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CORPORATE EXECUTIVE BOARD

A Response to the Emerging Middle Market: Positioning New Luxury Goods

KEY QUESTIONS

- **What are new luxury goods?**
- **What characterizes the middle-market consumer?**
- **What drives the middle market's consumption of new luxury goods?**
- **What strategies have companies employed to meet the needs of the emerging middle market?**

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INTRODUCTION

Michael J. Silverstein and Neil Fiske of the Boston Consulting Group estimate that new luxury goods currently represent 19 percent of all consumer goods sales and expect that percentage to grow by 10 to 15 percent in the coming years.[1] New luxury goods developed in the United States throughout the 1990s and provide consumers with functional, emotional, and technical benefits that competing middle-market offerings do not.

Unlike old luxury goods, which remain targeted at consumers earning over US$200,000 annually, new luxury offerings target the emerging middle-market consumer, who earns at least $50,000 annually. Middle-market consumers, driven by rising incomes, busier lifestyles, and less stable home lives, increasingly turn to new luxury goods and services for emotional fulfillment.

Successful new luxury goods, such as Grey Goose Vodka, Coach handbags, and Crate & Barrel furniture, provide consumers with offerings that help them forge identities and feel pampered while priced within their reach. Consumers reward these companies by paying premium prices relative to their middle-market competitors, such as Absolut, Wilsons, and Sears, respectively.

This issue brief examines the development of new luxury goods and the motivations behind the middle-market consumers that propel their success. Specifically, the brief examines:

- The emergence of the new luxury category
- The demographic and psychographic profile of the new luxury consumer and the societal changes that drive new luxury consumption
- The four primary needs consumers seek to satisfy with their purchase of new luxury goods
- Three strategies successful companies employed to enter the new luxury goods market and potential hazards for companies that ignore or misinterpret the new luxury phenomenon.

Case profiles of Godiva, Viking Range, Grey Goose Vodka and Coach illustrate successful new luxury offerings in a variety of categories.

[1] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses," *Harvard Business Review* (April 2003).

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DEFINITION OF NEW LUXURY

Throughout the 1990s, luxury goods proliferated to a larger audience of consumers. This new phenomenon, described by the Boston Consulting Group (BCG) as the "democratization of luxury," remains inspired by middle-market consumers that selectively trade up and aspire to higher levels of quality and taste.[2]

Indeed, companies developed a new segment of goods, referred to as "new luxury goods," in response to consumers' increasing demand for luxury offerings. New luxury consumers pay premiums of up to ten times conventional price levels, purchasing not only the material goods themselves, but also the associated emotional satisfaction of owning them.[3,4] Although new luxury products command a premium over their middle-market competitors, most new luxury offerings are low-ticket items that remain within reach of middle-market consumers.

NEW LUXURY GOODS: DEFINITION[5]

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 to middle-market consumers.

The Boston Consulting Group estimates that new luxury goods currently represent approximately US$350 billion—or 19 percent—of the combined $1.8 trillion generated in annual sales by 23 consumer goods categories. In addition, analysts predict 10 percent to 15 percent annual growth in the new luxury segment over the coming years.[6]

Unlike old luxury offerings—which exclusively target consumers earning over $200,000 annually and remain inaccessible to most middle-market consumers—new luxury products and services remain successful at a vast range of price points. In addition, new luxury products prove more immune to economic pressures than their old luxury competitors. For example, while old luxury declined sharply in the 2001 recession, many new luxury goods retailers, including Godiva Chocolate and Williams-Sonoma, exhibited solid growth.[7,8,9]

"New luxury goods range in price from a $6 Tuscan chicken sandwich at Panera to a $26,000 Mercedes SLK. What they have in common is that they enable less affluent consumers to trade up to higher levels of quality, taste, and aspiration. These are luxuries that continue to sell even when the economy is shaky, because they often meet very powerful emotional needs."

— Michael J. Silverstein, Senior Vice President[10]
Boston Consulting Group

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[2] Neil Fiske and Michael J. Silverstein, "Trading Up," *The Boston Consulting Group* (April 2002).
[3] Debra Goldman, "New Luxury Rolls On, Uncertainty be Damned," *Adweek* (11 November 2002).
[4] Author Unknown, "Despite Economy, Pursuit of 'New Luxury' Defines How, Why, and What We Buy," *PR Newswire* (21 November 2002).
[5] Neil Fiske and Michael J. Silverstein, "Trading Up."
[6] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[7] ibid.
[8] D.C. Denison, "The Boston Globe Business Intelligence Column," *Boston Globe* (17 November 2002).
[9] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[10] Rebecca Gardyn, "Oh, the Good Life," *American Demographics* (1 November 2002).

DEFINITION OF NEW LUXURY (CONTINUED)

Innovations in global connectivity, production technology, and retail specialization enable the new luxury segment to occupy the previously untouched low-price, high-quality position.[11] As illustrated in Table I below, new luxury products remain available throughout a wide range of categories.

TABLE I. NEW LUXURY BRANDS ACROSS VARIOUS CATEGORIES[12,13]

Goods Category	Middle Market	New Luxury	Old Luxury
Apparel	Gap, Levi Strauss	Diesel	Chanel, Brooks Brothers
Autos	Pontiac, Ford	BMW, Mercedes–Benz	Rolls-Royce, Cadillac
Beer	Coors, Miller	Sam Adams	Heineken
Coffee	Maxwell House	Starbucks	Blue Mountain
Kitchen Appliances	Hotpoint	Viking Range	Aga
Leather Goods	Wilsons	Coach	Louis Vuitton, Gucci
Lingerie	Maidenform	Victoria's Secret	La Perla
Personal Care	Suave, Revlon	Aveda, Bath & Body Works	Kiehl's
Pet Food	Alpo	Nutro	sirloin
Restaurants	Burger King	Panera Bread	Morton's
Retailing	Sears	Pottery Barn, Williams-Sonoma	Neiman Marcus
Spirits	Absolut, Smirnoff	Belvedere, Grey Goose	Bombay Sapphire

The following case snapshot of bakery-café chain Panera Bread illustrates a relatively inexpensive, high-quality new luxury offering.

St. Louis Bread Co. opened in 1987 and launched nationally as Panera Bread in 1998. Panera Bread offers freshly made bakery and café items with exotic, seasonal ingredients. The restaurant's menu offerings cost approximately $6 and range from traditional chicken noodle soup to the new Coronado Carnitas Panini sandwich, served with spicy ancho lime sauce and pork on ciabatta. In addition, the welcoming interior, a "whimsical interpretation of early- and mid- 20th century café décor," creates an exotic but comforting experience for customers.[14] The restaurant enables customers to take a break from everyday life and share a meal in the pleasant surroundings.

