Platinum by Design

Understanding Today's Luxury to Create Tomorrow's High End Business Success

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This book is the collaborative effort of four authors, two editors, and many professionals in the distinct worlds of publishing, research and creativity. We want to underscore from the start that this book is not a small choir of "*a cappella*" singers, but a huge stage with more than 70 voices. All of them were fundamental in the making happen of it. You have this book in your hands thanks to their generosity in offering time and sharing ideas through interviews and discussions.

We interviewed our experts them in successive waves, starting from a pilot round to test our research approach in January 2007, through a standardized format of dialogue across the spring and summer, to end with highly personalized interviews in winter 2007 – 2008. They all were there for us. You will meet their ideas, their visions and their insights about today and the future, about high end and luxury, about business and life. We are truly grateful to each of them, personally. Here we introduce them to you, each by name, one by one:

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Welcome

If you picked up this book and are thumbing through it, then chances you're living in a world where quality of life is important, and where you feel a rush to the high end side of experiences and artifacts, perhaps the wind of luxury whipping around your face. Well, read on. We hope that this book will excite you about the world of mass luxury, where everyone can be king or queen for a day, for a week, or for a lifetime, where the world of things and experiences give everyone a chance at the "brass ring".

We chose to write beyond plain "stuff", just objects and attached services, because this is a book about the future. And in the future, as we observed both in our work and our lives, we expect a growth in the demand for those experiences and emotions that will define a "better quality of life", well beyond plain artifacts. We do not dismiss products, we love them. However, we propose to go beyond, into the new categories and industries that will be created by cultural change. We base our vision on research, and we believe with passion in this inevitable change. Hence we wrote this book to share with you our vision of a better world by design, where High End goes beyond ***stuff***, as it drives new thinking about the future. And, ultimately, we wrote this book for you to make it happen, if you wish to, in your professional futures.

There are many differences between this book and standard books about this topic. Firstly, we wanted create an actionable manual for those who want to "understand to create". We believe we achieved that, and we substantiate our belief with a concrete "High End business toolbox", to be unveiled to you chapter after chapter. Secondly, we wanted to write a book that people will want to read. Finally, we based our book on the dialogue we had with top experts, on one side, and potential High End customers, people like you and me, on the other hand. Here we wanted to merge artistic wisdom with sociology and with a peek into the mind of the High End consumer. We believe this is rather unique in the flourishing market of luxury and High End publications.

But enough of that. What is this thing called the high end, this younger sister of luxury, older cousin of ordinary, and the purchasable dream of everyone who has some spare cash in the pocket, under the mattress, or just locked away!

By way of introduction – Coco Chanel and the rest of us

Let's go back almost a century to a France at the time around World War I, a land where the everyday woman was reaching for modernity, and where the past was being slowly kicked to death by artists on the one hand, and designers on the other. Enter Paul Poiret, a man whose contributions to twentieth-century upscale fashion might be compared to Picasso's contributions to art. Upon encountering the ever elegant Coco Chanel dressed in black, Poiret wittily asked her to whose funeral she was going. Not missing a beat, Chanel looked back and (perhaps too) swiftly replied *"yours, monsieur."*

What are we to make of this sweet little story, and its cutting tone? For all his genius in style, all his intuition about what the truly up-scale people wanted, all his elegance, Poiret had just missed the evolution in culture and costume that moved female audiences and customers out of the pre-WWI world, and into modern times. And so his business suffered, and then simply died. The aspiration of everyman (or everywoman) to be king or queen for a day, was in full flower.

So what about Mme. Chanel? Our sweet little story tells it all, and leaves it untold at the same time. We see in an instance how the redoubtable Mme. Chanel built a business of luxury goods using her intuition, and how she built her business of luxury goods on her innovative interpretation of the new feminine ideal.

The obvious conclusion is that the key to success in lifestyle-driven and premium business is *constant innovation,* anticipating *people's values, needs and tastes* and at best, perhaps, always being just slightly ahead of them. It sounds like an obvious, if not prudent, approach. Such advice is easier to give than to follow. Sort of like most advice, of course! To give you more than just advice, we wrote this book for you.

Now down to business. No book gets written automatically, and this didn't get written automatically either. We four authors wrote this book because we all have worked for a few decades in the fields of creativity and research with a focus on the future. We what is happening in the world. There's a big change happening, and it is happening almost everywhere, even in places that we weren't prepared to accept. The change – well, the change is pretty simple to describe, at least to everyone who has watched American TV in its heyday in the 1950's. It was called 'Queen for a day'. You'll see in a second how this television program connects with the book. But first, what was the TV program. In the words of Wikipedia:

> ***Queen for a Day*** *was an American radio and television show. It helped usher in American broadcast listeners' and viewers' fascination with big prize giveaway shows when it was born on radio (1945–1957), before moving to television (1956–1964; 1969–1970) and, between the two versions, making it a forerunner of "reality television". The show became popular enough that NBC increased its running time from 30 to 45 minutes.*

Now for the 'rest of the story'. We wrote this book to explicate the changing world, where everyone can be Queen for a Day. We wrote our book about a world where everyone is reaching for luxury, where you just need to go to any market, whether upscale or downscale, and you get a feeling that everyone is acquiring a piece that luxury, somehow, some way. We noticed again and again that despite low incomes, despite hardships, and expenses that occasionally seem unbearable, people wanted ***their*** piece of luxury, and would pay extra for it. We found people and the world in general moving towards upgrades, towards better, towards experiences, seeking services that were noticeably better, so that they also might get some of this 'universe of better'.

We were guided by experts, knowledgeable professionals ranging from designs to advertisers, from marketers to consultants, from trend watchers to trend makers. Consider, for instance, one of our conversations, this with two rising stars, Karen Moersch and Simon Wilson. Karen and Simon founded the UK luxury consultancy firm, The Hasley Group, and may have been uniquely able to put their finger on the pulse of this new movement to what's commonly called the High End. In their words:

> *While the true mass market and the 'Uber' luxury market are very well established, there is a market that sits between them that is still defining itself. Fuelled by social and demographic changes, this market runs from premium to mass luxury. The market is characterized by superior quality, design and functional superiority – in comparison to corresponding mass-market products - but still priced to be accessible to a broad customer base that selectively buys premium goods in categories that are key to them.*
>
> *The mass-democratization of wealth and changing family working structures allows people to buy the commodities they need. That mass-democratization also happily creates a reserve that can fund the purchase of the inspirational products and services that people desire. These social changes will only continue for the foreseeable future and remain the engine of change.*

So again – why YOU specifically ought to read this book

We wrote this book with a wide range of people in mind, starting from CEO's, VP's and entrepreneurs to designers to researchers, all people who will want to just "make" the High End happen. And of course, we also wrote for academics, students and even non-professionals, who are curious about the topic. Who are these people, really? Well, in a few words, and like you who are now thumbing through this introduction, these people are willing to make a difference, and work for a different, better quality of life in their everyday future. Like you, they are people who are interested in the next level of quality, the world just below luxury, the world of grace, elegance, perhaps some snobbery, but most of all the 'universe of better'.

We asked our group of more than 70 experts to help us understand what this world of luxury and High End is all about. Their opinions will be reported, in this and in the following chapters, directly as we heard them speak. ***Look for the text in italics.*** This is where you can hear the very voice of some among finest thinkers and most effective business leaders in the field of our study. Looking back, we had a great deal of fun because we talked to our experts about hopes, aspirations, and optimism.

We distilled the opinions of our experts about what works and what does not work in contemporary luxury and High End, and then organized this knowledge into framework of major areas, which we call 'constituencies'.. Through this framework you can really get an education in the High End, in a structured, interesting way.

As you read, you will see us going into depth, but not the depth of dull facts. No, the depth will be from the words of our experts. They will provide you specifics, to delight but also to educate. Granularity and texture are the key advantage of the two three chapters immediately ahead of us. Through our experts we will scope out and describe the world of the High End and the world of Luxury.

As our experts speak, we will move from a broad view of Luxury and the High End to its specifics. As you read, you will begin to see what's 'really happening out there', what are the trends, where are the opportunities, who's doing 'what right, what wrong'.

Oh, by the way, perhaps as consequence of such richness in texture you will see something interesting. We've brought together the opinions of lots of people, sometimes people who disagree, but most of all people who would probably enjoy each other at a dinner party. And, to boot, we've gone out of our way to emphasize emotion, design, and people in our treatment of the High End. Some of what we present is going to seem to you 'old hat', but we bet there will be a lot of new stuff that may set you thinking a bit. Here is just one example, about the marriage of experience design and fragrance innovation. Design and fragrance, two areas that we all know about intuitively, but never really gave much attention to, except perhaps when we're shopping and are accosted by the ever-present fragrance demonstrator. Let's hear the words of Alex Moskvin, VP the Brandemotions Lab of IFF (International Flavors & Fragrances), a powerhouse company in the world of olfactory experience:

> *Scent branding is also an interesting development. The power of scent is its uncanny ability to forge strong emotional connections and identities. Of all our senses, our sense of smell is the only one hard-wired to the emotional center of the brain. Branding agencies are realizing the potential of scent in the development of sensory identity systems but they need to partner with fragrance houses in order to creative unique emotional signatures. Right now very few branding/advertising agencies have the necessary knowledge and expertise (art and science) in scents.*

With this type of thinking where do you go? Well, if you're a business person who has to invent, design, sell, and then keep on selling, then Moskvin's thinking is an example of the next generation, the power of 'high end thinking'. These ideas about fragrance, about design, about the High End stimulate the business person and set the stage to welcome what may well be a revolution in the world of products and services – the steady, unstoppable migration from mass to class, from function to realizable hopes in a product or a service. Or, as we said before, Queen or King for a Day.

With those words, we invite you to read on, and join us on this journey to a higher quality of life.

SECTION ONE:

WHAT WORKS IN TODAY'S LUXURY AND HIGH END

Chapter 1
Getting the 'lay of the land'

You glance at the back page of the magazine you hold. You're about to doze off, as you have done time and time again, reading the economic news, or maybe looking at some of the news stories about today's fashion. Now look to the next page, and what hits you is something you hardly expected. Follow it and let's jump into the world that just sprung up, overnight when you least expected it.

And so you read on, unable to take your eyes away from something that is so strange yet so familiar. Emirates airline now offers a non-stop first class private suite from JFK and Houston to Dubai. That's right, a private room, with a flat-bed massage seat, a personal mini-bar, fine dining room service and 1,000 channels of entertainment on high definition screen in case you tire of looking out the window. For chuckles you look at the bottom of the advertisement, where a number of hotels are staking out their claim to space underneath this floating palazzo.

Now start reading. It's hard to believe. Here is an ad for Burj al Arab hotel, voted the best hotel in the world by World Travel Awards in 2007. It is built out in the middle of the water and designed to resemble a billowing spinnaker sail. You will be met at the airport by your chauffer driven Rolls Royce for a discreet check-in (every floor has its own private reception desk and innumerable trained butlers). The lowest price at the hotel is in the range of $1,700 a day. Wouldn't you just know it – this hotel is booked many months in advance.

Do you get the feeling a lot is happening in the world that doesn't involve being jammed into the coach class of a crowded airplane among screaming kids and calorically challenged fellow passengers, with that icon of the road warrior, a Motel 6 room waiting at your destination? The fact is, there is a whole new luxury level of products and services being offered these days, in stark contrast to everyday commodities. What's more, people are making lots of money from this new luxury.

What's happening here? Clearly we've just described the very best. Yet, just below that very best, just below the luxury to be dreamed of, lies a vast world of affordable luxury, of the 'brass ring' from a merry go around available for just a bit higher price. This is the High End, the world that we will explore in this book, with some side trips to the land of luxury, to where the High End itself aspires.

We must be clear about one certainty we have, and that is we live in a world of dramatic change. The emergence of BRIC economies (Brazil, Russia, India and China) and their rising demand for luxury and high end propositions is matched by the need of mature markets for new approaches to these sectors. Such need is strongly advocated, for example, by WWF (World Wildlife Federation), which recently released "Deeper Luxury", an important report about the future of luxury in a sustainability-driven global society. Because the notions of "luxury" and "high end" are cultural, they will change over time. Here lies the opportunity for the High End to sometimes leapfrog luxury in terms of innovation and cultural appeal.

