. Across categories and in very different kinds of organizations, New Luxury leaders follow eight practices that we'll talk about throughout this book:

1. They *never underestimate their customers*. They believe the consumer has the desire, interest, intelligence, and capability to trade up—even when the entrepreneur has no data to prove his contention or a business model to follow.
2. They *shatter the price-volume demand curve*. They don't settle for incremental improvements or price increases. They prefer the major leap and the big premium. They go for higher prices and higher volume, earning disproportionate profits as a result.
3. They *create a ladder of genuine benefits*. They don't try to fool their customers with meaningless innovations, nor do they try to get by on brand image alone. They make technical improvements that produce functional benefits that result in emotional engagement for the consumer. They don't try to pretend that better cosmetics are true innovations.

4. They *escalate innovation, elevate quality, and deliver a flawless experience*. The market for New Luxury is rich in opportunity, but it is also very unstable. This is because technical and functional advantages are increasingly short-lived as new competitors enter the market and because of the acceleration of the cascade of innovations from high-end products to lower-priced ones. What is luxurious and different today becomes the standard brand of tomorrow. Nearly 80 percent of all cars have such standard features as antilock brakes and power locks that were exclusively luxury features a few years ago. A well-established brand can't maintain an emotional position for long if the technical and functional benefits become undifferentiated.
5. They *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 more competitive and to build demand. A traditional competitor's highest price may be three to four times its lowest; New Luxury players often have a fivefold to tenfold difference between their highest and lowest price points. They are careful, however, to create, define, and maintain a distinct character and meaning for each product at every level, as well as to articulate the brand essence all the products share.
6. They *customize their value chains to deliver on the benefit ladder*. They put the emphasis on control of the value chain rather than on ownership of it, and they become masters at orchestrating it. Jim Koch, founder of The Boston Beer Company, specified the process for making Samuel Adams Boston Lager (which combined aspects of nineteenth-century brewing with twentieth-century quality-control methods), selected the ingredients, and managed distribution; but he did not choose to grow his own hops or to build extensive production facilities.
7. They *use influence marketing and seed their success through brand apostles*. In New Luxury goods, a small percentage of category consumers contribute the dominant share of value. In categories with frequent repeat purchases, such as lingerie and spirits, the

top 10 percent of customers typically generate up to half of category sales and profits. New Luxury leaders do not rely solely on traditional consumer-research methods, such as polling and focus groups, to understand who those core customers are; they work harder to define their core audience and spend more time interacting with customers, often one-on-one. Reaching them requires a different kind of launch, which involves carefully managed initial sales to specific groups in specific venues, frequent feedback from early purchasers, and word-of-mouth recommendations.

8. They *continually attack the category like an outsider*. They think like outsiders, act like mavericks, talk like iconoclasts, and strive never to think of themselves as insiders, even after they have become the leaders in their categories.

A Preview of the Chapters

This book is organized in four parts. Part One describes the trading-up phenomenon and the forces that drive it. Part Two tells stories of consumers and goods in specific categories. Part Three provides tools and encouragement for seizing the New Luxury opportunity. Part Four provides context and background information.

Part One: Trading Up to New Luxury

Chapter 2: The Spenders and Their Needs. Deep analysis reveals that key demand-side factors have given rise to the trading-up phenomenon. They include the rise in real incomes and home equity, the cash windfall delivered by mass retailers, the changing role of women and the family structure, the rise in divorce rates, the increasing worldliness and sophistication of the American consumer, and the increased focus on emotions and the growing cultural permission to spend. This chapter also defines the four emotional spaces that drive consumer purchases: Taking Care of Me, Questioning, Connecting, and Individual Style.

Chapter 3: The Creators and Their Goods. An exploration of the supply-side factors shows how they have contributed to the rise of New Luxury, including the role of the outsider entrepreneur, shifts in dynamics of retailing, and the increased access to flexible supply-chain networks and global resources. It also further details the eight key practices of New Luxury leaders.

Chapter 4: Where Goods and Emotions Intersect. This is an overview of the most important categories of New Luxury goods and the primary and secondary emotional drivers in each one. This chapter is based largely on our survey of 2,300 American consumers, the results of which are summarized.

Part Two: The Leaders

Chapter 5: The World Is a Sexy Place. The story tells how Leslie Wexner built Victoria's Secret into a masstige brand and the leader in its category, by understanding the emotional drivers of young women. In our talks with Wexner, he described how he built a \$10 billion retail empire with an initial investment of \$5,000, and how he continues to imagine, "pattern," invest, and build new enterprises.

Chapter 6: Eating As an Emotional Experience. Panera Bread, The Cheesecake Factory, and Trader Joe's have helped to redefine how, where, and when Americans eat by understanding that food is as much about connecting with others and questing for new tastes and experiences as it is about survival. Ronald Shaich, CEO of Panera Bread, tells us how he built his business around the emotional connection with bread.