Panera Bread's investment in unique décor and wide-ranging offerings proves successful with the emerging middle-market consumer. For the first three quarters of 2002, only four years after national expansion, Panera's sales remained 41 percent higher than the same period of 2001.[15] Throughout the 2001 recession, the restaurant chain grew more than 50 percent, exceeding $500 million in sales, with 6 percent growth in same-store sales. In comparison, fast-food giant McDonald's posted its first-ever loss in the fourth quarter of 2002. Likewise, Au Bon Pain's growth remains stagnant, as the restaurant emphasizes its quick service as opposed to its customer experience.[16,17]

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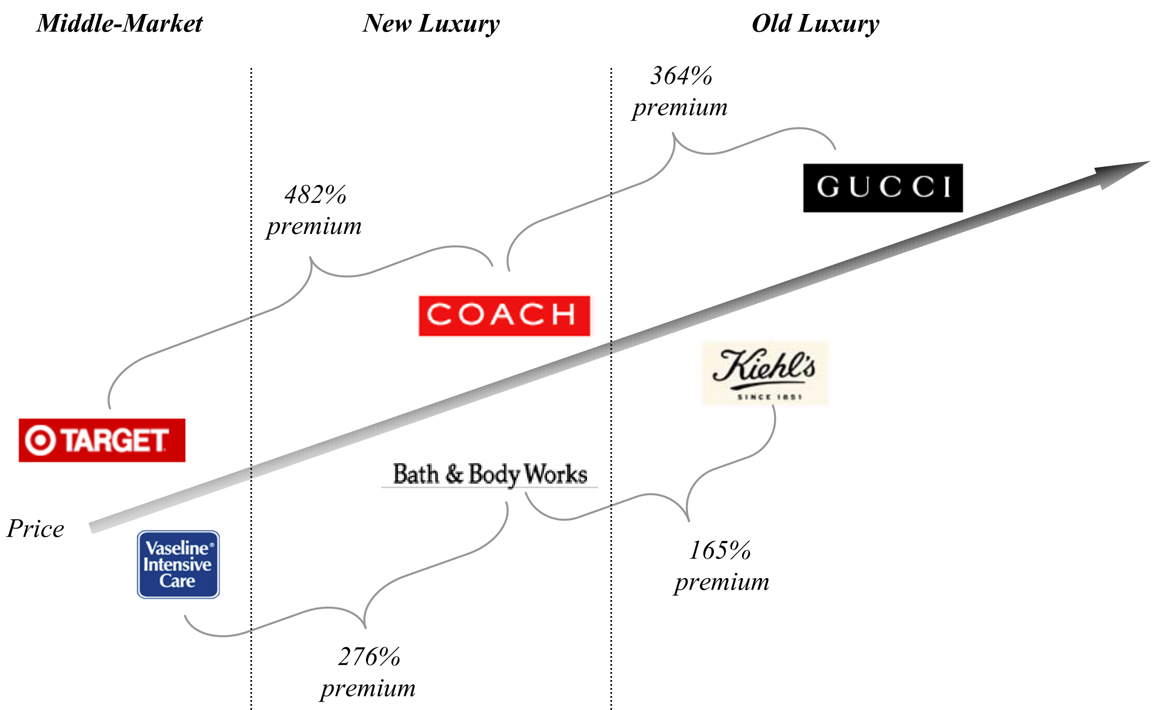
[11] Neil Fiske and Michael J. Silverstein, "Trading Up."
[12] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[13] Neil Fiske and Michael J. Silverstein, "Trading Up."
[14] Author Unknown, "For Sandwiches, Give Panera a Try," *The Capital* (15 December 2001).
[15] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[16] Neil Fiske and Michael J. Silverstein, "Trading Up."
[17] Amy Garber, "Franchisee's $16.5 Million Win Over McDonald's Sparks Furor," *Nation's Restaurant News* (9 June 2003).

DEFINITION OF NEW LUXURY (CONTINUED)

Although new luxury offerings exist at every price point, the functional and emotional benefits that consumers associate with new luxury goods allow these products to command a premium over their middle-market competitors. However, new luxury offerings remain priced well below super-premium old luxury competitors. In addition, the premium that new luxury competitors enjoy over their middle-market competitors remains larger than the premium that old luxury attracts over the new luxury offerings. Figure I below, illustrates this pricing strategy in the handbag and body lotion markets.[18]

FIGURE I. NEW LUXURY POSITIONING: PREMIUM PRICING IN HANDBAGS AND BODY LOTION[19,20]



As illustrated above in Figure I, new luxury goods command a premium over middle-market offerings but remain priced at an accessible premium when compared to old luxury offerings.

In the handbag category, Coach's nylon "Hamptons Weekend Tote," commands a 482 percent premium over middle-market Target's $21.99 Mossimo twill tote. However, the markup that Coach enjoys remains much lower than old luxury leader Gucci. A medium logo tote from Gucci retails at $595 a 2,605 percent premium over Target's Mossimo bag.

In the lotion category, an eight ounce bottle of Bath & Body Works lotion retails at $9, or $1.13 an ounce. Although the lotion commands a 276 percent premium over an eleven ounce bottle of Vaseline Intensive Care, which sells for $3.29, or 30 cents an ounce, it is priced below the highest-priced offerings in the body lotion category. An eight ounce bottle of Kiehl's Crème de Corps retails for $24—enjoying a 900 percent premium over Vaseline.

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[18] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[19] ibid.
[20] Council research.

SUMMARY OF FINDINGS

The roadmap below presents an overview of the characteristics and needs of new luxury consumers and the market entry techniques utilized by successful new luxury companies, as described in detail on the following pages.

CHARACTERISTICS OF NEW LUXURY CONSUMERS

New Luxury Consumers

New luxury consumers remain influenced by increasing divorce rates, more demanding careers, and a greater availability of quality at all price points. Earning at least $50,000 annually, these middle-market consumers maintain high loyalty to companies that meet their diverse needs.

Rising Incomes

Whirlpool's Duet revolutionized the home appliance category, appealing to consumers' emotions. With rising incomes and home prices justifying substantial home investments, Whirlpool emphasized the Duet's unique features, European styling, and energy-saving value.

Changing Role of Women

Godiva capitalized on women's increasing desires for occasional indulgences through distinctive advertisements and store re-design.

FOUR NEEDS OF NEW LUXURY CONSUMERS

Connecting

Kendall-Jackson and MINI Cooper provided consumers with goods that simultaneously enabled connections with friends and promoted individual expression.

Questing

Crate & Barrel and W Hotels fulfilled consumers' questing needs, offering unique products and enabling consumers to explore exotic locations, respectively.

Investing

Viking Range and Bang & Olufsen offered premium quality and innovative designs that attracted consumers seeking to invest in quality products with lasting value.