We set ourselves on this journey to discover the future of luxury and High End together with more than 70 experts and thought leaders, who shared their visions and viewpoint. To set the context for this new "High End" to the market, let's check in with Steven van der Kruit. Steven is the 'Creative Director' at Firmenich in Switzerland. Steven's business is fragrances, one area where the High End is a sensory experience, wrapped in a package, and commercialized at fairly high margins. Steven puts the High End into perspective by saying:

> *"To me, here is how I divide the universe of consumption, and how I see value today. First, let me list the five areas of products…. There may be more, but I think here is how they divide:*
> *1. Low quality (disposable) Products*
> *2. Real basic Products*
> *3. Extra value Products*
> *4. Masstige (mass prestige) Services and Concepts*
> *5. Limited uniquely rare Super luxury Products*

From Steven's schematic overview, you can just about map out the rough contours of this new world of High End (categories 3-4 above). You can take your first journey heading to where value is higher than just price but money still makes a big difference for people when it is time to choose and buy. Let's follow Steven a bit more, as he defines for us this hierarchy or geography of status, giving you some of the key stops in your roadmap:

> *1. Low quality (disposable) products*
> *The first group is the biggest, serving the masses, often with products that have a better image than their actual performance would warrant. Ever-ongoing cost cutting and lowering quality strategy is the theme here. The consumer looks only at the money and perhaps not at value for money. In general this is a mix of standard products that hardly differentiate, and compete with so-called private label brands. We talk here of the everyday products that dominate our shelf spaces and all look and performing the same. Coffee, toilet paper, milk etc. Mind you – this is turning out to be a shrinking cluster!*
>
> *2. Real basic products*
> *The second group contains basic day-to-day essential products with an excellent balance of cost and value. Quality prevails here. Here we find products and services that are easy to understand, easy to use. Real basic products comprises brands that are often the standard NO FRILLS products, delivering a high quality of a limited set of product features.*
>
> *3. Extra value Products (the lower border of the High End)*
> *The third group is what you call Premium. This Premium group comprises one set of the quality products, but with the plus of 'added value'. This added value is directly broadcast to and measurable by the customer, who proclaim the group 'product plus'. The rules of the game are simple here. Just remember that 20% brings 20% more quality and individualized benefits. Often these products offer an extra plus by capitalizing on "experience" in their positioning. We have here the standard 'good value for money*

product' where extra value is constantly created by product and technological innovation. You can recognize this group. Next to the standard product you will find some extra tailored options or a variety of choices. Pay attention – there is a lot of money here, and this area is growing fast.

4. Masstige Services and Concepts - Prestige for the Masses.
Quality and benefits are here the same as in Extra Value Products. However, an extra plus is given by positioning that is emotional and storytelling. It is feelings here. Additionally, cool design is more and more seen as a decisive extra. The price is out of balance, and often is higher than the intrinsic values of the offer. It's all is based upon that little special thing that the consumer allows her/himself to indulge in once in a while. The price HAS to be high and the uniqueness is manipulated by DREAM and STAR advertising/communication. It's the dream of buying the product used by a celebrity…. One can't afford it everyday, but once in a while one indulges oneself. Movie star image, DESIGN and exclusivity are the characteristics for this masstige group. MASSTIGE IS A GROWING CLUSTER.

5. Limited, uniquely rare, Super luxury Products
Last is the real luxury and based upon the rarity and extreme uniqueness of the service and products. The quality is by definition extremely high, and the price is proportionally high. Super luxury products can only be obtained by the super rich. This market is hidden and discreet. This is pure quality but the rarity of the product and materials is extremely high. The price is therefore not really related to what you get with the product offer. Only a few can and want to obtain it. THIS IS A MONEY-MAKING CLUSTER.

Why Knowing About High End Matters to You

Those who battle in the arenas of mass markets fight the price wars and the imitative copy cat brands, whereas high end propositions typically command a higher price because factors like design, quality, scarcity, constant freshness help High End goods and services fend off competitors who would commoditize these markets by introducing successful spin-offs. High End brands have established an emotional bond with consumers, mostly by cleverly anticipating on socio-cultural change, as in the example of the demand for "sustainable luxury".

The value proposition to you is that as Willie Sutton said when asked why he robbed banks, "because that's where the money is." The High End, as you will see, is where the margins exist, where the connection with more affluent customers, and where, if you stay on your toes, you can do very well.

<u>Now what isn't the High End – or tell me where NOT to go</u>

The "High End" (categories 3-4 in Steven's system) begins with "extra-value" goods and services. Don't confuse this happy hunting ground with the big, popular world just below, and thus just outside our scope. We are not addressing here the 'value-for-money' products and services. Attractive as they may be, these are NOT High End.

Watch out for these: advertised features. They're not the High End but they broadcast quality nonetheless:

1. *No expensive, unnecessary frills in terms of product, packaging, environment or service*
2. *A non-branded product with exactly the same construction or even physical 'molecules; in the case of fragrance*
3. *High quality, distinguished formula, high customer value yet low price*
4. *A "no Rip-Off" Service in the field*
5. *Reliable quality*

It always helps to have some concrete examples of what isn't what we'll talk about. So, at the risk of engaging in list-mania here are 10 that our experts came up with. Of course there are more, but you get the idea.

1 . *IKEA -Furniture*
2 . *John Lewis - UK retailer*
3 . *Domino - American magazine*
4 . *Hoxton - "Urban lodge" business / budget hotel chain concept*
5 . *Nokia - Mobile communication*
6 . *VW - Automotive*
7 . *Toyota - Automotive*
8 . *Tissot Watches*
9 . *Auchan/Oviesse/Carrefour Mass market retailers with presence in Italy - Ittalian positioning as an example*
10 . *Easy Jet - Airline*

<u>The mother lode of the 'High End' – *Extra value products* and *'Masstige'*</u>

Now that we know where we will not go, what's left? Well, the 'High End' begins when we get to those 'extra value' goods and services, where the notion of quality and value get emphasized by the addition of the word 'extra'. The 'extra' here is more functional benefits. The products and the services do more. We don't have to know exact what this 'more' refers to – at least not yet. However we are now at the lower part of the world of High End. Let's look around, and move upwards.

If you travel around the world of stuff and services, products and marketing, in the bookstores or in the halls of business schools, then at some time you will inevitably hear or read the made-up word *'Masstige'.* As you would guess, the word comes from mashing together 'mass' and 'prestige', which tells it all.

Michael J. Silverstein's 2003 book, *Trading Up*, established what this world of mass luxury was about. And, three years later his 2006 book *Treasure Hunt* analyzed the other half of this world of High End. Moving on from those who wanted luxury at the price of mass produced goods, Silverstein there dealt with the world of customers who 'put their money where their mouth is', investing a significantly greater amount of their household income to buy 'aspirational', far higher quality artifacts and services. In *Treasure Hunt*, Silverstein also uncovered the not-surprising factoid that this second group, who can afford to buy the more expensive things, also search out discounts in other categories to balance their budgets.

Image is always crucial to *Masstige* goods and services. It's not only the thing itself, or the service, but what others say when they see it. And so, therefore, in Masstige is the notion of '*perceived exclusivity*'. Of course, when you think about it, the notion is a bit strange that exclusivity can be had with something that everyone with a little money can buy, but let's look a little further.

There are at least a couple of reasons why distinct people might spend more money than usual on a product. Think about today's world, what you read in the newspaper, about the stories in the tabloids at the supermarket checkout counter, and what is featured in such icons as the Wall Street Journal, say in its week-end section. We are talking here of a type of *healthy combination of passion, desire and aspiration, combined with a profound material culture.* The combination is a heady brew, and produces mass luxury. It is a fulfillment of the aspiration by that somebody you probably know who was poor but just simply *knew* what quality is, and just as soon as he or she can afford to spend money he or she buys quality.

This was the driving force behind why people who, accustomed to and seemingly indifferent about spending twenty-five to fifty cents (well, now $1.50) for a cup of coffee suddenly and proudly began to spend four dollars for a cup of coffee in a Starbucks and, not simple coffee but rather latte or cappuccino?

Luxury items: The northern border of the high end

If the High End is that land where stuff of dreams are made of, then move further on, and let's see where the 'promised land' might be. Real luxury lies in that land of the "*Fata Morgana*"., and continues to stimulate the very existence of High End just as a lover is stimulated, excited, lifted up high and brought low by the very thought of the beloved.

We use the descriptor 'Fata Morgana', or Morgan le Fay, King Arthur's legendary sister, as our metaphor for this land of luxury. Fata Morgana is a fairy illusion, a good metaphor for what drives the desire for luxury. We saw this illusion, this Fata Morgana, this mirage that disappears, when we opened with the non-stop flight in one's own suite on Emirate Airlines, towards our destination, a one-of-a-kind iconic hotel. Not for everyone, but for only a few, but still the stuff that dreams are made of. Here the dreams are dreams of luxury.

Luxury is the benchmark for the High End. We devote the entire next chapter to luxury to better understand the north star of the High End, the fixed point by which the High End always takes it bearings. Just what is the relation between High End and luxury? What holds surely true for both luxury and High End propositions is emotion. By emotion we mean specifically the emotional-aspirational factor that attracts people, binding them with strong feelings to the artifact or the service at hand. But, after the attraction works its magic, accessibility intrudes, dividing desire into attainable High End and unattainable Luxury.

In other words, most people can only smile at the notion of that hop to Dubai. But they may very well choose to take British Airways as a High End choice over another airline because BA advertises: “Be a guest not a passenger. We believe the way you fly is just as important as where you fly. It’s not simply about getting a seat, it’s about getting service. Not just food but a meal. Not just something to watch but something worth watching. In short, it’s about upgrading flying for every passenger on every plan. Now there’s an idea.” That “idea” with which British Airlines is making money is a good example of the High End market. Seat, service, quality, all at an affordable price, all making the person’s quality of life jut a bit better for those hours in the air and in the airport. In our next chapters we will see how Virgin Atlantic managed to challenge BA, pushing even further the search for excellence in the traveler’s experience.

In the eyes of many the main strength of High End is its intrinsic ‘democratic nature.’ Almost all people have access to the High End. This High End brings out with a passion the notions of aspiration, emotion, even ‘soul’, for those who want but can’t. A High End brand is the one that can’t be qualified as a luxury brand for one of a number of reasons. One is simply that the segment in which the High End brand operates is simply not, and probably won’t for a long time, be part of the luxury world. Nespresso for coffee is an example, High End but certainly not in the world of luxury at all. Or perhaps the positioning of the brand in its segment makes it a little more accessible than a true luxury brand would be. Maybe it’s accessible simply because it’s cheaper. Yet the product has some aspect of the luxury brand on some other dimensions such as design, quality, a more positive emotion experience. Here again we have not luxury, but High End. We have an emotional ‘***moreness’*** working here.

Emotions – Workhorse of the high end

One of the most interesting workshops in the ESOMAR – World Market Research Association’s program is “Measuring Emotions”. The workshop was co-designed and co-delivered by Moet Hennessy’s Mark Whiting. Mark. As Head of Market Intelligence at the French champagne and spirits company, part of luxury conglomerate LVMH, Mark understands the value of emotions in luxury, high end and even in research. Furthermore, one of our experts stated it beautifully:

High End is the place where dreams can come true – not just for the rich”.

When emotions enter, you can see the single discriminating factor between added functional value and the true High End. For want of a better term, it’s the “irrational” factor, an irrational emotional connection with the product or service. In the strongest case its love, not for a person, but for an artifact, a product, a service, a state of being provided by the material world.

Emotional connections link products to one’s own positive sense of self appreciation that comes into play after the purchase. Emotion is wonderful but at the same time terribly strong variable in an equation where price is still a stronger player. But in the High End the world of ***homo economicus,*** rational economic 'man' ends abruptly as it faces the cauldron of ego needs. Emotion and price play together a lot differently than they do in the world of commodities, where the rational side can trade-off what's being gotten for what's being paid, and do a fairly good job of it. No, it's different at the High End, which sits at the intersection of something costing just a little beyond one's comfort zone. But, once the purchase is made, the angst turns into a proud feeling, a rush that buying customer experiences, something very special and memorable, over the long run well worth the price.

One of the reinforcing keys here that keeps the buying behavior coming back again and again is *positive self-appraisal* by the High End customer. The positive feelings are strong reinforcers. They are sufficiently powerful, and pack enough punch to generate the glow again and again, whether for a short few minutes, or for years to come. This is one of the emotional benefits, a positive and often addicting effect that High End offers to its customers. It's no wonder that the High End has become such a strong symbol in emerging markets where status is ever changing, and needs a 'something' to anchor it. A premium/ high-end product in China will be visually distinctive with unique & refined design/features, widely endorsed in the market as premium, projecting an aspiring image that shows …"*I belong to an elite group, my life is better than many others and I have a more discerning taste*". And, in the end, we're all human, so what happens in China happens everywhere.

Yes, the High End proposition must be a "feel good" winner in terms of the way people experience it. Yet there must be substance as well. High End propositions dare not be limited to the somehow vulgar context of pure "marketing *bling bling,*" with no real content, having merely cosmetic, perceived value. The reality is a lot easier, however. The High End can always justify itself because it is simply better, of demonstrably higher quality thanks to innovation designed around people's emotional desires.

Consider how ESSEC Professor Peter Sosnkowski, former CEO of Remy Martin in the US, describes the High End, what we defined as the "white space" between mass market and luxury. Sosnkowski begins with the opportunity, moves on to the history, and then shows what the High End can really do for the product:

> *I would actually call the "white space" you identified a "black space", in terms of it being the space where very high margins are feasible and profits are leveraged, versus the "red space" of losses and / or insufficient returns on investments. So, in "black space" is where good economic performance happens, and "red space" where there is only to lose in terms of financial balance. I see both "high volume" and "high margin" opportunities in such "white space", especially in relation to losses still being incurred by many brands in the "traditional" luxury sectors. In the 1950s, the luxury market was an easy context to define, with limited markets – the ones with high income and social standing - and clear mechanisms, and limited/specialized outlets concentrated in the Western hemisphere, North America plus the dynamics of European recovering economies. Then, luxury could be discussed as being distinct from the mass market and the middle class market. Even in the 1990s there was no one strict definition of luxury markets. Afterwards, the luxury context evolved very rapidly and we reached the current*

situation, with the two parallel processes of "democratization of luxury" and "extreme-ization of luxury." In the future, but actually already nowadays, the notion of luxury can be applied in its full scope across almost any industry and any price range category. Let me illustrate what I think by means of a few concrete case histories.