Chapter 7: Only the Best for Members of the Family. Although there are fewer traditional families, and families are smaller, American consumers still highly value and want to maintain and strengthen their connections with family members—even if they are pet animals. We tell the story of the "girl business" in historical dolls and explore the new status of dogs and cats (and gerbils and snakes) as family members who deserve only the best.

Chapter 8: Inside the New American Home. The home is a primary category of trading-up activity—the most valuable financial and

emotional asset for most consumers. This is the story of how Sub-Zero, Viking, and (amazingly) Whirlpool have transformed the average middle-market home from a modest nest to a showplace of Individual Style.

Chapter 9: Awakening the American Palate to Wine. Jess Jackson and other winemakers acted on their belief that the American consumer would appreciate better wines. Jackson takes us on a helicopter tour of his vineyards and treats us to lunch and a nice bottle of wine on a hilltop near his estate.

Chapter 10: The Old World in New Luxury Bottles. Both Belvedere vodka and The Boston Beer Company's Samuel Adams Boston Lager are adaptations of old-world beverages, created with processes based on traditional craft but updated with new technologies. The result is a drink with an artisanal character that can be produced in large volumes with consistency. Edward Phillips, CEO of Millennium Import LLC, talks about the traditional Polish provenance of Belvedere and how he discovered its power.

Chapter 11: Demonstrably Superior and Pleasingly Different. Ely Callaway is the quintessential New Luxury entrepreneur. He helped transform the wine industry with his Callaway Vineyard & Winery, and he revolutionized the world of golf with the introduction of his Big Bertha driver. We visit the Carlsbad, California, headquarters of Callaway Golf not long after Ely's death and find that the outsider thinking continues.

Chapter 12: A Cautionary Tale of an Old Luxury Brand. The story of the decline of Cadillac shows what can happen when an Old Luxury icon tries to maintain share by relying on brand image to make an emotional connection with consumers while failing to deliver on the other rungs of the benefit ladder. When new competitors do—especially Lexus, Mercedes-Benz, and BMW—it's often too late for the emotionally empty brand. In sharp contrast, the senior BMW executives in the United States describe how BMW has become the most profitable automaker in the world.

Part Three: Excelsior

Chapter 13: The Opportunity. In this chapter, we offer our thoughts on the potential of the market and the categories of greatest opportunity.

Chapter 14: A Work Plan. This discussion provides specific steps to take in the three phases of launching and managing a New Luxury business: Visioning, Translating, and Executing. We talk about how entrepreneurs, and entrepreneurial managers, can find opportunity, create a vision, develop a product, and take it to market.

Chapter 15: A Call to Action. We have words of encouragement and, we hope, insight for leaders and innovators.

Part Four: The Back Story

Luxury: A Philosophical and Historical Context. We summarize the important ideas that have shaped our thinking about luxury and necessity.

About Our Sources. This discussion describes the major sources from which we have drawn data and information.

Acknowledgments. To many people who helped us create this book, we extend our thanks and gratitude.

Trading Up Brings Benefits to Business and Society

Americans have not finished trading up. There remains vast potential to reshape categories, create new winners, dethrone market leaders, simultaneously destroy and create immense value, and unleash growth and rebirth in mature industries.

Overall, New Luxury is good news for America because it brings benefits to both its creators and its consumers. It is an opportunity and a call to action for businesses because New Luxury goods do what has long been considered impossible—they generate much higher profit margins than conventional middle-market products at much higher unit volumes than superpremium goods. What's more, they enable the entrepreneur and innovator to participate in a business that is personally meaningful and emotionally

engaging and that connects them to consumers whose values they share.

For the consumer, New Luxury brings even more than goods with a valuable ladder of benefits: it brings them unprecedented power and influence. America has always moved forward on the two great tracks of production and consumption. Production has long been given the lion's share of the attention and credit for America's progress, which has been defined as breakthroughs in technology, productivity, quality, and service. The consumer was important, but primarily as a relatively passive partner whose duty was to consume in ever greater quantities in order to keep the engine of production rolling. But New Luxury consumers are so knowledgeable, selective, affluent, and discerning that businesses must listen and respond to them as never before. And although the primary traders up are relatively affluent—earning \$50,000 and above a year—the effects of New Luxury goods spread benefits to people at all income levels. By polarizing the market, a New Luxury entry does not drive out low-cost goods; rather, it helps to ensure that they are available. And the pressure from the most affluent consumers stimulates and accelerates innovation at the high end, which cascades downward to lower-priced products more rapidly than ever before—making innovation more affordable and available to a broader set of consumers.

New Luxury, therefore, can benefit us all. For consumers, it offers a new kind of emotional engagement and business influence. For imaginative leaders, it offers a new way to think about growth, profitability, and the art of fulfilling dreams.