Self-Indulgence

O, The Oprah Magazine attracted consumers by emphasizing personal indulgence, encouraging pampering, and validating personal aspirations.

STRATEGIES FOR MARKET ENTRY

Outsider Innovation

American Girl, Victoria's Secret, Callaway Golf, and Grey Goose Vodka provided consumers with new luxury offerings that changed the competitive landscape of their respective categories.

Brand Reinvigoration

Coach migrated its brand from "sturdy" to "fashionable," focusing on the new luxury consumer.

Old Luxury Entry

Jaguar, Tiffany & Co., and Mercedes-Benz extended their old luxury brands to the new luxury segment, catering to the middle market while upholding a luxury status.

CHARACTERISTICS OF NEW LUXURY CONSUMERS

As described on the following pages, the demographic and psychographic profile of the new luxury consumer remains shaped by numerous societal factors, including rising incomes, the changing role of women, and many general lifestyle changes.

New luxury products primarily target the 47 million U.S. households that constitute the middle market. Earning at least $50,000 in annual income, this demographic amasses $3.5 trillion in disposable annual income. Although many new luxury brands hold global exposure, the new luxury segment remains most prominent in the United States. While no other country currently exhibits such pronounced shifts toward the new luxury segment, similar demographic and psychographic trends continue to emerge and gain hold throughout the world.[21] In the United States, the following societal trends influence new luxury consumers:

- *Fewer marriages*—In the United States, more than 50 percent of all first marriages are likely to end in divorce, and 58 percent of second marriages fail. Experts suggest that divorced consumers prove more likely to spend money to change their self–image and attract a new mate.[22] As men and women marry later in life and divorce more often, they spend more time and money on dating, forging an identity or image, and experiencing the world.[23] This trend remains particularly relevant worldwide—more Irish women postpone marriage until their thirties, while divorce rates continue to rise in Australia, Japan, and the United Kingdom.[24,25,26]

- *Increased emotional awareness*—Middle-market consumers prove extremely attuned to their emotional states. Self-help books and talk shows preach the importance of self-fulfillment, self-acceptance, and self-esteem. Many consumers believe that new luxury products will help them manage the stresses of their lives, better leverage their time, and achieve their aspirations.[27]

In addition, new luxury consumers exhibit the following characteristics:

- *Maintain high loyalty*—In select cases, new luxury consumers remain fiercely loyal to their new luxury brands. These consumers reward companies that can meet the needs they seek to fulfill through their purchases. New luxury customers, if satisfied, eagerly serve as brand apostles, recommending a good or service to their friends.

- *Appreciate brand heritage*—The emerging middle market places a high value on a brand's history and "heritage," along with other signs of enduring quality. These consumers often form intellectual, emotional, and even spiritual attachments to products and brands.[28]

- *Expect high quality*—The new luxury consumer will not purchase mediocre goods, demanding quality at all price points. As the emerging middle market selectively reaches for better brands, consumers become increasingly discerning. Improvements in production capabilities and a global manufacturing market enabled companies to provide an unprecedented number of high-quality, low-cost goods.[29]

New luxury consumers drive the polarization of categories, as they trade up to premium products in categories important to them but trade down—buying a low-cost private label or even going without—in less meaningful categories. For example, a sophisticated new luxury consumer may purchase private label shampoo at Costco, saving money to afford a $350 Coach handbag.[30]

[21] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[22] ibid.
[23] ibid.
[24] Anne Madden, "Experts Question the Multiple Birth Mystery," *Irish Times* (14 January 2003.)
[25] Ben Wyld, "Being Single Is Bad For Everybody's Health," *Sydney Morning Herald* (14 January 2003).
[26] Caroline Foulkes and Rachel Crofts, "Are We Becoming a Nation of Bridgets?" *Birmingham Post* (11 January 2003).
[27] ibid.
[28] Neil Fiske and Michael J. Silverstein, "Trading Up."
[29] ibid.
[30] Rebecca Gardyn, "Oh, the Good Life."

CHARACTERISTICS OF NEW LUXURY CONSUMERS (CONTINUED)

Council research indicates that societal changes in the U.S. over the past two decades inspired the emergence of new luxury consumers. Specifically, the following factors greatly influenced the emerging middle market:

NEW LUXURY CONSUMERS: KEY DRIVERS

I. Rising Incomes
II. Changing Role of Women

I. Rising Incomes

As more Americans obtain higher education and aspire to improve their lives, household incomes continue to rise. Real household income increased by more than 50 percent from 1970 to 2000. In addition, those earning more than $82,000 a year, the top quintile, rose approximately 70 percent, a faster rate than any other income group.[31]

Further, the average household size decreased by half a person between 1970 and 2000, providing more income per family member.[32] This increasing income provides consumers with greater resources with which to pamper family members or take care of their own needs.

Rising home values provide increasing equity available to finance expansive home improvements. In 2002, the average new luxury remodeled kitchen cost more than $57,000, a 470 percent increase over a 1950's kitchen.[33] Similarly, more expensive homes further justify substantial investments in home décor and appliances.

The following case snapshot illustrates the success of the Whirlpool Duet, a washer and dryer that attracts and inspires consumers looking for an investment to increase their home's value.

Prior to the launch of Whirlpool's Duet in 2001, conventional wisdom held that washers and dryers could not appeal to consumers' emotions. As such, manufacturers emphasized low prices and rarely priced above the $800 price point. Defying such assumptions, Whirlpool launched the Duet, a uniquely designed $2,000 "fabric care system," consisting of a front-loading washer and dryer. The company adopted the slogan "Just Imagine," and urged consumers to "imagine performance and efficiency without compromise," while "using less energy, saving money."[34]

Promotions effectively emphasized the emotional and practical benefits of the washer and dryer set, and Whirlpool's customers formed deep attachments to the Duet. For example, Doug Carlson, a homeowner in Nebraska, states that he "dearly loves" his Whirlpool Duet.[35] Council research indicates that the Duet provided consumers with emotional and functional benefits that inspired them to purchase the expensive fabric care system even though their current washer and dryer remained in working order. Whirlpool currently struggles to keep up with the overwhelming demand for the Duet system.[36]

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[31] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[32] ibid.
[33] ibid.
[34] Author Unknown, "Whirlpool Duet Fabric Care System," *www.duet.whirlpool.com* (accessed 1 July 2003).
[35] Nancy Gaarder, "Washer Study Volunteers Take A Spin Through D.C.," *Omaha World Herald* (18 September 2002).
[36] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."

CHARACTERISTICS OF NEW LUXURY CONSUMERS (CONTINUED)

II. Changing Role of Women

As the percentage of women in the paid labor force continues to rise, the economic clout of women increases. Indeed, in 1960, only 30 percent of married women held a paying job, as compared to approximately 62 percent in 2000. However, although more women remain employed than in previous generations, women still perform an average of 18.9 hours of housework per week.