One of my favorite examples here is Faber Castel: they took the Euro 0.25 wooden pencil, made it into a Euro 1.00 to Euro 5.00 individual item, and then transformed it into the core of a luxury proposition with an offer ranging from Euro 45 for a gift box of two, to Euro 350 for special and limited gift set editions. Such approach translates into optimal economic returns and healthy margins, for sure.

Moving to cosmetics, there is the entire sector of cosmetics, from the mass market propositions of brands like Maybelline, Max Factor or Avon –that, at Euro 5.00 to 10.00 is actually positioned as a semi-luxury or luxury item in emerging markets like China: this is a "white space" in development for sure. At the other extreme, we find customized cosmetics offered for several thousands dollars -like Terry De Gunzburg's USD 10.000 blended lipstick or USD 100.000 annual make up program. And then we have the likes of Dior and Chanel constituting the "mass high end" of this market, with price points between Euro 100 and Euro 500 for a small jar of facial cream.

The same principle applies to the watch industry, with both "democratic", mass luxury, or "democratic offerings", as the likes of Swatch "Thin" top range at Euro 200, and propositions like Chanel J12 at Euro 6.000 per piece, or the top of the top, like the Blancpain Tourbillon Luxe at Euro 800.000.

The above examples should have demonstrated the very reality of a phenomenon that crosses almost all markets and industries. Now, how to rationalize it in analytical terms? To understand this new market dynamic, as a luxury market specialist analyst, I created an ad hoc ratio, which I label I.V.A. In the past, people used the E.V.A., or "Economic Value Added", to assess economic performance. This is a corporate financial performance analysis approach measuring the extent to which the profit parameter exceeds the cost of capital. For the luxury and high end industries, I would rather speak of I.V.A., that is: "Image Value Added". This is aimed to measure the extent to which image-driven, premium pricing exceeds the higher costs (design, materials, product quality, packaging, merchandising and more) required in order to move up-market. Thus the "I.V.A." is the ratio of the Delta in selling price achieved to the Delta in the cost involved in moving an item up-market.

Conclusion –what are we to make of the High End?

Reading Sosnkowski, a cynic might come away saying that it's all a matter of price, all an issue of economics, and little else. Of course emotions enter in, but it really looks like price, price, price. But, read between the lines. There's more than mere price working here, more than economics with high added value. High End means a feeling of connection to an original brand but with a sense that the brand is reinvented in a way that excites customers, touches them, sometimes grabs them in their souls, and connects.

The relation between the Luxury and the High End is mostly one of scarcity, premium price, and accessibility. However, understanding the richest part of the land, the world of Luxury, gives a sense of what can be done to 'engineer' the ordinary towards that promised land of High End, where the winds of luxury blow, even if luxury itself is unattainable. Our next chapter will explore luxury a little more deeply, to get a sense of what the High End can take and what it dare not touch.

Chapter 2

The Midas Wave – What today's luxury is all about

The world of luxury borders our world of High End. Let's try to put classic sociological theory into plain words, using Georg Simmel's 1920's "trickle down" theory of fashion. How does it work? There is the perennial trickle down of product features, aesthetics and innovations, from luxury to High End, and generally beyond to the mass world. The progress cannot be stopped, only anticipated, and only invested in by those smart enough to sense this future and anticipate on lifestyle trends ahead.

If we look ahead a bit, in order to anticipate the future, peering into this world of luxury aspirations, we can sense the High End world of tomorrow, that world where a moderate amount of money might buy what is luxurious and perhaps hard-to-afford today. This tomorrow, perhaps as close as a mere half decade away, will come about because inevitably borders are porous. To our more than 70 experts and thought leaders, the notion is clear, as one defined it: "*Luxury is part of culture. Culture changes over time in its values and the manifestations thereof. Therefore the game of "remaining the same" here looks much more like "running to stand still*"

Who hasn't heard about luxury, or can resist the temptation to read about it! If you don't believe that, look at the next magazine rack you come across, and count the stories about luxury – even in places where the rents are low, the employment weak, and the economic future not particularly bright, at least at this moment. People are interested in luxury and its associated dreams, pure and simple.

As we reviewed the topics so-called 'semantic clusters' started to emerge. These clusters comprise groups of phrases with a common set of meanings. During this exercise, somewhat technical in nature but with a dollop of insight and judgment (occasionally disconfirming what we thought!) we were struck by a number of recurring "constituencies". We re-clustered and re-analyzed, worked the interview materials in different ways. Finally it struck us that we were dealing with about 10 major topics that together make up the world of luxury/High End. Here they are in alphabetical order:

1. Authenticity, Authority and leadership
2. Celebrity system, social networks & Storytelling
3. Consistency, Location & Origin
4. Design & Experience
5. Exclusivity, Intangible Value & Quality
6. Innovation, Management & Organization
7. Marketing, Communication, Distribution & Service / Relationship
8. Price & Residual Value
9. Sustainability (environmental, social, personal)
10. Tradition

We will deal with each topic separately and in depth, tapping into the wisdom of our experts in their own words. And, finally at the end of the chapter we will list some preliminary conclusions about each, and move forward even more deeply into the High End. Now let's explore the world of luxury as we prepare to learn about the rich older sibling of our High End world.

1. Authenticity, Authority & Leadership

Authenticity is crucial to any business proposition within the world of luxury. Perhaps the very criticality of authenticity explains why the latest book by Gilmore and Pine, *Authenticity,* is devoted entirely to the notion of authenticity. Gilmore and Pine, you might recognize, are the now-renowned authors of the groundbreaking book, "The Experience Economy".

In our interviews with experts, the notion of Authenticity kept emerging as the relentless focus on 'brand protection', perhaps because we were talking to experts in the business world, rather than talking with consumers who on occasion are happy to buy fakes, if only to make others momentarily jealous. Counterfeiting is indeed rampant. It's not surprising – people go to where the aspirational icons are.

Radha Chada and Paul Husband devoted an entire chapter of their book, "*The Cult of the Luxury Brand*", to what they defined as the "advent of the *genuine fakes*", analyzing this all-too-well-known parallel market. Look closely, perhaps with some chagrin, at the difference between the stilted presence of luxury goods in newly developed, arm-guarded malls like Plaza 66 in Shanghai, and the vibrancy of the many fake markets all around Asia. In Asia counterfeiting creates its most devastating impact.

If authentic is key, then what about authoritative? Luxury industry leaders are not shy. We discovered quite quickly that many of these authorities were media stars in their own right! It was important to capture the media. Our experts commented positively on the ability to speak out for one's vision. Moving beyond fashion, consider new notions of luxury in architecture, in the arena of luxury, trend-setting thought-leading architects came out.

> *"Zaha Hadid represents a successful luxury proposition because she is strongly innovative. Hadid succeeded in actualizing her vision and view of architecture and bringing them to the attention of the public for luxury projects. Considered too innovative, for years she branded only projects for a strict circle of connoisseurs who christened her as the creator of a luxury "service". After she won the most important prize for architecture a few years ago, she is finally able to change the concept of contemporary architecture".*

It's not just show biz, however. Let's look at the description of Prada. Here we have authority and leadership embodied both in knowledge and in application. Prada's success is due to the dynamic interaction of two leaders working together, Miuccia Prada and Maurizio Bertelli. How did and do they do it? Miuccia's is a "*pivotal role in influencing the global fashion scene*". Bertelli's is entrepreneurial talent, for *the creation of a communication system ranging from art to sport to outstanding cooperation with the greatest talents in design and architecture.* This is leadership at its peak.

2. Celebrity system, Social networks & Storytelling

A not-too-surprising theme that continued to emerge is best described by the single word 'celebrity'. Let's join Ms. Concetta Lanciaux, formerly advisor to Mr. Bernault and one of the business thinkers and "corporate architects" of LVMH's success, to learn her views on this topic:

> *I believe that the idea of celebrities and its application to marketing exists already for a very long time. One might recall the role played by Madame Pompadour in establishing the profile of the Moet et Chandon brand, and this was decades ago. What deeply changed, is the socio-cultural mechanism, and its context. From aristocracy and royalties via top models and rock stars, we reached the current stage where celebrities are mostly an offspring of the movie industry. The real question is indeed what will come next? Here, Louis Vuitton made a very precise choice by inviting Mikhail Gorbachev as the testimonial of the latest advertising campaign. What could be rationalized as the ultimate meaning of such choice? Perhaps might this mean that the next wave of celebrities might come from politics or the wider world of world-class personalities? For sure, with the emergence of new culture in the emerging countries and regions in the world, Asia first of them all, new profiles and new celebrity options will arise, to stand for, and to capture the essence of new socio-cultural context. It will be inevitable, inevitable indeed.*

Although it might sound simple, this dimension of celebrity is exceptionally complex, with many facets. On the one hand we have the classic 'celebrity system' – the rituals of red carpets and personalities bigger than life. It's not so simple, however. Of course, anybody can buy a testimonial, but that is not what you really dream of. What you want as a luxury brand leader is the ***love of the stars.*** As explained by Thierry Maman, Managing Director of Berluti, during the 2007 Eventica Global Luxury Forum of London, the relation between a luxury brand and its celebrity customers might entail a deeper, subtler art of engaging. Maman mentioned how Zinedine Zidane would systematically expose his Berluti shoes when on TV shows at no cost, just for the pride and satisfaction of wearing Berluti. Of course the exposure had to be discreet, because at the same time Zidane was under contract for sports shoes. The positive impact in terms of visibility and endorsement is tribute to the brand's authenticity, and the attempt to be true to its spirit.

Then, there is the more down to earth, increasingly relevant world of the everyday. Here, social endorsement occurs. Endorsement is celebrated even with ordinary people, because those we love and admire and listen to are, in fact, extraordinary to us. For example, take Martell: *The Elite Club of Martell effectively helps recruit, maintain and enhance the core drinkers of brand loyalists and word-of-mouth impact"*. This Elite Club comes close to the ideal scenario where *"each customer is vetted and known, creating a community"*. Within this context of social networking, belonging and connecting is key, especially for the top quintile of the high net worth individuals, as described by leading research agencies specialized in the field of luxury.

The next question in this topic is what do people tell each other when they congregate? Where there is a group of humans, there is a story that binds them together. We strongly believe in the power of the story (or perhaps story into legend), and so did a number of our experts. At the most superficial level there is the narrative flow that reverberates from classic advertising and orchestrated PR. At even a deeper level of narrative impact, the story can actually pertain not just to the specific content of a single campaign but also to the brand's essence and origin. Here the roots of the brand are unveiled, and the narrative centers around the foundation tale.

> *"The German watches of A. Lange & Sohne, after the fall of the Berlin Wall. The old brand was renewed, models were updated and restyled, and its back! One of the most sought after luxury brand of watches. The public wants something special, something exclusive, something not everybody is wearing, and yet the public loves storytelling and history, an old brand, before WW2, with new designs and the history of the family. Good formula!"*

The foundation tale is indeed one of the most powerful narrative mechanisms available to the palette of the brand management. Having a story is what separates the birth of a myth from the more ordinary 'great proposition. Legendary tales of eternal archetypes are often developed for the brand design of luxury propositions. One could experience this "live" by enjoying Ben Wood's and Paul McGowan's presentation at the ESOMAR Luxury Forum of Florence, in May 2007. Wood and McGowan, luxury industry consulting veterans in the lead of Added Value practice in London and Paris, referred back to the work of Margaret Mark and Carol Pearson, who in their 2001 *"The Hero and the Outlaw"*, re-wrote the theory of branding from the viewpoint of human archetypes. Wood and McGowan did not dismiss tangible dimensions like product or retail. Not dismissed, but pushed a bit to the side, in order to highlight how a myth and an identity based on the right narrative archetype make the difference in luxury branding. The approach adapted from the Mark and Pearson's book, paints and analyzes both 'lead' and 'secondary' archetypes of luxury brands. The focus revolves around power and seduction as the 'engines' for narration. Storytelling can then become a powerful luxury branding asset, accessible to any manager.

3. Consistency, Location & Origin

Consistency is a prerequisite for success in luxury. Even when the "myth" behind the charisma of luxury brands is revealed and 'leaked' to the wider audiences or when the company behind the luxury brand decides to innovate, the positioning must be *"very clear and always executed"*. Each project must be *"a perfect case for the brand positioning"*. Of course, it is always tempting and very possible to stretch the borders of the proposition by what was created as a luxury brand, but the specific stretch is a challenging exercise that always should be contained within the borders of the brand equity. In the world of luxury sometimes stretching produces surprising consequences.

> *"If we are considering successful extension into mass luxury (with the emphasis on still retaining a "luxury", rather than simply a premium status), I think it very much comes down to the nature of the brands in question in terms of making that work. Much of the essence of the Dolce & Gabbana brand (actually) centers around excess and promiscuity, so in many respects being present across multiple product markets ties in to that ethos and does not damage the brand values"*.

We might also conclude that the "mother of all inconsistencies" finds its nest in licensing", a game our "D&G" mastered for sure. Of course, an excessive amount of uncontrolled licenses can greatly damage a brand in the long term, as we will see in the forthcoming analysis of "Exclusivity".

If "Consistency" is key to defining luxury, then provenance is no less relevant. When it comes to luxury, the provenance of brands, materials and goods and the location of shops remain vital. From this perspective just a few countries in the world are classically considered the source of *believable* luxury propositions. As Pamela Danziger, world-famed author and US-based consultant, highlighted in her opening address at Eventica Global Luxury Forum of London, in April 2007, one can speak of true luxury only when it comes to a very limited selection of countries. Japan, US, the UK, Italy, Germany, France and Switzerland constitute one global circuit of creation, production and consumption of luxury in its strictest sense.

