

# TRADING UP

## Why Consumers Want New Luxury Goods – And How Companies Create Them

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The Web site for this book is at [www.bcg.com/tradingup](http://www.bcg.com/tradingup).

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**MAIN IDEA**

The tastes and preferences of American middle-market consumers (those earning \$50,000 and above annually) are changing and evolving. More and more, they are starting to be willing to “trade up” in some areas – to pay a premium price for products and services that provide a greater level of quality than typical mass market offerings. As a result, a new “sweet spot” is emerging in the marketplace which is called “New-Luxury”. It is estimated around \$400 billion in new-luxury goods were sold in the US in 2003 and this level of sales will continue to grow at about 15-percent per year to reach \$1 trillion by the end of this decade.

Conventional business wisdom has always stated: “The higher the price, the lower the volume”. Therefore, companies traditionally decided whether they would chase the luxury market with very highly priced offerings or target the mass market with more modest pricing and features to match. New-luxury products make that trade-off obsolete. New-luxury products and services sell at comparatively high volumes, despite their relatively high price levels. And therefore, companies at the forefront of selling new-luxury goods can achieve a high rate of profitability and growth which is beyond the reach of conventional competitors. The new-luxury marketplace also offers vendors an opportunity to escape the impact of commoditization on their core businesses.

Interestingly, trading up is not just a US phenomena. It is about the same size in Europe, and is growing at a similar rate. It is also now well established in all the major economies of the world, and should reach \$2 trillion by the end of this decade. This is very positive news for those business leaders who are astute enough to position their firms advantageously in this market segment.

*“Trading up is positive, global, and here to stay.” – Michael Silverstein and Neil Fiske*

**1. The emergence of the new-luxury marketplace . . . . . Pages 2 - 3**

Trading up spans virtually every category of the economy. It is being driven by fundamental, long-term and strong forces on both the demand side and the supply side. The trading up phenomena is now so well established that three distinct forms of new-luxury goods and services are widely known:

1. Accessible superpremium – low-ticket items priced at a considerable premium.
2. Old luxury brand extensions – lower priced versions of products traditionally sold to the very rich.
3. Masstige goods – mass prestige goods which command a premium but are still affordable.

**2. The key drivers of the trading up phenomena for consumers. . . . . Pages 3 - 4**

New-luxury is no fad. It is being driven by fundamental, long-term changes in consumer preferences and circumstances. Trading up is being driven by a combination of demographic and cultural shifts that have been building for decades, and will continue to increase in the foreseeable future. Instead of the average middle-market consumer being unassuming and unsophisticated, today’s middle-market consumers are discerning, have high personal aspirations and substantial clout as a result of their buying power.

**3. The supply side forces that fuel new-luxury goods. . . . . Page 5**

In just the same way as strong forces are driving the demand side of new-luxury, there are also strong supply-side forces at work. Entrepreneurs have unprecedented access to capital. Even small businesses now have the capacity to tap into global supply networks. Shopping malls have brought many more specialty retailers into neighborhoods than ever before. All of these factors have combined to make it easier than ever for vendors to develop and market new-luxury goods. And this trend is only just beginning to gather momentum.

**4. The eight key management practices of successful new-luxury creators. . . . . Pages 6 -8**

New-luxury leaders follow a distinctive set of practices which enable them to create premium products and services, connect with customers, build their companies and establish or maintain market leadership. These practices are:

The 8 management practices of new-luxury leaders

- ▶ 1 Never underestimate the customer’s desire to trade up.
- ▶ 2 Make major leaps, not incremental improvements.
- ▶ 3 Create a progressive ladder of genuine benefits.
- ▶ 4 Focus on innovation, quality and overall customer experience.
- ▶ 5 Extend your brand both up-market and down-market.
- ▶ 6 Customize your value chain to deliver the ladder of benefits.
- ▶ 7 Use influence marketing and brand evangelists.
- ▶ 8 Continually attack the category like an outsider.

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