Furthermore, real median income (in 2001 dollars) for women rose from $21,477 in 1970 to $30,240 in 2001, an increase of 41 percent. Nearly a quarter of married women earn more than their husbands, and women influence approximately 75 percent of all purchases for goods and services.

The combined professional and housekeeping duties that many women experience prompts their needs for "small rewards" and occasional indulgences.[37] The following case profile illustrates how Godiva successfully capitalized on the working woman's need for an occasional indulgence.

GODIVA (CAMPBELL SOUP COMPANY)[38,39,40,41]

Industry:	Food—Candy and Confections
2002 Sales (US$):	61 Billion
Employees:	25,000
Headquarters:	Camden, NJ
Web Site:	www.godiva.com

SITUATION
Godiva, which claims to have created the market for super-premium chocolates in the United States, describes itself as a company that "[leads] through innovation firmly rooted in the Belgian tradition." However, in the late 1990s, the retailer's premium image remained off-putting to many consumers. The company aimed to develop a warm and sensuous environment that heightened the allure of chocolate, while preserving its position as a premier chocolatier.

ACTION
In 2000, the chocolatier unveiled a new store design that emotionalized its previously elegant, slightly intimidating, and austere image by utilizing a new Art Nouveau style to communicate a heritage of sophisticated European pleasure. Every aspect of the new store design conveyed the delicious experience of chocolate. In 2002, Godiva further transitioned the brand from a product to a lifestyle. The endeavor included new products, the continuation of emotionally driven print ads, and new packaging—the first in nearly a decade. The campaign that supported a new chocolate collection launched in August 2002, emphasizing Godiva's position as a much-deserved, self-indulgent treat. Full-page advertisements featured a woman in a museum eating a Godiva chocolate above the caption, "Who says quality time has to be spent with someone else?"

RESULT
Although the company did not reveal any specific metrics related to its redesign and branding efforts, it did identify "…a marked increase in sales worldwide." In addition, premium chocolate, an affordable luxury in a down market, grew 10 to 15 percent during the 2001 recession.

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37 Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
38 Author Unknown, "Fact Sheet: Godiva Chocolatier," *www.godiva.com* (accessed 25 June 2003).
39 Stephanie Thompson, "Chocolate Gets Boost," *Advertising Age* (29 July 2002).
40 Marc Gobe, "Making the Emotional Connection," *Brandweek* (29 January 2001).
41 Neil Fiske and Michael J. Silverstein, "Trading Up."

FOUR NEEDS OF NEW LUXURY CONSUMERS

The Boston Consulting Group identified the following four needs that new luxury consumers seek to satisfy with new luxury goods:[42,43,44]

NEW LUXURY CONSUMERS: NEEDS

I. Connecting
II. Questing
III. Investing
IV. Self-Indulgence

I. Connecting

As the pace of life intensifies and work demands increase, consumers increasingly value connecting with other individuals and expressing their own individuality. The deeply emotional and self-help-saturated American culture leads consumers to seek goods that provide a sense of self-worth.[45]

The following case snapshot of Kendall-Jackson illustrates how the company succeeded in creating wines that new luxury consumers enjoy when dining out and entertaining.

In the early 1980s, Jess Jackson recognized a gap between superpremium and jug wines. After developing a unique taste profile, Jackson created buying arrangements with vineyards whose grapes matched his flavors. Kendall-Jackson's first wine, a 1982 Chardonnay priced at only $5 a bottle, won Best American Chardonnay honors in the American Wine Competition and sold out in six months.[46] Over twenty years later, Kendall-Jackson continues to innovate, providing the most creative offerings to customers. Jess Jackson remarks, "Styles in taste and methods of production seem to become obsolete every 10 years. We have to keep reinventing ourselves." Consumers remain attracted to Kendall-Jackson because it signifies quality, creating an environment ripe for connecting to guests at dinner parties, friends at restaurants, or prospective suitors on dates.

In 2001, during a year of difficult economic events and static sales for most wineries, Kendall-Jackson's case volume rose 24 percent and recorded the largest revenue gain among California wineries.[47,48] In addition, Kendall-Jackson proved a favorite in restaurants, ranking number one in wine by the glass in six of the previous nine years by 2001.[49]

[42] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[43] D.C. Denison, "The Boston Globe Business Intelligence Column."
[44] Debra Goldman, "New Luxury Rolls on, Uncertainty be Damned."
[45] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[46] ibid.
[47] Peter Sinton, "What A Difference A Year Makes," *The San Francisco Chronicle* (30 December 2001).
[48] Ted Appel, "Sputtering Economy Puts Squeeze on Winemakers," *The Press Democrat* (1 September 2001).
[49] Peter Sinton, "What A Difference A Year Makes."

FOUR NEEDS OF NEW LUXURY CONSUMERS (CONTINUED)

As consumers seek to express their individuality through the products they purchase, customizable or unusual offerings gain popularity. The following case snapshot illustrates how BMW re-launched the MINI Cooper, an automobile that emphasizes personality, that developed an almost cult-like following.

In 1996, BMW began a redesign of its MINI Cooper, whose sales in the United Kingdom remained disappointing. Targeting couples under 35 and those in their fifties who were seeking a second or third car, the updated automobile previewed at the 2000 Motor Show. BMW took 50 orders on site, in addition to the 1000 orders it previously amassed. The company's promotions of the MINI emphasized its uniqueness, such as a British flag-rooftop, and the MINI Web site encourages customers to "Get In The Loop," with newsletters and MINI events. The MINI emerged as a successful offering for consumers seeking to connect with their personal individuality.

In 2002, BMW sold more than 140,000 MINIs—exceeding expectations by 40 percent in a challenging economy. The company sold its 200,000th MINI in March of 2003.[50] The MINI inspired consumers to develop fan clubs, organize car cruises, and share their driving stories on the Web.[51]

II. Questing

American consumers today prove more broadly educated and well-traveled than previous generations. For example, in 1970, only 3 million Americans visited Europe, compared to 11 million in 2000.[52] Research suggests that increased education and travel drives consumers to seek and accept more exotic fare throughout their lives. Specifically, international cuisine and unusual home décor remain successful among new luxury consumers.

The following case snapshots of Crate & Barrel and the Starwood Hotels' chain of W Hotels illustrate how these companies fulfill the middle market's desire for travel-inspired luxury offerings.