If emerging markets like India and China are key, location still remains crucial for true luxury. And origin is perhaps even more critical, at least at the time of this writing. When it comes to luxury, the notions of "origin" and "location" are not just physical, but may be considered emotional, cultural and "ideological". It became increasingly clear that many companies make the mistake of ignoring the *'typicity'* of a product, its authenticity. Indeed *ignoring the strength of regional heritage of the brand* or *destroying design sleekness in favor of muscular design that is regionally uncharacteristic* constitutes a truly capital mistake by companies selling their luxury propositions. Be it a clothing company, spa or a boutique, it is critical to demonstrate who you are, and to confirm your persuasive power in the luxury industry game. This 'who you are' leads to some interesting paradoxes. In China, according to two respondents, the best examples of Chinese-originated luxury might actually lie in the reality of selected locations:

> *"In China top brand ends are basically all from foreign countries. There is an attempt to get there by companies that are all in the first stage of this process and also understanding what that luxury means".*

Is this going to change? In his speech at the Shanghai FT Business of Luxury forum of 2005, Greg Furman, CEO of the Luxury Council of New York, predicted that China is expected to become the most important reference market for luxury makers of the world, with the potential to surpass the US on fundamental economic indicators. Sir Martin Sorrell, global leader of the advertising and media world, pointed out to the same audience that China has a history of centuries when taste and ultimate luxury were created and crafted. China led the world in terms of refinement and sophistication.

Be it China or the West, there is no doubt that location and origin will indeed continue to play a major role in contemporary luxury, both now and in the foreseeable future. In a world of flux, location and origin provide stable reference points against which to create an imprimatur of luxury.

4. Design & Experience

Design is hot. At this very moment design might be enjoying its well-deserved cultural transition from the domain of industrial processes to the status of fine art. Look at the newspapers, at local magazines (e.g., New York Magazine), and peer a bit into the art world. In one trendy art gallery after another 'design' is featured as 'in', as '*au courant*', as 'chic'. Thanks to events like Design Miami Basel, design has emerged fully developed as one of the 'new facets' of the luxury market.

But what is design for luxury? Karen Moersch and Simon Wilson, Directors and Founders of The Hasley Group in the UK, have very precise ideas to share:

> *Luxury designs serve two functions; they tell a story about the brand and another about the consumer. The design language should reflect the vision and value of the brand itself and ideally could only have come from that brand. It should be recognized instantly like Porsche Design or B&O.*
>
> *Again, it is fundamental to understand the values and attitudes of the target consumer to be able to create that 'language' properly. The trick here is to look for those people who will, in 5 to 10 years, be in a position to buy the brand. However, as Baby Boomers tend to buy luxury for self-indulgent reasons and Millennials for establishing their status, it pays to understand what brand story is being received rather than broadcast.*

Let's look at some specifics. Business chic recognizes the popularity and trendiness of design. From one of the covers of the magazine Fast Company, we see Ambra Medda, the 25-years old co-founder and director of the hottest event in the creative industry world, with a $10,400 Amanda Levete sofa. In the inside feature, by Linda Tischler we see Medda leaning over a USD $23,000 "Aqua Table" by Zaha Hadid for Established & Sons. Also prominently mentioned in Linda Tischler's article is the 1993 Vermelha red-rope chair by the Brazilian Campana Brothers or the Bouroullec Brothers' spring chair for Cappellini, retailing for a mere $3,648.

Now for some of more of the 'business' in design. In Italy, Matteo di Montezemolo, son of FIAT Chairman and Ferrari leader, Luca Cordero di Montezemolo, manages the recently formed Charme, a conglomerate of top luxury brands, including Poltrona Frau and Cappellini. Following the model of French luxury conglomerates, Charme is about business, focusing on exploiting synergies and cross-brand opportunities. Such business aggregation is new in the Italian design world, and here design becomes the ultimate *raison d'etre.* The business of design has also hit the Internet. New websites like www.20ltd.com offer limited editions and exclusive items not available anywhere else in the world, by designer masters like Zaha Hadid or Marcel Wanders. The art world also welcomes design. New York established galleries like Sonnabend showcase design classics, placed alongside paintings, installations and sculptures by leading artists. And an art museum like GAM of Turin dedicated a full retrospective to post-WWII architect and designer, Carlo Mollino, or French design selections at Sonnabend of New York.

Beyond its current high levels of popularity, the crucial nature of design within the success mix of luxury should be self evident. We are exploring a territory where refined aesthetics and beautiful look and feel have emerged as key drivers of success. The importance of design and aesthetics emerged again and again in the words of our experts, occasionally with some surprising observations. The reality is a bit different from what you might think, however. The truth of the matter is that in the last decades the luxury industry remained relatively static in its rituals and process. In contrast to luxury, design, has become voracious, hungry to change, to grow, to move with the times. Design incorporates disciplines like sociology and anthropology, to mature as integrator and facilitator well beyond aesthetics. Thus 'Design', with a capital D., the practice, has become more multi-disciplinary, more multi-cultural and more strategic. We will read more about this in our next chapters. It is now time to move from "Design" to what contemporary design aims to enable, superior experience.

Let's delve into experience starting from one of the quintessential experiential sectors, travel destinations. Destination tourism is another booming sector in the world of luxury where the special experience is key, the focus of advertising, and word-of-mouth. At the apex of the luxury industry, where money is neither of concern nor its lack a hindrance, experience is even more important. In the next years, we will see new formats and new ideas of exclusive holidays proliferating, from creative workshops in Black African countries to meditation trips in the Chilean desert. Witness just three of the dozens, and check such upper crust publications as the Harvard Magazine for more:

> *"Royal Safaris; they offer unique experiences that only customers like Steve Jobs and Bill Gates can afford. Highest-entry point but the best of experience driven luxury. High entry level and uniqueness/personalization".*
>
> *Vail Resorts - Allows consumers to experience skiing at several, tiered levels of luxury; flawless delivery of a great experience.*
>
> *"Nikki Beach, St. Tropez - Delivers a hedonistic club scene experience in a beach environment; the customers are a key element of the experience".*

This is the benchmark of contemporary luxury, between unattainable private safaris and the more affordable "royalty for a day" experience of top summer beaches. But enough of sunny beaches and delicious cocktails -- let's move further to dive into the on-line experience. Looking a bit more deeply we see that what works for real stores, real airlines, real tourism may hit some speed bumps in the on-line world. What is the status quo here for luxury brands?

When all is said and done, can the luxury experience be truly replicated on-line? This has been an argument used for quite some time by the fashionista's and purists of the luxury industry in order to dismiss anything digital. At the moment of writing, however, important on-line editorial initiatives, like www.style.it, Conde Nast's website are propelling the image of Vogue Italia in the digital world. Commercial successes like Bottega Veneta, Neiman Marcus or www.net-a-porter.com, appear now to prove at long last that the on-line world, although virtual, can generate a luxury 'experience'.

Federico Marchetti, the founder and CEO of Yoox, Italy's world class and globally successful internet e-retailer of fashion and style, suggests a 5-component recipe that he believes can bring one's effort into the future, and help (not guarantee!) to achieve the ultimate brand experience, on line:

1. *the brand is important also in the digital arena - people on the internet are real!;*

2. *you can interact with customers much better in the digital world than in the physical one -- get prepared for that, and treat them well;*
3. *technology, rich content, cutting edge features are not the only way to build a brand on the internet -- creativity and your culture are much more important;*
4. *don't listen to internet gurus but use your instinct -- each brand has a different story and "gurus" tend to apply the same success story to all;*
5. *be serious and committed to do something amazing -- don't be afraid to invest money in the digital world.*

In the end the luxury experience truly will exist on-line when the advertiser "breaks out of the browser" by migrating the proposition to the desktop, to the handheld, and to the virtual worlds.

5. Exclusivity, Intangible value & Quality

When it comes to contemporary luxury exclusivity is still a fundamental requirement. Accessibility is still limited, and the exclusivity can be 'engineered' to keep some of this characteristic of luxury. *"Jimmy Choo Couture line is available, by appointment only. It takes an already luxury related brand to new heights of luxury and exclusivity"*.

From the vantage point of exclusivity, we might guess that small-scale businesses providing personal attention and uniquely customized products best fit the "luxury paradigm". This exclusivity goes in the other direction as well. *Customers, in turn, feel proud to be selected for a special treat by the brand of their choice acting as a craftsman*.

Understatement and custom or bespoke services answer the growing need for exclusivity by members of the imaginary land of "Richistan", as based on Richard Frank's book title on the life of the ultra-rich. Thus bespoke services become, for the likes of Bottega Veneta (part of the Gucci Group), or for Giorgio Armani a way to address the new "custom-made" demand from a market that continually re-segments itself, and in turn continually moves towards higher expenditures. *"Bottega Veneta mastered the art of the anti-logo and everyone just wants custom – bespoke trunk shows are the best answer to that desire"*.

The domain of exclusivity is not without its contradictions, as luxury manufacturers try a balancing act, to exist in a market that has two distinct faces, two sets of demands, and finickiness to boot. Luxury brand names that have acquired huge popularity, from Louis Vuitton to Bottega Veneta to "King" Giorgio, exist in a sort of split personality in the marketplace. One personality, one face to the public is the tailor-made, uniquely crafted products for an exclusive clientele. The second personality, the mass market face, comprises licenses in the cash-cow compartments of sunglasses, perfumes and other products that can share in some of the reflected glory of the mother brand. Licensing is the way to earn huge margins, and thus despite the desire for consistency, licensing is extraordinarily attractive as a business proposition. And what, in turn, is the happy or more frequently unhappy result of this occasionally herculean efforts to balance two worlds, serve two masters, and keep growing? For luxury brands licensing becomes 'the mother of all brand dilutions'.

Who better to identify as example of this potentially dangerous phenomenon than Pierre Cardin, the man universally credited for inventing the licensing business model back in the 1960's? Cardin was universally pointed to by our experts as an example of a 'worst practice' of both luxury and High End. The failing grade came from the massive licensing with no apparent strategy or control on the impact thereof on the brand. It must be however said that, as intelligently recorded by Mark Tungate in his 2006 book, "Fashion Brands", the income from licenses for Pierre Cardin is Euro 36 millions a year, and at the age of 82 Cardin set an asking price of Euro 400 millions for potential purchasers of his brand. These numbers that might cast a different shadow on this diluted hugely diluted brand.

Exclusivity is only one of the enablers of what remains intangible about luxury. Charisma, allure, ultimately the inexplicable appeal are also important. Intangible dimensions of luxury beyond status call into play the dimension of experience, of sensual ecstasy, e.g., *beauty, pure pleasure.* But we are still in a relatively traditional context. The classic definition of the "idea" of luxury from the important work of thinkers such as Christopher Berry of the University of Glasgow continue to point to the domains of luxury, namely sustenance, shelter, clothing and leisure, being elevated by means of luxury from function to *finesse.*

The notion of luxury, however, might be wider than that. Following today's world of experience rather than merely of 'stuff' we ought to now move to contemporary luxury in mature and emerging markets. The new luxury involves more subtle, less tangible dimensions and spheres of life. Contemporary luxury, and even more so the luxury of the future, is shifting away from material dimensions to new, experiential, far less material dimensions

> *"A luxury brand should act about the way you experience life: It can make life softer and subtle to you - like a hotel that serves high tea by the Victoria Falls in Zambia (making you feel removed from where you are). It can make you feel life in a more intense way - like giving you access to a tribe that is nearly extinguished".*

A luxury brand might switch from providing just the goods and experiences to *enhancing the process of self-actualization self-expression. Because luxury is cultural, that means it will change and adapt itself from time to time, from place to place, in order to remain what it is. Simply put, the best in life.* In their journey through the decades, and sometimes through the centuries, luxury brands always have represented a material connection to what people would aspire in life, well beyond immediate needs and desires. To reinforce this direction, we might offer a renewed definition of what luxury ultimately is in its most intangible and purest notion, nowadays and for the next future: *"A luxury proposition deals with the notion of time of the consumer".*

However intangible the perceived value, when it comes to luxury goods, quality is a hygiene factor. Let's begin here with a surprising example. Associating Miele, a very robust and valuable German brand of white goods, with the luxury industry seems somewhat counterintuitive. Then again, however, what might appear as a provocation should also resonate as a statement of deep trust in the power of quality as a key parameter that divides luxury from mass market.

> *"Miele manage to stay number one in quality appliances no matter what the competition does, and communicate on the excellence of the brand to make every household dream about it"*.

If truth to be told, this foregoing quote is also a perfect demonstration of how luxury is cultural. In the specific context of Hong Kong and more generally in Asia, Miele is quite simply perceived at a higher level of prestige and excellence than the same Miele perceived in Europe. We will be confronted with such differences in perception more often.

There's no end to disputes about what makes quality, and how it fits into luxury. So, let's look at what might be some identifiers of "quality" when it comes to luxury products and propositions. Here is a possible short list of seven considerations that give the notable landmarks in the space where quality and luxury intersect:

1. *careful execution and production*
2. *being able to replicate the same quality level*
3. *made of top class quality materials*
4. *obsessive attention to details*
5. *each component is valuable*
6. *imitable but not replaceable*
7. *gold- standard for premium sector in industry.*

If we were to sum up right here, quality simply remains a necessity for luxury makers, but the definition of quality is often in the eye of the buyer.

6. Innovation, Management & Organization

We asked our experts: 'What does innovation mean to you in the domain of luxury?' Here are five of the phrases that came out from this simple question. There were more, but these five seem to encapsulate most of the different answers we got:

1. *-transformation*
2. *-shows what tomorrow will bring*
3. *-the first to offer the spa destination experience*
4. *-created in the 1930's, it has constantly improved the brand*
5. *-proposing for each season a new lifestyle based on brand positioning.*

So, what do we learn from these words? Perhaps that in order for a luxury brand to maintain its equity and prestige it cannot 'remain the same, and at the same it cannot be too different either! A tall order indeed. Yet, after all, being yourself need not require a static and passive attitude towards the future, but rather the ability to embrace change and to change in order to evolve into the true "you" as you grow mature. Certainly, adopting new technologies is a must. Yet the technologies have to fit, and be a contributing rather than a disturbing part of the larger mix of artifacts and services.

When pushed to go further, to think about a future where invention and innovation are constants of everyday life, the experts clearly saw the connection with luxury. The notion of constantly re-inventing, re-thinking, re-defining one's categories and even one's industry started to come out as a crucial success factor for today's world of luxury. So powerful was the idea that it even seemed reasonable in the relatively conservative world of auction houses. Here, innovation meets thought leadership and authority:

> *"PHILIPS DE PURY – reinventing the auction house for a new audience of private collectors and buyers, opening contemporary warehouse-like spaces, opening new markets such as design, producing beautifully designed and photographed catalogues, innovative use of sales and an attempt to change the whole mechanics of the art and design market".*

Innovation and auction houses -- not the most natural association you might think of. Yet, this is just another interesting finding of our expert conversations. Innovation and Luxury - often "**the**" challenge for business management in this field. Let's find out about more managerial and organizational issues in luxury.

As we anticipated when dissecting "exclusivity", one primary responsibility for luxury enterprise leaders and business management, is to find the best balance point between opposing, equally valid forces. On the one side we find the commercial exploitation of the brand in terms of diffusion-lines, extension-lines and licensing. On the other side we find the preservation of the brand in its pureness by means of selective and limited access. It's often a black and white question of profit versus position, where neither answer truly satisfies. Here, managerial decisions are always crucial, and lead to sometimes extremely surprising impressions, as recorded in our survey, even or perhaps especially when one's product lies in that happy realm, the "*sancta sanctorum*" of contemporary luxury:

> *"Ferrari – it's a stretch but since they have started increasing their launches and numbers per model to 15,000+, it has lost its exclusivity feel and become mass within the top end and can be nearly (!) compared to Porsche today".*

Creating or perhaps better engineering the right mix between success and over-exposure may well be a key challenge facing the management of luxury companies, but certainly not the only one. Our experts proffered a list of opinions about what goes wrong when management makes the wrong decision. This list is naturally quite extensive, and a bit frightening. Here are five choice tidbits:

1. *frictions between management and investors / owners*
2. *losing control of licensing*
3. *general business strategies being inflexible*
4. *attracting bad clientele by flooding the market*
5. *product matrix disorientation.*

7. Marketing communication, Distribution & Service/relationship

The centrality of marketing in contemporary luxury industries is probably one of the most repellent factors for what some might call the *"ancien regime"*, namely those espousing the more traditional view of what true luxury is, and should always be. This tradition sees luxury as an artistic form of craftsmanship wherein one-to-one contact with the maker and true exclusivity are the hallmarks of those who lead the world of luxury.

Better than any rule of thumb or abstract explanation, let's see a concrete example of how the temptation by marketers to think marketing and distribution in a world where exclusivity reigns can wreak havoc on business. Witness the temptations and what they did in private banking. This is indeed a potential classic case of luxury "boutique" service provider being acquired by a more mass market driven company, with the brand equity diluted for anticipated gains in efficiency and effectiveness:

> *"Banque Lambart in Switzerland has no offices. They are disguised offices behind antique stores, so the clients can enter unseen. Other formerly exclusive banks want to change the name of their private banking labels, as MeesPierson (Fortis) and Schretlen & Co (Rabobank). They also want their chic labels to move out of the expensive offices and move in with them in their regular offices. It's happening with MeesPierson nowadays, renamed as Fortis MeesPierson Private banking. Stupid, the audience of these banks wants to be special, with a special name and in own buildings, not with the "proletariat" together".*

Perhaps one can say that the real benchmark of luxury marketing is an anti-marketing approach, as exemplified in the next observation. This quote paints a picture of luxury as artistic leadership that captivates the imagination, but also paints the importance of niche companies to luxury in the age of world-class luxury conglomerates:

> *"L'Artisan Parfumeur. Become a profitable business when being small, independent by pushing the selective retail distribution worldwide. Continue presenting exclusive and unique products with no compromise from Marketing, because they (i.e., Marketing) don't have a marketing approach. <u>Focus all on the creative process and then on the quality of the sales representatives".</u>* (underline ours)

Never as before in luxury marketing can today's success become perhaps tomorrow's weakness.

Moving on to service and relationship, these should be everything in the domain of luxury, in line with the just presented case history of Banque Lambart, After all, we are talking about a domain where, once upon a time, things were done privately and by appointment only. It should come as no surprise that some of the most outstanding examples of service come from Japan, a country that always put high value on this dimension of commercial transactions and relationships. Let's look at the Japanese culture of service made into the art of seduction:

> *"Lexus cars: The red carpet treatment in servicing customers, which lured away customers from BMW and Mercedes Benz, despite the fact that those cars were better looking and established brands. Lexus: Service, less snobby people, and the service is*

really outstanding".

Relationship and service come into play in a number of internet-based or newly created concepts of support for busy people. In the case of internet-based luxury purchases, what makes the difference is again *great overseas service with shipping / mail and telephone assistance*.

Providing an individual, impeccable, actually amazing quality and level of service will increasingly become a distinguishing discriminator to sustain any credibility in the luxury industry. One of the authors recalls with bemusement the surreal experience of a shopping assistant literally *running away from him* in the Shanghai flagship boutique of one of European leading luxury brands, after the simple request to learn the price of an item before buying it. Perhaps it was her poor command of the English language, perhaps it was pure insecurity in *not knowing* the right answer. Yet surely it was an experience that left a small but permanent (negative) mark in the image of the brand. And after all, luxury is indeed about the small details.

8. Price & Residual value

Let's start our short exploration of opinions about the "price factor" in luxury by getting to the heart of the matter. Luxury consumers demand the impossible, and rightly so: *"A luxury brand would provide what most people think money can not buy"*.

To hard core, *uber-luxury* buyers, price is not the issue. It is all about a superior product, a superior experience. When it comes to luxury, price becomes very much of an issue in terms of preserving the exclusivity of the brand, which remains a key asset: *"Tiffany had problems because this brand has put itself in the danger of brand dilution through a concentration on lower priced 'entry-level' entry level"*

There is no harder challenge for the management and the marketing teams of luxury companies than figuring out how to maximize profits while maintaining margins and preserving the brand through the right pricing strategies. It is a tough game indeed, but everybody has to play it. However, the reality is that many luxury companies have managed to achieve the right 'alchemy' of the optimal price point.

One crucial factor dividing what is luxury and what is not comes from a micro-economic criterion, not often spoken about, namely "residual value". In essence, true luxury goods do not lose, but do gain value in time. A simple example of "residual value" as a measure comes when the customer buys a brand new luxury car, drives out of the dealer, picks up a calculator and precisely assesses what the value of the car is one minute after this just-completed the transaction. In the words of one expert: *"Luxury objects maintain or increase their status of uniqueness, and therefore it either maintains or increases its financial value"*.

Let's see a striking example from the design auctions world: Cristina Grajales is a self-made NYC entrepreneur working across various domains of design. In a 2006 interview with "Art + Auction" Grajales defined herself as "decorative arts consultant, dealer, design curator". All well and good, but the reality is quite different. Grajale's fame is due not to so much to something she did, however valuable her influence in the design world as, as much as for something she bought. In June 2005 Grajales purchased a 1949 table by Italian eclectic architect

Carlo Mollino at Christie's for $3.8 million. This was the highest amount at which a design piece was ever auctioned, and a noteworthy demonstration in the real world of how art and design itself are converging in commercial terms.

The value of the custom furniture pieces designed by the gifted hand of Carlo Mollino continues to increase as Mollino's fame and appreciation increase in the art world. The tale of Mollino's talent is told in the book that Fulvio Ferrari and Napoleone Ferrari curated and authored about him. There, for example, for everyone to see is the invoice by the "Apelli F. – Varesio L." dated 20th of January, 1954, to a Mr. Colonna. The latter, a lucky Turin-based gentleman had ordered one table, six chairs, one hanger and one functional part for the kitchen at the "luxury price", at least for the time, of 400,000 Italian Lira, the equivalent of more than 10 times an average monthly salary. This amount of money for a hand crafted design! Although the order was not written up as part of the provenance in the 2005 Christie's catalog, which presented the table, one can expect that Mr. Colonna made a good investment indeed.

We read some concerned opinions about Ferrari and its strategies in an earlier section of this chapter. Of course, opinions vary, and this is just another opinion, more in line with the general perception of Ferrari: *FERRARI: consistency, dream-like dimension of a dematerialized product that defines status.* In the context of this section on residual value, what can we say about the performance of Ferrari when it comes to the residual value of its core product, its cars? Richard Lee, whom we will find ahead in this book as one of our generous contributing opinion makers and founder of the Ferrari Maserati distribution company in China, is the entrepreneur who imported the first Ferrari ever in the People's Republic of China in the early 1990's and currently represents Ferrari – Maserati for Hong Kong, Macau and Dalian. Lee informally explained how "residual value" is a major selling point for his customers. In a matter of a few years, and if they grow *"bored"* with their Enzo or their 'Challenge Stradale', the buyer can always resell with enough profit to cover the inflation difference, or perhaps even make a profit.

We believe residual value to be a much more crucial parameter for the domain of luxury. We will also see how residual may be relevant for the High End as well, albeit with some effortful stretching. We propose to consider residual value to be one of the discriminating factors in the evaluation of what is luxury, and not just something merely expensive.

9. Sustainability (environmental, social, personal)

Sustainability may seem to be out of place in a book on luxury and the High End, and perhaps it might have been some twenty or thirty years ago. Times change, however, and now the focus of luxury includes 'good citizenship'. Let's go into sustainability to see how it intersects luxury. We begin with three trends gathering steam

> Environmental sustainability, or the creation and deployment of policies, processes and strategies in order to recycle and reduce the impact on the planet
>
> Social sustainability, or re-thinking /re design of specific plans in order to improve the performance of the company's brands and operations, by acting as a "social citizen" in every geographical area where the brand is involved

> Personal sustainability or the creation and commercialization of user-friendly, accessible products and services, in order to improve the life of those individuals who use them.

Socio-cultural research continues to demonstrate, that sustainability is an area where societies and cultures will increasingly place new demands on companies to take action that will improve the world. We think that the three foregoing dimensions will be key, and each dimension will grow as people become increasingly better off, and more conscious of world-needs, not just their own.

The question then is: How are the luxury companies, brands and managers to tackle this challenge of a never-before-seen nature? Tools and support appear to be in short supply. An initiative in the making at the time of writing this book is the WWF Luxury Initiative, publicly launched in November 2007. Led by Jem Bendell of LifeWorth, the WWF Luxury Initiative firstly offered an important report that is rapidly becoming an industry standard. Activities that make LifeWorth's key findings actionable were organized in the form of workshops and public exposure to the ideas and conclusion.. The focus was on the key issues, challenges to the luxury industry when it comes to sustainability, and how these issues and even sustainability itself can be turned into competitive opportunities, rather than remain problems.

The on-line community experience is helping as well to power the impact of sustainability. Bendell organized and launched a lively online community, http://authenticluxury.ning.com/, with the focus of aggregating consensus and creating critical mass among designers, marketers and other industry doers, makers and thinkers. Just a small step, maybe the first one towards a new definition of what luxury is, of what luxury brands can and will do for people and planet, and most happily, an opportunity for improved corporate performance bolstered by new sources of profits.

10. Tradition

The luxury industry has always been oriented towards preserving traditions. Just look at Italy, for example. We hear the stories of how luxury combined with the family business translated into success stories. Examples include the Ferragamo and Versace dynasties, where business management and creative direction stayed within the family.

How does tradition really work in the context of luxury? The transition from family company, governed with the traditional mechanisms towards becoming a brand in a luxury conglomerate was highlighted in the aforementioned 2007 FT Business of Luxury with a panel under the title *"Value creation or value destruction: the new realities of family ownership"*, moderated by Emilio Vedovotto, currently Managing Director and Chairman of European Luxury Goods at Lehman Brothers, formerly at the helm of Luxottica. Here, Gianni Castiglioni articulated presented his experience with his own family business, Marni, where he performs the role of management leader and his wife Consuelo acts as creative director. Marni, which recently launched its cutting edge on-line flagship store, designed and powered by Yoox Services, seems a great example of a family company managed in traditional style, with a strong eye to the future.

Big business can also nurture tradition. The world of big corporations, properly primed and with the right people, can nourish the luxury business developed by a small company that it has acquired. As counterpart to Marni, also with a positive outcome, the case of a family company absorbed by a major conglomerate was presented by Laudomia Pucci, Image Director and Deputy Chairman at Pucci of Florence, now part of LVMH. Pucci clearly articulated the advantages and opportunities of moving on from being a relatively small, however independent, entrepreneurial reality, versus the synergies enjoyed at the court of Arnault.