Hoping to provide European-inspired house wares and furniture to the United States, the first Crate & Barrel opened in 1962. The store collected a wide variety of elegant and quality house wares in a unique retail environment. Inspired by the founders' trip to Europe, the store avoided trends and emphasized classic pieces, which helped the retailer develop an extremely devoted customer base. In fact, the company's signature black-and-white boxes became so popular that the company avoided using traditional forms of advertising for years.[53]

Crate & Barrel successfully developed a new luxury offering decades before new luxury products emerged in other categories, and the retailer's forethought remains rewarded by consumers. The retailer adheres to the same design philosophy it was founded on, using the same European suppliers and offering clean-lined, Scandinavian-inspired, colorful goods. Over 40 years after its founding, company growth continues at approximately 18 percent annually.[54]

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50 Mike Duffy, "Mini's Going Topless," *The Daily Telegraph* (23 May 2003).
51 Yuzo Yamaguchi, "Mini Attracts Japan's Trendy Set," *Automotive News* (23 December 2002).
52 Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
53 Author Unknown, "Crate & Barrel Considers Future Leadership as 40th Anniversary Nears," *Knight Ridder Tribune Business News* (24 November 2002).
54 Author Unknown, "Crate & Barrel Has Never Followed Pack," *Daily Press* (29 December 2002).

FOUR NEEDS OF NEW LUXURY CONSUMERS (CONTINUED)

In 1998, Starwood Hotels opened the first W Hotel in New York City. W Hotels emphasized customer service, unique décor, and exotic locations, and the rooms featured goose down comforters, 250 thread count sheets, plush cotton bathrobes, and Aveda bath products. The hotel's all-encompassing luxury appealed to consumers, and the hotel chain expanded to reach 17 locations by 2002.

In addition to its emphasis on luxury, W Hotels participated in the Starwood Preferred Guest program, enabling customers to earn Starpoints when booking reservations directly through the hotel. The loyalty program helps W combat potential threats from discounters such as Orbitz.com, and rewards customers with free hotel stays and Tumi luggage gift certificates.

W Hotels' luxury and value fueled its success. A 2003 study of frequent travelers determined that W Hotels remains the hotel brand with the highest customer loyalty.[55] In addition, in 2002, a new location in Times Square reached 100 percent occupancy in only three months, despite a weak hospitality industry.[56]

III. Investing

In times of increasing home value and a turbulent economy, consumers seek purchases that will remain valuable over an extended length in time. Specifically, a product priced at a premium proves a worthwhile investment if it exhibits quality workmanship and lasting value.

Rising home prices also increasingly justify substantial investments in appliances and decorations. The following case snapshot of Danish consumer electronics producer Bang & Olufsen illustrates how the company emphasized design appeal and superior quality, appealing to consumers seeking a lasting addition to their home.

In 1968, Bang & Olufsen bore the slogan, "For those who discuss design and quality before price."[57] Nearly 40 years later, the company remains focused on appearances and capabilities. Ronny Kaas Mortensen, a product consultant for the company, remarks, "Bang & Olufsen distinguishes itself by a number of key factors. Possibly the most important is the design…Another key factor is ease of use."[58] In designing the electronics, the company developed several special production techniques. For example, the top covers of one speaker model are polished like a mirror. In another instance, the company borrowed techniques from the automobile manufacturing industry to develop a strong paint that would not deteriorate in sunlight or over time.

The company's attention to detail reflects its commitment to customer satisfaction. Bang & Olufsen collectors exist all over the globe and many of the company's customers gather in social clubs to trade and repair old appliances. In addition, Bang & Olufsen continues to expand despite the global recession. By 2005, the company expects to reach $100 million in sales in the United States alone.[59]

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[55] Author Unknown, "Starwood Celebrates Fifth Anniversary of ITT and Westin Hotels Acquisitions," *Business Wire* (27 February 2003).
[56] Author Unknown, "W New York-Times Square Hotel, a Sell-Out In Under Three Months," *www.starwood.com/whotels* (Accessed 23 June 2003).
[57] Paul Roggema, "A Bang In Design," *Appliance* (1 September 2001).
[58] ibid.
[59] Author Unknown, "B&O Reduces Its U.S. Growth Forecast," *Global News Wire* (4 June 2001).

FOUR NEEDS OF NEW LUXURY CONSUMERS (CONTINUED)

The following case profile of Viking Range illustrates the investments consumers make in their homes through the purchase of new luxury appliances.

VIKING RANGE CORPORATION[60,61,62,63]

Industry:	Consumer Products Manufacturing—Appliances
2002 Sales (US$):	N/A
Employees:	N/A
Headquarters:	Greenwood, MS
Web Site:	www.vikingrange.com

SITUATION
In 1987, Viking introduced the first commercially-inspired range for home use in the United States. Recognizing the limited capabilities available in residential ranges, the company sought to incorporate commercial features, including increased power and a larger cooking surface, into its domestic appliance designs.

ACTION
Viking's sales representatives estimate that the vast majority of their customers are "look, don't cook" people, who prepare elaborate meals only on holidays or special occasions. In fact, analysts suggest that many Viking appliance owners invest in showcase kitchens, anticipating a time when they can start cooking seriously. These consumers invest in premium kitchen products, despite their irregular use. Viking ranges also possess strong appeal to those who enjoy and make time for cooking. One woman, who loved to cook but could not afford the Viking range, saved for three years to purchase the range. In the mean-time, she would "come in and visit it," according to the retailer who sold her the stove. These consumers remain attracted to the functional benefits of the Viking in addition to the emotional benefits associated with owning the best range on the market.

Viking also expanded into other areas, from cutlery to other home appliances, in order to provide consumers with a wide offering of quality goods at various price points. The company developed two Viking Culinary Centers in Memphis and Nashville that sell gourmet groceries, copper bowls, and porcelain molds. The centers also feature amphitheatres for cooking demonstrations and sprawling kitchens for classes where potential customers pay to test every appliance manufactured by Viking Range.

RESULT
The company's dedication to quality, service, and superior products fuels its success. Analysts estimate that in the year 2000, the privately held Viking Range Corporation generated $200 million in sales. Over the next five years, the company plans to more than double this figure and open several dozen more Culinary Centers across the country.

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[60] Author Unknown, "About Viking," *www.vikingrange.com* (accessed 1 July 2003).
[61] Molly O'Neill, "The Viking Invasion," *The New Yorker* (29 July 2002).
[62] Pamela Cotant, "For Those Who Love To Cook," *Wisconsin State Journal* (5 May 2002).
[63] Molly O'Neill, "The Viking Invasion."

FOUR NEEDS OF NEW LUXURY CONSUMERS (CONTINUED)

IV. Self-Indulgence

The need for goods that pamper or indulge the consumer stems from the influence of "lifestyle gurus," such as Oprah Winfrey, who encourage their audiences to take care of themselves.[64] Increasingly harried and overworked, consumers respond eagerly to the suggestion that pampering and self-indulgence remains important for their well-being.

The following case snapshot illustrates how Oprah Winfrey developed a magazine that capitalized upon the new luxury consumer's need for self-indulgence. Oprah advises consumers to reduce the stress of daily life, optimize their pleasure, and revel in experience.[65]

Oprah Winfrey's successful talk show inspired consumers to explore, validated self–respect, and encouraged personal aspirations. In April 2000, Oprah expanded her presence, launching *O, The Oprah Magazine*. Through her magazine, Oprah spreads the message that self-love remains important, and tells consumers they should invest in themselves. With Oprah's permission and advice, consumers tend to spend more for quality, raise the level of their taste, and splurge on special items. Accordingly, Oprah's Web site encourages her fans to, "Live your best life."[66,67]

The Oprah magazine remains the second most profitable title for its publisher, The Hearst Corporation. Experts attribute the magazine's success to its fulfillment of a reader's needs. Hearst president Cathleen Black states, "[Oprah's magazine] proved that a [magazine] dealing with emotional and inspirational themes can connect with readers in new and different ways."[68,69]

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[64] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[65] Author Unknown, "Despite Economy, Pursuit of 'New Luxury' Defines How, Why, and What We Buy."
[66] Neil Fiske and Michael J. Silverstein, "Trading Up."
[67] *www.oprah.com* (Accessed 23 June 2003).
[68] Author Unknown, "Paris Conference Told Mags Must Work Together To Sell," *Media Week* (5 June 2003).
[69] Carlos Grande, "Publisher With a Strong Penchant for Oprah," *Financial Times* (11 February 2003).

STRATEGIES FOR ENTERING THE NEW LUXURY GOODS MARKET

As new luxury continues to polarize the retail landscape into low-price and luxury categories, companies unable to compete on price often cultivate an upscale appeal to consumers who demand emotional satisfaction and functional superiority. Middle-market companies remain unable to match the price of low cost offerings or the emotional engagement of new luxury goods, and may fall victim to "death in the middle."[70]

> *"Today if you're selling a pretty good, reasonably priced product, you're in trouble."*
>
> —John Butman, director of research and development[71]
> Boston Consulting Group

Experts predict that only a few select competitors will successfully tap into the new luxury consumer mindset in each category. While leading new luxury companies can enjoy the unusual combination of high volume and wide margins, analysts predict that the companies that ignore or fail to interpret new luxury correctly will likely lose market share, and face thin margins and negligible growth. According to experts, the brands currently at the greatest risk aim squarely at the middle of the market, with average products and common pricing.[72]

The following case snapshot of Ralph Lauren illustrates the retailer's current migration towards the middle market.

A premier luxury brand throughout the 1980s, Ralph Lauren lost significant prestige in the 1990s. The Ralph Lauren label proliferated to house wares, home décor, and lower-end department stores, negatively impacting how consumers viewed the brand. Currently described as a "generic" designer label, the brand remains unable to command significant premiums from investors or gain a significant new luxury following.[73] The company's Polo Ralph Lauren label developed into a staple offering in discount outlet malls, and Ralph Lauren clothing, shoes, and house wares remain available in lower-end discount retailers, such as T.J. Maxx.[74] Although the proliferation of Ralph Lauren led to increased volume, the company lacks significant emotional appeal to new luxury consumers.

Polo Ralph Lauren's stock fell from a high of $33 in June 1997 to a low of $12.75 in May 2000, though it has since rebounded to $27 in July 2003.[75] In addition, although the company's sales continue to grow, the rate of growth proves small when compared to new luxury leaders—between 1999 and 2002, sales increased 37 percent, as compared to new luxury retailer Diesel's 71 percent growth during the same period.

70 D.C. Denison, "The Boston Globe Business Intelligence Column."
71 ibid.
72 Author Unknown, "Despite the Economy, Pursuit of 'New Luxury' Redefines How, Why, and What We Buy."
73 Gregory Richards, "As More Shoppers Turn to Discounters, Department Stores Struggle to Regroup," *The Florida-Times Union* (7 July 2003).
74 Author Unknown, "The Art of Cruising," *The Denver Post* (25 May 2003).
75 Tracie Rozhon, "Reinventing Tommy," *The New York Times* (16 March 2003).

STRATEGIES FOR ENTERING THE NEW LUXURY GOODS MARKET (CONTINUED)

New luxury goods can swiftly transform the "rules" of the category, providing consumers with functional and emotional benefits not offered by middle-market competitors. Successful new luxury businesses generally utilize one of the following three strategies to enter the new luxury goods market:

STRATEGIES FOR ENTRY INTO THE NEW LUXURY MARKET

I. Outsider Innovation
II. Brand Reinvigoration
III. Old Luxury Entry

I. Outsider Innovation

Many successful new luxury offerings originated from entrepreneurs entering a new category—including Ely Callaway of Callaway Golf, Jess Jackson of Kendall-Jackson, Gordon Segal of Crate & Barrel—or imaginative corporate leaders who think like outsiders, such as Leslie Wexner of Victoria's Secret.[76]

"Many, if not all, of today's 'new luxury' leaders were formed and led by outsiders who set out to transform their categories. They became highly successful because their passion and instincts told them that consumers would 'trade up' if they perceived technical, functional, and emotional benefits. As a result, companies…have transformed their middle-market customers into brand apostles: customers who will pay significantly more for products deemed emotionally satisfying, and who will work hard to get their friends, families, and colleagues to do the same. Basically, the new luxury leaders are raising the bar for their competitors."

— Neil Fiske, Vice President[77]
Boston Consulting Group

The American Girl company developed from a frustrated aunt's unsuccessful search for a quality gift for her young niece, as illustrated by the case snapshot below.

American Girl®

In 1986, former educator Pleasant Rowland developed a new kind of doll after unsuccessfully searching the market for a gift for her niece. Rowland developed a series of dolls, each based in a distinct historical period, with expressive, high-quality, historically accurate faces. The dolls retailed at approximately $84—six times the price of a Barbie doll—and the company achieved $1.7 million in sales in the first three months in operation.[78,79]

The company's success continued, and in 2000, Rowland sold the company to Mattel for $700 million. In 2001, Mattel reaped $350 million in sales from the doll line. In addition, with 82 million books and seven million dolls sold, the American Girl line remains second only to Barbie as the most popular doll in the United States.[80]

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[76] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[77] Author Unknown, "Despite Economy, Pursuit of 'New Luxury' Defines How, Why, and What We Buy."
[78] Author Unknown, "Company History," *www.americangirl.com* (Accessed 23 June 2003).
[79] Michael J. Silverstein and Neil Fiske, "Luxury for the Masses."
[80] Julie Sloane, "A New Twist On Timeless Toys," *Fortune Small Business* (October 2002).