We can debate for many more pages pros and cons of family ownership. Cases in business schools have been built on the issues of how to integrate family values over generations. The relevance is even greater in the case of those companies that play in the luxury market. What appears most clearly however, is that heritage and tradition will play a great part in the field of luxury.

Conclusions

As we part from our explorations of luxury, we anticipate that the 10 constituencies will return in our upcoming analysis of the contemporary High End. An attentive comparison between the laws and rituals that regulate the world of luxury and High End practices should unveil triggering opportunities to re-think the notion of High End in the light of contemporary luxury and perhaps the other way around too! Also, we anticipate that some of our 10 constituencies will prove greatly inspiring to envision the future of High End. These constituencies include storytelling, residual value, sustainability and design. Indeed, in some areas and touch points, the High End may leap frog the world of luxury. Let’s discover how, in the chapter ahead.

Chapter 3

Luxury for the masses: today's High End propositions, and why they do work - or don't

Introduction

We now turn to the world of the High End. In chapter 2 we discovered 10 constituencies through which we could understand today's luxury. Now let's move on to the High End, or what we might call 'luxury feeling for the masses'. We will use this same structure. We're not going to engage in the ever-boring compare and contrast, but just use the same 10 constituencies as a way to handle this enormous behemoth called the High End. This High End is best thought of as that high middle plateau to where luxury qualities might trickle down. Trickling does a lot of good, however. By their very nature, High End propositions play in a competitive cauldron. They are dynamic, open to change, can be the subject of innovation, and when all is said in done they might actually leapfrog the domain of luxury. The question is how will that occur, or more important, how can you take advantage of knowing the rules by which the High End works.

Let's now move now to the High End, looking for the same type of general rules, trends, and to round it all out, lively protagonists, triggering delicious stories of what's going on in this world of luxury for the masses, and why.

1. Authenticity, Authority & Leadership

Thus far at the time of this writing (2008) we don't see counterfeiting plaguing the High End as it plagues luxury. However it is only a matter of time and economics before large-scale counterfeiting begins in earnest. The first signs already have been seen in the course of the last couple of years, with automotive brands like Smart and BMW, having their aesthetics bluntly copied by Chinese upcoming makers. The same goes for overexposure of the proposition, and at least one example of negative assessment can be found in the response to at least one brand, Kate Spade. "*Kate Spade started out in a very boutique, organic manner. Customers who bought their products felt like they were in on a best kept secret. And once that secret got out they had to put out too much to meet the demand. Then they got overexposed very fast. Kate Spade quickly got knocked off and their bags seemed to lose appeal"*.

What the bottom line here? It's that authenticity in the High End, like authenticity in luxury will become increasingly important as people seek a connection of a not-necessarily-well-articulated heritage with what they buy. Authenticity provides that link. People will want to connect deeply with what they buy. Authenticity gives them that extra reinforcement, that additional bit of a true soul. For that alone it's worth the money.

When it comes to authority and leadership, the ambition for High End brands is always to climb to the highest reachable point in the ladder of premium. We concluded, from our research, that authority and leadership at brand level play a key role. Sometimes, however, the upward migration can backfire. For example, migration did not work with Diesel, one of the best High End fashion propositions around:

"Diesel -- their attempt at luxury street couture with Diesel Style Lab. Difficult to stretch into couture even when you are a successful, super premium and very creative streetwear brand (importance of creative designer figure-head etc.)"

Ok, so the "mass-to-luxe migration" doesn't always work. Yet, if a company is determined to acquire authority and leadership, then how might it do so? Is the task impossible, something left to chance? A number of companies solved the problem by partnership, by co-branding. Partnership may be the easiest way, and indeed often the first thing to come to mind. Of course when you look more closely at this partnership you might want to keep in mind that a lot of the success and authority may actually come indirectly from the endorsement by a celebrity. Increasingly often, such celebrity is a design-related name. We will further elaborate on the role of design and designers in the next paragraphs of this chapter, starting from the immediate next one.

2. Celebrity system, Social networks & Storytelling

Using celebrities as partners to create limited collections or franchised product lines is one way to 'create' perceived authority in the market. One expert clearly noted the power:

"Celeb-Infused Branding - high street fashion brands have borrowed the prestige of co-designing with iconic celebrities to transform their mass market brand image into highly desirable masstige (.mass prestige) branding opportunities, by offering exclusive limited edition "designer" items at affordable prices for those who covet these things".

What seems important here is the tactic of going beyond the simple relationship between a brand and testimonial, and actually 'entering' the fashion system. Once in, the next step is to adopt the "celebrity technique" as a brand that 'gets it'.

From celebrities with focus on the 'one', the 'center of attention', the 'idol', we move to the community, the many, the bigger center, and the ordinary. There is no magic formula to create communities. Each region, each country is different, requiring deep care to recognize the differences and the underlying social mechanisms that may be in play.

Understanding cultural differences of the ordinary High End consumer is important. For example, let's consider this notion of 'belonging' for the Chinese audience, rather than western audiences. Instead of celebrities, the Chinese have the "party program" element, which does a lot better than simply reducing the price, which action would actually turn out to dissatisfy the 'full-price' customers. For example, Shanghai Center of Portman-Ritz makes the upscale hotel experiences approachable to middle-class by some sort of party programs, while without negatively affecting its "exclusivity" customers.

The bottom line to all this is simple. The creation of social connections looks like a winning strategy for the High End, certainly in the near future, and perhaps even in the far future. Here, approaches like the Net Promoter Score are useful to gear up brand management to a changing world where customers not only demand to be "kings and queens" for one day, but act as opinion leaders in their own social circles too. And once again, as seen in our earlier chapter with luxury, and now in the case of the High End, stories are one of the key triggers and enablers of community bonding and social networking.

We will meet H. Stern, the Brazilian brand of beautiful and sometimes rare stones, in our next paragraph about excellence in service and relationship management. Here, we meet its founder, and his story. The Stern story is worth telling in detail, for its lessons and its inspiration. Hans Stern, a Jewish refugee from Hitler's Germany in the late 1930's turned to passionate Brazilian entrepreneur lived this story. It starts with Stern's escape in poverty with his parents after Hitler's 1938 Kristallnacht, and the way he founded and still steers a company that from its original seedbed in Rio de Janeiro. His company, H. Stern, has grown to become a major global player in the gem industry. Stern's stores enjoy a strong presence in Israel, including a boutique at Ben Gurion Airport, and remarkably, enjoy a great reach and success in Arab countries although as a joint venture under a different name. This is a fascinating and major asset to the mystique H. Stern. In the High End, like in luxury, a certain narrative aura stimulates more than just a simple positive response in the audience.

Like with most non-material things, you realize the importance of storytelling when it is not there, and the impact is a fatal absence of brand mystique. The lack of a narrative soul in the core of a brand is a possibly fatal defect, often beyond the ability of any compensating factor to remedy easily. The narrative soul works around the world, not only for Western brands but also for Chinese brands in China, when they aspire to operate above the anonymous sea of commodities:

> *"China: Ports International / Emperor Watches -- brands without a soul neither direction. They want to appear on the most "prestigious" locations without a real know-how to get to the addresses customers".*

Rather than more examples from the business context, let's move to another story from the world of media. It's a story of aspiration and drama, of beauty and the coming of age of what was supposed to become a new star. On the 6th of December, 2006, Tyra Banks and the judging panel of America's Next Top Model had to decide who would be the winner of the 7th cycle of the contest. America's Next Top Model had grown into one of the most popular and successful reality shows in the recent history of TV. The two candidates were CariDee English, from Fargo, North Dakota, and Melrose Bickerstaff, a fashion expert. Melrose was well prepared, determined and driven. CariDee could afford to put herself up to the challenge only because the year before she found the medication that healed her skin, which had suffered from a very bad case of psoriasis. Both candidates, each with a strong personality, performed in the last show, set in Antonio Gaudi's Park Guell, one of the most elegant spots in Barcelona. At some point, CariDee made the slight mistake of walking on Melrose's wedding gown, an extremely expensive piece designed for the occasion by Victorio & Luchino. Then, back to the studio, the where the final decision was made: CariDee would be America's Next Top Model 2006, winning a $100,000 modeling contract, and moving on to sign as a spokesperson for the National Psoriasis Foundation, a non-profit aimed to raise awareness and offer support to the victims of this disease. Melrose had drive, passion and determination, CariDee had all of that, a few mistakes made along the way of the various episodes to perhaps make her look more "human", plus a Cinderella-reborn story that might well have made the difference to some people. And the winner – not surprisingly, CariDee. This is a perfect example of the power of the tale. It inspires, leaving room for the myth to emerge and sweep the proposition into the High End.

3. Consistency, Location & Origin

It is always crucial to live up to what people may think or fantasize. To drop consistency in favor of the latest fads is to simply invite disaster. This is what common sense suggests. Let's see how consistency works in today's High End. Let's stay small to maintain a clear focus.

One very typical scenario features a High End brand created within a small company, perhaps in the context of a "cute boutique". With success comes the inevitable buy-out, the time to cash in the chips. Success for the brand means being absorbed by a major corporation where the brand may flourish, or perhaps languish, may change and adapt, or worse, reach an ignoble end by just fading out.

> *"Juicy Couture did one thing and one thing well - flattering velour sweat-suits for women – but after it got bought out by Liz Claiborne, had to expand too fast into other product categories (denim, menswear, etc.) where they weren't a leader… They tried to move more to the High End from its sweatpants heritage, but that is still the best part of the brand and the most successful … trying to be everything doesn't always work in fashion. Concentration on the core asset is better".*

Juicy Couture was born out of the ideas and West Coast visions of Gela Nash and Pamela Skaist-Levy, and it used to be "made in the glamorous U.S.A.". Now with a larger portfolio of licenses, the Juicy Couture world is just "born in the glamorous U.S.A.", and demonstrably produced in the outsourced countries of the Far East. The founders, who are still the brains behind the brand, earned $53 MM dollars from the transaction, but in the opinion of the above respondent their brand lost the focus that if had so strongly possessed, running the risk of becoming just another "Liz brand". Here is a perfect case where consistency will make or break the brand value in its high end perception. The question then arises, what is the value of "origin" and "location" in the High End?

We saw how crucial the "origin" and "location" dimensions are to luxury propositions, even to the point where they become an intrinsic part of the luxury brand narrative. The world of High End differs greatly from the world of luxury. Simply put, most High End products are manufactured in countries where labor is cheap, and so as a matter of course manufacturers outsource the production to those countries. For instance the brand new FIAT 500, a proposition that leverages design, style and the nostalgia of Italians for the "Dolce Vita" 1960's is actually manufactured in Poland, not in Italy. It's cheaper, and *homo economicus* (economic man, i.e., profits) reigns supreme here. Of course the list goes on.

Yet outsourcing manufacturing may actually work in favor of the High End, at least in some cases. Let's see how the manufacturing country actually adds to the 'exotic' nature of the product, at least in the happy case of Lacoste:

> *"Lacoste - recaptured distribution, marketing and production to rebuild and recreate the brand. While they still produce in cheap countries, they chose Peru, which is somehow*

*more exotic than other locations, making the same basic items feel more special, helping to preserve and raise price poin*ts".

China and indeed Asia in general, present interesting possibilities for the High End. As the French couturier Olivier Lapidus acutely observes, Apple products, one of the highest end propositions in terms of design, styling and quality, are made entirely in China or the Far East. If Apple represents one of the clearer pictures of the future of luxury and High End as seems to be the case, then the future region of production for High End and luxury is indeed China, and the countries surrounding it. Lapidus deeply believes in this "democratization of luxury".

If Lapidus' opinion really foreshadows future developments of markets and societies, then "Made in China" will become a positive indicator of quality, as already acknowledged by Armani with his China made-labeled selected items of the Armani Collezioni line. Of course, Made in China will only take off when public opinion is satisfied about the ecological fall-out from Chinese manufacturing policies, which do not sufficiently control toxic byproducts. Yet given the proper economic motivation the problem of environmental issues can be turned from a negative to a newsworthy positive over time. If, as we believe, sustainability will become a key driver for luxury and high end, this will be surely the case.

4. Design & Experience

As Ambra Medda announced on the cover of Fast Company "Designers are the new rock stars". And indeed: Design rocks! However, let's throw a little cold water on this love-fest with design. The vulgarization of design into mindless or perhaps soulless 'styling' is a consistent temptation, not particularly remote from the world of today. Furthermore, adopting design as an element of the company strategy should not be taken as a magic formula thatworks regardless of any other factors that may be operating at the same time.

Design today is everywhere, translated into a proliferation of "*designy*", posh, just expensive-for-nothing. Likewise, we mentioned the collaborations of celebrities with mass brands. The announced, highly touted collaboration with "celebrity designers" is a deliberate, focused approach. The additional value is presumed to be delivered to those customers who can enjoy the design of a household name in the luxury world, of course at the price of a high-street bargain.

All the above being said, is there a better seedbed for High End innovation than the creative thinking of design centers and agencies? Of course, design can play a role in the context of big corporations with economies of scale and important synergies. But what will happen when we move out of these richer, macro-organizations, these big-box companies, to the niche companies which quite often incubate the High End? The song remains the same:

"Olive and Method are not at all connected, but I see them as example of elegant small companies that do hi-end products in three surprising categories. Olive does hi-end digital media centers for the home, combining the hi-tech of digital audio with no-compromising sound quality. They're not associated with the "macho" branding of the typical hi-end extreme audio systems, but they have a very calm, sophisticated and

contemporary design. Of all the start-ups around digital music, they are the one with more potential to create a new original brand identity for "digital hi-end".

Method works in a completely different domain. They were able to make hi-end branding innovation in...detergents! A cool new identity, a friendly communication language, a good use of design, to command a higher margin with a commodity.

Thanks to companies like Method and Olive, the future is fresh. And, thanks to design, when design succeeds, the High End can exist as a truly iconic proposition in the world of products and services, or better, of superior experiences. Because, yes!, experience is ultimately the effect of design, of "great design".

The High End should simply offer upscale experience to those purchasers in the middle class who can afford the "*premium it*". This truism is so obvious, almost a given, and is ever-increasingly reiterated in reports, articles, books, TV programs, blogs, *ad infinitum,* almost *ad nauseum.* Experience is everywhere. The notion of "High End experience" however applies most frequently and delectably to the retail world, especially when this experience can lift the experience beyond the plain function of supplying and acquiring commodities:

"Where would we rather shop for food? A supermarket or a farmer's market? The fact that Whole Foods has merged the two experiences and risen 1522% in value is a clear cultural indication of the 'value' of the farmer's market' experience. Farmer's markets provide an authentic experience as opposed to the industrial, packaged experience of a supermarket. Although the prices are at a premium at Whole Foods, price resistance is low due to the added value the brand culture extends to its customers".

Then, there is the technological aspect of experience. Technology opens up a Pandora's box to many people, even if they cannot express their deep fears of becoming less human in the face of technology that they cannot understand, much less master. One person put this lurking fear quite nicely, emphasizing the positive aspect of the experience:

"Consumers want products that function and fit in seamlessly with their everyday lives. There should be no interface between the user and the technology. It should all be in sync and the technology should intuitively understand the user and what the user wants. The user expects to be able to pick it up and for it to just work. The technology will parallel with natural human movement both gross motor functions such as picking up an object and moving it, to fine motor skills such as writing".

Let's return to our question, and ask it directly. In essence, is "experience" a crucial enabler for High End? The answer is, YES, of course.

5. Exclusivity, Intangible value & Quality

There is the real dilemma for luxury related brands aiming to extend their base of commercial success and therefore implicitly giving up some of their exclusivity for more sales. In simple terms, the issue is trading down from luxury to the High End. The dilemma becomes more complex and the risk increases when we observe industry sectors that by their own nature represent "affordable luxury".

A good example here comes from champagne. The champagne market surely resonates with the grandeur of products like Dom Perignon exclusive and limited editions, from vintage to “oenotheque”. It is however the reality and destiny of the champagne market to be "affordable" in terms of the actual price. Although not being "for the masses", a standard bottle of a top champagne brand sold through retail is certainly within the reach of the "mass affluent". What then are the risks to a High End brand in terms of possible loss of exclusivity? We hear one sad story, recounted by Lucian James, formerly TV producer and currently founder of Agenda Inc., one of the most dynamic agencies in cultural research. He told this story to a rapt audience, by long-distance video connection at the ESOMAR Luxury Forum in April 2007. The case history is about Cristal champagne. Now follows a true a classic in terms of exclusivity versus cultural reach.

Cristal, a truly High End, champagne brand from France, became one of the household brands of the US hip hop scene, being referenced in song lyrics and portrayed in rather graphic fashion in lifestyle music clips. There is no need to speak about Cristal’s financial success -- the prevalence of this brand in the hip hop world was close to a monopoly. However, in perhaps one of the most unlucky press interviews of the last years, Frederic Rouzaud, managing director of Cristal producer Louis Roederer, stated that perhaps Dom Perignon or Krug could have played such role, and that the association “Cristal – hip hop and hip rappers” might have not been the best for the brand. Such statement, perhaps miscalculating, perhaps naive, resulted in the angry accusation of plain racism by prominent hip hop mogul and CEO of legendary Def Jam recording label, Jay-Z.. The comments also eventuated in the immediate ban of Cristal not only from the hip hop community rituals but also from Jay-Z’s nightlife clubs, including the 40/40, where its price at the table was $450-$600 a bottle!

And the moral of the story? The meaning of “exclusivity” in contemporary luxury and High End is not static. Louis Roederer had to learn the hard way that “exclusivity” must be managed in line with cultural prescriptions of contemporary values. A lack of understanding of such values can be fatal. Or at least costly. Such need of cultural understanding and adaptation, means that the value of High End should be managed by cultivating, nurturing and preserving its intangible aura.

For luxury a key need is for the luxury proposition to build up the perception of a person’s status.. This intangible value of status seems to be the case for High End propositions as well. Is there any difference in the nature of the intangible value held by the High End versus that held by the luxury brand? Or are they the same? One expert implicitly addressed this issue by shifting the focus of our analysis comparing two very specific triggers of High End and luxury, respectively: *“Premium is all about taking a basic service and improving it - which is not* *the same as luxury, which is innately about beauty".*

Taking a basic service and improving seems simple and easy to understand. The reality is, however, that mere improvement of a basic service would restrict High End to world of the 'plain vanilla' upgrade, perhaps providing a bit more functionality, but little else. Such definition restricts the High End too much. Improvement should mean something a lot more, or at least seem a lot more. Furthermore, an aseptic notion of functional High End plainly contradicts the essence of the short list of "intangible values" of High End, emerging from the answers of our experts. Here are five signals of intangible value.

1. *beauty*
2. *stylish*
3. *creativity*
4. *reactivity*
5. *humility*

Ultimately, could we develop a descriptive equation that shows how intangible value functions in the High End? The answer is an emphatic Yes, at least according to one person who put it this way:

The old expression for Value in the world of Luxury:
Value=Style + Quality

The new expression for Value in the world of the High End:
Value=(Style+Quality+Experience+Fun+Creative+Sustainable+ more)/(Price)

A simple formula indeed, but it is just very hard to concretely translate into practice. In the next five chapters, we will start to present a number of tools and references to make it happen.

We discussed the relation between intangible value and quality for luxury propositions. How does this relation work with the High End? ***Somewhat differently.*** Quality, one key facet of luxury, might well be the actual raison d'etre of High End propositions. Yet, when it comes to "the price-quality relation", a flourishing market of no-nonsense everyday-wear brands is growing thanks to the customer desire for quality, but a quality distinguished by no thrills, and of course a quality that is demonstrably less expensive.

The validity of this approach, superior performance of what is expected, is confirmed by the strategy of start up companies such as CitizenM. With its OneStarIsBorn hotel concept, the company management effectively stripped away a number of costly services that could be digitized, and injected the room with ambient experience high tech, along with what might possibly the best pillows in the hospitality industry!

Quality leads, and even more so it will in the future. Of course, that would not be enough, but it seems to be indeed the core of any truly High End proposition. Let's summarize the 'qualities of quality' when it comes to High End propositions, with seven signal that quality is going right:

1. *high quality standards*
2. *higher perceived quality than the actual category*
3. *amazing ratio perceived quality / perceived positioning*
4. *reliable*
5. *quality of display*
6. *refined workmanship*
7. *high quality ingredients.*

6. Innovation, Management & Organization

As you might expect, innovation plays a significant role in making the High End what it is, and driving it towards success. Beyond what innovation does to create the high end, it is interesting to see what happens when everything seems to be going right, and then the innovation goes wrong, forcing the product or brand off the High End. Innovation works, but when it fails the story is often far more interesting, and certainly more educational. We learn from reading stories about *schadenfreuede* experiences what the High End may be really about.

Here is a cluster of three dismissive remarks. You can just feel the emotion and the dismissal

1. *just being technologically surpassed*
2. *missed changing consumer and market trends*
3. *banal conception*

Now let's move to what happens when things go right, when technology happily drives innovation that enjoys success and adulation, rather than contempt and dismissal. So now, let's visit innovation again, but this time see what wins for today's High End:

1. *state of the art technology*
2. *intuitive technology*
3. *desirable technology*

Something else is worth noting here. Our experts didn't use complicated explanations. They didn't use a lot a lot of sentences because to convey the idea of successful innovation they just needed a few, precise, hard hitting words. Innovation is intuitively obvious, and simplicity in innovation is the best, most elegant outcome of all.

What about just one out-of-the-box examples of innovation? Well, let's go to Las Vegas, of which one of our experts duly notes: "*Las Vegas - transformed itself into a High End nightlife destination, in which gambling is only a component*". We were very pleased with the emergence of Las Vegas as a best case for High End. We believe that in the next decade cities will be a crucial stage and a central seed-bed for High End thinking. The connection between cities and new quality of life is both historical and quite crucial to the next stages of consumption. We think that it is in the city where High End propositions and products will have their best chances to prosper. We will read more about the crucial role of cities for High End innovations in our next chapters.

Taking advantage of the power and fruits of innovation is a crucial challenge for High End managers and their organizations, even more so given the nature of the “white space” of opportunities. What management and organization look like, and activities do they perform on the successful side of the High End?

We begin with a few key ideas from our experts about both what goes right and what goes wrong when management operates in the High End domain. First, seven signals that management is doing it right:

1. *vertical and horizontal brand extensions*
2. *creating the right partnerships*
3. *evolution from product to brand company*
4. *uncompromising operational translation*
5. *strong cash basis*
6. *inspired employees*
7. *owning the right licenses.*

Second, seven signals that management is doing it wrong:

1. *attempt to become “big player” by taking over other brands*
2. *management losing control of the brand*
3. *brand overstretched to meet demand*
4. *lacking the systems behind the proposition*
5. *commodization*
6. *mass licensing*
7. *not nurturing the brand.*

These 14 triggering keywords encompass a very wide and complex territory. Rather than generalities, we will see how management works well or perhaps poorly at the High End, using actual business examples. In later chapters we will see some best practices and worst practices straight from the quotes of our experts. Ultimately, managing the high end might prove as complex as managing luxury. Why? For one major reason -- the key challenges of High End and luxury are, in many ways, very much alike, like the two sides of a coin.

7. Marketing communication, Distribution, and Service / relationship

To present this constituency properly, we decided to focus on one aspect of marketing communication only. For the High End one of the marketing P’s, “placement”, goes well beyond pure “location”. Many High End brands in FMCG (fast-moving consumer goods) are distributed in mass retail, including the prestigious Moet Hennessy and similar groups affiliated with luxury indeed. Such democratic, widespread distribution taxes the merchandiser to create the right mix in the mass market channels, perhaps coupled with PR or with a PR-sponsored appearance in a store (i.e., the product simply pops-up unexpected in a store, courtesy of the PR planner). The merchandisers at Peroni Beer cleverly solved this problem by displaying just one bottle in a refrigerator on a leading London luxury street.

Let’s compare such clever PR moves with other, less happy events that show what could happen. We move here to the Far East, where Western brands seem to have the chance to trade at higher perceived value. Unless the following happens:

> *“Heineken used to be an almost number one beer brand in Hong Kong because of the premium image. Being an imported brand, Heineken is positioned as the most premium brand and it is expensive, even in supermarket. However, in order to capture more market share and improve the profitability, the brand has expanded the distribution to all channels including low class catering outlets. Drinkers came to realize that the brand isn't all that premium, and it doesn’t make sense to pay that much for a beer. The brand nowadays has dropped to the fifth position and totally lost the “premiumness”.”*

Distribution is of course also important for non-FMGC, such as the clothing brands. Avril Groom, the acute journalist contribution to FT magazine, How to Spend it? wrote about a brand like Jaeger. We can connect Groom’s wisdom with a quote from one of our experts: *“Jaeger - product quality getting better, changed retail concept to portray more luxury feel”*.

We believe, as does Groom, that Jaeger is a very interesting example of a wider High End phenomenon that is on the rise. What is important in the specific context of this chapter is that brands like Jaeger represent a relatively new phenomenon that probably has existed for quite some time -- contemporary trends and optimal quality meeting a reasonable price. This “semi-couture” segment demands a very precise approach to location and distribution. What happens when the right balance, the right meeting happens? Then the necessary balance emerges between accessibility and basic charisma of the brand. When such an approach is taken with the right mix of creative and planning elements the outcome is often quite successful. We are talking here of the business minds and marketing strategies of brands like Jaeger, but also Dorothee Singhoff’s Schumacher of Germany, Andrew Rosen’s Theory 10 of New York, By Malene Birger of Denmark, Tara Jarmon of Paris or Patrizia Pepe of Italy.

High quality fashion at affordable costs -- what better reference to introduce our next key question: Does the relative affordability of the brands described above mean that the product component of the High End proposition might become secondary to excellence in service and relationship management?

In an ideal “theology of the High End”, service together with innovation, quality, storytelling, sustainability and residual value stand tall as one of the main pillars of the new business gospel. Let’s go a bit deeper into this constituency of High End and look at W, a hotel chain that might well serve as a blueprint for the High End. W enjoys genuine design in terms of aesthetics and quality.

Beyond design, however, it is the service that conquers the guest’s heart. *“W Hotel: that simple "W" whatever/whenever button makes every customer feel special and the rooms worth* *the price because they get a seemingly personalized experience".*

Another example of innovation is High End sports clubs. Witness L'Usine, a chic Parisian sports club, 'home' to Marc Jacobs, creative director of Louis Vuitton, among others: *"L'Usine innovates with the latest exercises and the best services (Specification -- health club in Paris - www.usineopear.com) "*

This notion of exemplary, really unique and imaginative "service", promises to become the hallmark of an entire new category, which for lack of a better name we might call "High End service. Service can indeed be one of the key engines of High End, as demonstrated in the aforementioned Brazilian brand reference by one expert: *"H. Stern - moved beyond a gem producer/retailer to trust-based consultative sales".* What is more intangible yet also more powerful than trust? Isn't the level of "consultative sales" the secret dream of each account manager in every industry?