STRATEGIES FOR ENTERING THE NEW LUXURY GOODS MARKET (CONTINUED)

The following case snapshot illustrates how Leslie Wexner, founder of The Limited, sought to introduce a lingerie offering that remained accessible to middle-market consumers while maintaining the appeal of ultra-premium brands.

VICTORIA'S SECRET

In the 1980s, the lingerie market remained divided between ultra-premium offerings such as LaPerla and cheaper department store brands. Recognizing a lack of quality in the department store offerings, The Limited CEO Leslie Wexner developed Victoria's Secret, offering quality lingerie at prices accessible to middle-market consumers. Victoria's Secret stores featured interiors decorated with antiques, armoires, and lace curtains. In addition, Victoria's Secret emphasized a wholesome sexiness in its advertising, while providing customers with functional benefits in their bras and underwear.[81]

Victoria's Secret emerged as a leading lingerie retailer that offered women an appealing alternative to department store brands, while simultaneously providing comfortable products for everyday use. This approach fueled the company's growth and expansion. Between January 1999 and January 2003, sales increased approximately 46 percent to reach more than $2.5 billion.[82]

The following case snapshot demonstrates the success that Eli Callaway experienced when he sought to develop a superior golf club.

Callaway GOLF

In 1982, Ely Callaway founded the Callaway Hickory Stick USA, Inc., the predecessor of Callaway Golf. The company specialized in hickory-shafted putters and wedges that were "Demonstrably Superior and Pleasingly Different." Callaway emphasized performance-enhancing features, and in the early 1990s, the company introduced the Big Bertha driver. The Big Bertha, named after a World War I cannon, offered a substantially larger area for striking the ball, delivering longer drives and fewer mis-hits. Golfers immediately recognized the functional benefits of the clubs despite their relatively high price tag.

Callaway remains the market leader and one of the industry's most profitable manufacturers. Before Callaway, Titleist, Wilson, Spalding and MacGregor dominated the golf market. Today, only Titleist remains among the top three, and the other previous leaders developed into second-tier players with products that lack significant emotional appeal or functional benefits. Over the past 5 years, Callaway Golf experienced continued sales growth of approximately 13 percent.[83,84]

Companies that develop from outside their category tend to bring new competitive aspects into the category post-entry. The case profile of Grey Goose Vodka on the following page illustrates how the company emphasized its superior flavor and quality to consumers, altering the competitive landscape in the spirits market.

81 Valerie Takahama, "Building a Better Bra," *Edmonton Journal* (30 August 2001).
82 Author Unknown, "Spreading Secret," *Brandweek* (17 February 2003).
83 Jeffery Wolfson, "Give Consumers A Reason To Love You," *Brandweek* (14 April 2003).
84 ibid.

STRATEGIES FOR ENTERING THE NEW LUXURY GOODS MARKET (CONTINUED)

GREY GOOSE VODKA (SIDNEY FRANK IMPORTING CO.)[85,86,87,88,89,90,91]

Industry:	Beverages—Alcoholic Beverages
2002 Sales (US$):	20–25 Million
Employees:	51–75
Headquarters:	New Rochelle, NY
Web Site:	www.greygoose.com

SITUATION

Before Grey Goose Vodka entered the United States, the ultra-premium vodka market was non-existent, with Absolut positioned as the most premium vodka offering. Although many spirits-industry veterans maintained that consumers could not discern the taste of vodka, Sidney Frank Importing Company sought to provide consumers with a premium vodka that emphasized flavor and quality.

ACTION

In 1997, Sidney Frank Importing Company introduced Grey Goose Vodka to the United States. One year later, the Beverage Tasting Institute of Chicago named Grey Goose the best-tasting vodka. Defying "common knowledge" in the spirits category, which held that consumers couldn't taste any difference among vodka offerings, Grey Goose adopted the brand slogan, "The Best Tasting Vodka In the World." Instead of relying on traditional advertising, Sidney Frank sought to capitalize on Grey Goose's unique position as the best-tasting vodka via strategic media buys in business publications and unconventional promotions. To publicize the vodka's premier position and taste directly to consumers, Sidney Frank launched a martini tour in cities such as Miami, New York, and Chicago. The company also secured a prized mention in HBO's popular television show *Sex and the City*. As the martini re-emerged as a trendy, stylish drink in the late 1990s, Grey Goose simultaneously gained acceptance as the top vodka on the market.

In a short period of time, Grey Goose redefined the vodka market, transforming the non-existent, ultra-premium segment into the fastest-growing segment in the category. The vodka also became a point of reference for other brands attempting to enter or create ultra-premium segments. Since consumers continued to demand higher quality and taste, Grey Goose positioned itself to meet those needs.

RESULT

Sales of Grey Goose increased 100 percent in the United States between 1998 and 1999, and in 2003, Grey Goose remains the most requested ultra-premium vodka in the United States. Sales rose from only 50,000 cases in 1998 to 600,000 cases sold in the United States in 2001, an increase of 1,100 percent.

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85 Nicolas Furlotte, "Pouring It On," *Beverage Dynamics* (1 May 2000).
86 Author Unknown, "Grey Goose Adds A Dash of Lemon," *Travel Retailer International* (1 May 2002).
87 Author Unknown, "Taste Counts," *Beverage Industry* (April 1998).
88 Elaine Walker, "The Miami Herald Retail Column," *The Miami Herald* (14 December 1998).
89 Author Unknown, "Making A Statement," *Off License News* (21 September 2001).
90 Heather Todd, "A Reformed Gin For A Refined Drinker," *Beverage World* (15 May 2003).
91 Kenneth Hein, "Grey Goose Builds Nest With Drinks, Dollars," *Brandweek* (11 March 2001).

STRATEGIES FOR ENTERING THE NEW LUXURY GOODS MARKET (CONTINUED)

II. Brand Reinvigoration

Current brands can successfully reposition themselves for new luxury consumers, although challenges can prove significant. Brands that consumers currently associate with quality, style, or other new luxury attributes prove easier to re-position for new luxury consumers.

The following case profile of leather goods manufacturer Coach illustrates how the company successfully reinvigorated its brand and repositioned itself as a new luxury offering.

COACH[92,93,94,95,96]

Industry:	Consumer Products Manufacturers—Accessories
2002 Sales (US$):	719 Million
Employees:	2,900
Headquarters:	New York, NY
Web Site:	www.coach.com

SITUATION

In the mid-1990s, the Coach brand remained "sturdy" and "functional." Though the brand image reflected quality, Coach continually lost customers to more innovative and stylish competitors, such as Gucci and Prada. In 1996, as part of a strategy to win back past customers and reach out to younger consumers, Coach enlisted designer Reed Krackoff to update the company's image and product line. The company recognized that its offering needed revitalization, or it would continue to lose customers and sales.

ACTION

In 1997, the company expanded into new product categories, such as watches, jewelry, hats, and scarves. While modernizing its image, the company remained faithful to its storied history of quality manufacturing. Updated advertisements reflected colorful images and whimsical scenes, a marked contrast to the more staid, serious print advertisements that Coach used throughout the 1980s and early 1990s. Krackoff noted, "The key to our success was understanding why Coach was so successful in the first place, even though maybe the product didn't look too great and was a little tired."

Redesigned products featured slimmer silhouettes and new fabrics, a change from Coach's traditional businesslike product offering. In 2001, the company launched the successful Coach Signature collection, which adorned handbags with an interlocking "C" pattern. Updated Coach offerings—such as weekend totes, dog collars, and travel accessories—complimented consumers' lifestyles, whereas previous Coach handbags remained most appropriate for serious, working environments.

New designs, produced monthly, kept the franchise fresh and drove foot traffic into the Coach retail stores. The company also remodeled its dark, wood-paneled stores to reflect the company's new image. Updated Coach stores feature white, airy spaces with products more accessible to consumers.

Coach case profile continued on following page

92 Sandra Dolbow, "Reed Krakoff, Substance And Style In The Bag," *Brandweek* (14 October 2002).
93 Lisa Lockwood, "Frankfort's Coach Approach," *WWD* (18 November 2002).
94 Weitzman, "Coach Profits Leap 41.4 Percent As Brand Plans 100 More U.S. Stores," *WWD* (23 January 2003).
95 Sheila Kim, "Open For Business," *Interior Design* (1 April 2003).
96 Author Unknown, "What Makes Coach A Winner?" *HFN* (13 January 2003).

STRATEGIES FOR ENTERING THE NEW LUXURY GOODS MARKET (CONTINUED)

RESULT

Coach's overhaul proved a resounding success. To further growth, the company went public in 2000, and Coach's stock price rose an additional 61 percent and split 2-for-1 between 2000 and 2003. Company changes not only attracted old customers, but also attracted a new customer base. Chairman and CEO Lew Frankfort notes, "It's crucial to understand the marketplace and your position within the competitive landscape…Coach [now] occupies a leadership position in the market where we dominate the 'accessible luxury' segment."

III. Old Luxury Entry

Although not all old luxury players cater to new luxury consumers, some old luxury companies garnered increased sales through new products targeted at the emerging middle market. Many old luxury brand extensions target the emerging middle market with lower-priced versions of goods that have been traditionally affordable only to households earning more than $200,000 annually.[97] Others—seeking to signal their old luxury prestige to wealthy consumers—simultaneously unveiled super-premium products. In effect, these companies have widened their pricing structures to an unprecedented degree.[98]

The following case snapshot of Tiffany & Company demonstrates how the retailer caters to new luxury consumers.

Analysts cite Tiffany & Company as one example of an old luxury brand that manages to offer items at a vast range of price points without losing its luxury status. Since 1997, Tiffany boosted its number of U.S. stores by 57 percent. In 2000, the retailer introduced a Web site, where it remains successful in selling items priced below $500.[99] The company currently advertises items ranging from $200 to $1 million.

UBS Warburg analyst Chiara Tirloni states, "Tiffany demonstrates that a low price point doesn't necessarily mean losing luxury status. It's all in the execution…[they] have to adopt product strategies that keep attracting customers, increasing store traffic, and generating sales."[100]

The following case snapshot illustrates how Ford Motor Company's Jaguar avoided overexposing or tarnishing its brand name during a down-market extension.

Touting its down-market brand extension a "democratization of luxury," Ford Motor Company's Jaguar group recently launched the X-Type sedan at a comparatively low price of $30,000. While many premium brands in the luxury auto market—such as Audi, BMW, and Mercedes-Benz—also introduced low-priced models or express plans to do so, automotive analysts note that Jaguar may lose disproportionate brand equity over the long term based on its heavy promotion and distribution of the down-market line. However, the X-Type accounted for 59 percent of Jaguar's 2002 sales, while its up-market automobiles lost market share.

According to international brand consultancy FutureBrand, consumer ratings of Jaguar's prestige remained consistently high through the X-Type's launch, suggesting that the company may succeed in emerging as a premium manufacturer for various niches rather than a pure luxury player.[101]

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97 D.C. Denison, "The Boston Globe Business Intelligence Column."
98 Author Unknown, "Despite the Economy, Pursuit of 'New Luxury' Redefines How, Why, and What We Buy."
99 Kate Fitzgerald, "Jewelers Out To Protect Cachet," *Advertising Age* (11 March 2001).
100 Miles Socha, "What Price Luxury?" *WWD* (27 March 2003).
101 Mark Rechtin, "Mass Luxury: Folly or Savvy Business? As Automakers Push Cheaper Models, They Endanger Brand Value," *Automotive News* (24 June 2002).

STRATEGIES FOR ENTERING THE NEW LUXURY GOODS MARKET (CONTINUED)

The case snapshot below profiles Mercedes-Benz's entry into both new luxury and ultra-luxury markets.

MAYBACH

As a wider audience of consumers sought to purchase luxury automobiles, Mercedes responded with the SLK, targeted at new luxury consumers. Introduced in 1995, Mercedes' lower-priced roadster proved immediately successful. Only one year later, the company was forced to increase production to keep up with orders, even though the car remained available in limited markets.[102] Priced at approximately $40,000, the SLK proved a successful entry for Mercedes into the new luxury market, with sales of the SLK rising 22 percent in 2001.[103]

Following its successful entry into the new luxury market, Mercedes-Benz launched the 2004 Maybach at the 2003 North American Auto Show. The Maybach, a $400,000 automobile that customers "design" in a studio via wide–screen projection, incorporates elements of the handcrafted luxury vehicles built in the early 1900s by Maybach Motorenbau with Mercedes-Benz technology.[104] Amenities include nappa leather upholstery, 21 Bose speakers, and an air conditioning system that can cool the interior nearly 80 degrees in 2 minutes. Mercedes-Benz plans to manufacture only 1,000 Maybachs worldwide, with almost 400 designated for the United States. Even before the cars officially became available, Mercedes-Benz received 11 orders.[105]

Mercedes' entry into the new luxury and ultra-luxury markets signals to consumers and competitors that it remains capable of providing luxury at any price point. This technique can help the company maintain its premier status within the automobile industry, while simultaneously increasing volume with lower-priced offerings.

[102] Keith Crain, "Products Make It," *Automotive News* (30 September 1996).
[103] Louise Daly, "U.S. Trend-Setters," *Agence France Presse* (5 January 2002).
[104] Amy Higgins and Sherri Koucky, "In the Market For A Car?" *Machine Design* (3 April 2003).
[105] Kevin G. DeMaris, "Mercedes-Benz Debuts Pricey $322,200 Automobile," *The Record* (20 June 2003).

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