8. Price & Residual value

We begin our dissection of pricing in the same way that we have reviewed some of the other areas – by seeing what a company does 'right', and what a company does 'wrong'.

Five pricing tactics or outcomes that make good sense:

1. *discount pricing policies*
2. *high price tag*
3. *good value for money*
4. *command a higher margin on commodities*
5. *relatively expensive*

And five pricing tactics or outcomes that make poor sense;

1. *the brand cannot sustain the price / High End positioning level*
2. *bad balance of quality and price*
3. *price is too high*
4. *introducing low priced items which merely dilute the brand.*
5. *no added value.*

Yet, pricing doesn't always produce such a quandary. Look at Swatch: *"Swatch: raised its price points and have now included a jewelry collection. Well displayed and marketed".* Swatch could be correctly described as an "everyday masterpiece", hence its affordable pricing strategy, one of the crucial elements of its success. Thanks to a uniquely innovative combination of design and marketing techniques, Swatch managed to achieve one of the most desired status levels of the High End, to become a collector's item. And this brings us back one of our favorite notions for this book, that of "residual value".

The notion of residual value for the High End seems difficult to crack. Residual value, that wonderful defining feature of luxury becomes a real issue for the High End. The high quality mass brand aspires to enter the realm of luxury, but the stretch is too much. Either the brand leaves mass to become luxury, or fails in the attempt to generate a high residual value.

Yet it might, however, be possible to attach the notion of "residual value" from the valuation of High End artifacts. Let's see how residual value might apply to High End by design. We refer specifically here to the elegant book "Antiques of the future", published in 2006 by Lisa S. Roberts, which will help us understand the residual value in the High End. Roberts herself tells the story of how she collected more than 300 future "design classics" in her 25 years of professional life in home furnishing design. Her definition of "antiques of the future" is as follows:

> *"Highly designed contemporary products that will rise in value once they are no longer in production because they represent the best of design in their time".*
> *(Source: Roberts, L., "Antiques of the Future" (2006), New York)*

And here are the criteria that drive Roberts in selecting the items that will join her collection, which in turn perhaps may be just those criteria needed for a High End proposition to generate residual value. To be included in Roberts' collection, an object must demonstrably possess one or more of the following attributes:

> *1. Exhibited in museums or included in permanent museum collections*
> *2. Designed by a notable architect or designer*
> *3. Manufactured by design-oriented companies*
> *4. Recipient of major design awards*
> *5.Widely published in magazines or books".*
> *(Source: Roberts, L., "Antiques of the Future" (2006), New York)*

These five parameters are similar to what is seen in the art market. One might conclude that the notion of "residual value" is thus counter-intuitive when it comes to the world of High End, since the High End does not resemble the art market. We leave that resemblance to the world of luxury. However, we believe that the right mix of iconic design and scarcity marketing can be discovered and profitably used by entrepreneurs and managers. Properly done, with the wisdom of science and with the charm of passion by entrepreneurs and managers, the effort may provide some opportunities for the High End to attain a little bit of the magic of residual value so characteristic of the world of luxury.

On the other, the question is how to make it actually happen? Andrea Ragnetti, CEO of Philips Consumer Lifestyle and formerly CMO of Royal Philips, has clear ideas about it.

> *Residual value is one option that can enrich the artifact or the proposition. Every artifact can potentially become an object with residual value if it survives long enough in time. Swatch, for example, managed its collections functional to have a residual value for some of its items. I would not believe, at the same time, that the iPod is an artifact purchased or sold because of any residual value at this moment in time because of its price point, its availability and wide reach.*
>
> *One way to build up residual value is the creation of limited editions. I personally believe that there is a business opportunity here, but only if this dimension is correctly interpreted: design is a key driver for almost every industry nowadays. However, it is not*

the only key to achieve residual value. I would instead speak of "scarcity" as the determining factor to inject residual value into artifacts, as demonstrated by the sales price and resell price of a brand like Ferrari, which production is 3.000 units per year.

In essence, here I would envision a notion of "scarcity marketing" to trigger and support the creation of residual value in high end propositions of the future.

9. Sustainability (environmental, social, personal)

The sustainability notion is just now beginning to enter into the consciousness of the many. Yet, already the signals are coming through that sustainability promises to provide an immense seedbed. Sustainability offers the High End an unprecedented area of opportunity in the long term, but not without some necessary growth in the minds and hearts of people.

It might well be the case that the smaller size companies are the ones that will take the lead and show the way, as suggested below:

"Hanna's Bretzel is a boutique company that does fast food, so far limited to Chicago. The founder, formerly in advertising and of German origin, "imported" a baker from Germany and launched this small chain of high-quality sandwich places. The proposition is, based on high-quality ingredients, health-consciousness, and environmental sensitivity. And relatively expensive, thus High End. I see this as both a signal of a transformation that everybody is expecting from the US fast food industry but never comes, and as an innovation that challenges the conventions (fast food = cheap). This also shows how, in spite of all the efforts that large companies make to do innovation and move to high-end, the small elegant companies really do it much better".

Let's move from specific example to general directions. In our editorial work about sustainability we noticed the appearance again and again of many concerns for consumption, for the environment, and that the consumption not injure the environment. Is this all, when it comes to sustainability and potential assets for High End propositions? We do not think so, and we therefore propose to browse the short-list of factors "going right" when it comes to sustainability for High End.

Here are 10 signals that communicate the 'right' sustainability

1. *acting in a very democratic way*
2. *social engagement*
3. *improvement on "ethical" component of product*
4. *green elements in using nontoxic, natural materials*
5. *time saving qualities*
6. *easy to use*
7. *easy access*
8. *health conscious*
9. *It gives me personal space and time*
10. *cultural value provided by the brand.*

The key question then is: Who can help large corporations to achieve this? It's an open question. We are just at the beginning, and cannot at this time say more, for sustainability is only entering into the High End. Keep tuned here, however, for changes are coming, as weak signals from the business world make themselves heard from time to time, around the globe.

10. Tradition

For luxury players "tradition" is utterly important, almost to the point of religion. What about tradition for the 'High End'? Here, "delivery" seems to definitely win over "tradition". We can demonstrate this by observing the global challenge among the various competing Asian brands that in the last decade saw Samsung of Korea surpassing Sony in terms of brand value.

Let's start from a quote from one of our experts: *"Samsung - evolved from a producer of products to a brand that delivers High End experience within consumer electronics"*.

Back in the early 1990's, Samsung was just another Korean conglomerate producing anything, from mega oil-tankers for the seas to microwave ovens. Just like Daewoo, Hyundai and more, Samsung was essentially competing on the basis of acceptable quality at a clearly lower price. Not the place to be for a High End brand. At the same time, thanks also to Ken Kutaragi's PlayStation, Sony was thriving on the success, both in Japan and in the world. Sony was reaping the rewards from its superiorly marketed products, still enjoying the soul and the core of Akio Morita's legacy in terms of drive and passion for innovation.

Around the year 2000, however, things changed, and the change, at first quiet, would become dramatic over time. The steady evolution made Samsung into a winner. Samsung started to deliver superior advertising and marketing campaigns, also raising the bar in term of technological quality of its portfolio. For Sony, the situation changed as well In 2005, one of the authors sadly experienced the Ginza building almost empty, whereas the Apple store a few blocks away in the same Ginza area, was literally packed with people of all ages and. Even more shocking, the shelves of Akihabara mass retailers were displaying shoulder to shoulder Sony's propositions with Samsung products -- the almost unthinkable sight of a Korean brand challenging Sony in their own homeland!

What is the moral of the story? Everything changes, evolves, and decays. When it comes to High End- one cannot really count on the aristocracy of its heritage and tradition to stay on top. Perhaps fort the High End, and even faster than for luxury, democratic choice truly leads the game, and defines who leads. And, the game is eminently fair, very public, and money-based. In High End, the families that matter are not the families who own family companies but the millions of families that do shopping. Like in some TV serials, every morning, every High End brand wakes up, to fight the same fight for survival.

Conclusions

We end this chapter with the same question that we began, perhaps a bit wiser, and certainly filled with enough concrete examples so if the principles fade the stories bring us back the different worlds we have touched upon. Why and how do High End propositions work today?

And even more important, how will you benefit from the High End trend ahead of all of us? In our introduction to this book we promised that we would explore in depth the various domains of the High End, in a way that will give you a sense of where the contemporary High End is, and where it is going in the future.

. Fully equipped with the insights and the wisdom of our respondents, we move on in the coming chapters, where we switch the scope of this book from the analysis to the first actionable tool for repeatable success, an actual charter of what High End is. We will then project High End into the future, say 3 to 5 years ahead of us, first based on our the insights from our experts, second based on studies of urban trends from Philips Design and Hakuhodo of Japan, among others, and third based on experimentation to discover the ‘algebra of the High End mind’. As we promised to you, great opportunities lie ahead of us -- just turn the page and follow along on the second leg of our journey into the future.

PART II

An actionable charter to understand and define High End propositions

In the first section of this book, we explored what works in luxury and what works in the high end of today through the eyes of our experts and thought leaders. It is time to draw some conclusions about parallel challenges and diverging opportunities and to start creating a knowledge-based toolbox to make the High End of tomorrow happen. We now go from describing generalities to identifying what to do, so that you can benefit and profit from the growing High End.

How should we do it? Well first we will focus on a simple review and understanding of what is hot, what's not, what looks like its going to work in the future, and what just seems to be a hopeless momentary fad. Our time frame for the 'future' is three to five years, sufficiently short and sufficient close in time to allow planning and development.

The High End Proposition Charter will be our first step, to create a framework that synthesizes what the High End is all about. Then we will to create a tool that can be used by readers to test different High End 'opportunities'. So we have a bit of a clinical test here. Furthrmore, we know that minds of people around the world differ, suggesting different mind-sets or ways of looking at the same High End proposition. We therefore want to be able to profile the *nature* of the High End proposition, almost as if someone taking a genomics test can have their DNA profiled. The upshot here is to find out what **type** of High End any specific opportunity may actually be.

In this next section of the book, after the introduction and the High End charter, we will present this High End tool in more detail. It will be grounded in statistic and in data, with a technology called, RDE or Rule Developing Experimentation.

The toolbox will be a guide and act as an analytic mechanism to help you create and understand High End propositions for your business. We developed the tool so that every CEO and senior executive can refer to get a 'sense' of the 'High Endness' of the product or service proposition either existing or being considered.

Introducing The "High End proposition charter"

When we had a chance to review our interviews, sit back and digest the words of our experts, we were struck by the wealth of viewpoints. Even more so, we were surprised when we performed our own desk research. Most of what we read about the High End in magazine articles, newspapers, even talking to point, fails to recognize the incredible richness that makes up the very fabric of this world of hope. It seemed at first pointless to summarize in a few paragraphs the content, the emotion, the bubbled up enthusiasm of our participants. Any formulaic definition for a business-oriented book would end up plowing under the richness.

At the end of your reading and at the end of our journey we defined a user-focused tool that designers, marketers, and even the just interested can apply to measure the degree to which what they are working on fits the High End, and the psychological nature of the particular High End profile. The 10 constituencies we described in the last two chapters were a good starting point.

For the tool, however, a different level of synthesis was required. In the next paragraphs we articulate a series of five different 'dimensions'. These will become the 'charter' or organizing backbone of the High End, as revealed to us from the ideas and language of our participants. At the same time, we will work towards creating the High End 'toolbox', using this charter with its five dimensions as our skeleton structure.

The High End Proposition Charter comprises what we defined as "five dimensions", which you should think about as organizing both knowledge about the High End and business. These dimensions or master topics will each be divided into four defining factors. At the end of the day you will have the High End laid out visually as in Table 1 which shows the dimensions and factors.

Table 1: Schematic structure for the five dimensions and four factors for each dimension.

Dimension 1 – Authenticity & value
The origin factor
The exclusivity factor
The price factor
The residual factor
Dimension 2 – Design & experience
The holistic factor
The craftsmanship factor
The design leadership factor
The inclusion factor
Dimension 3 – Innovation & leadership
The innovation factor
The revolutionary factor
The partnership factor
The thought leadership factor
Dimension 4 – Marketing, communication & distribution

The grassroots factor
The image factor
The celebrity factor
The placement factor
Dimension 5 – Sustainability & simplicity
The green factor
The society factor
The personal factor
The simplicity factor

We already have a rich store of insights from our participants. They have helped us articulate these five dimensions. Let's move beyond brand quotes and insights, and introduce in some depth a number of brands, looking especially on the cultural and design side. We'll learn a lot about these five dimensions of the High End Proposition Charter from the stories, the protagonists and sometimes the legends of the notable brands we selected as High End champions and performers.

Chapter 4

The High End Proposition Charter:
An actionable qualitative tool to understand & create the High End, explained through the eyes of today's best premium practices

The High End Proposition Charter - Dimension 1 – Authenticity & value

This is the first dimension of our High End proposition charter. Because the High End is all about premium value, it seems to us appropriate to start the charter with the notion of "value", and one of its key enablers, "authenticity". Authenticity and value connect most strongly with the domain of price on the one hand, and the domain of provenance on the other. High End is about products or services that genuinely offer high quality, mostly but not always, brought to market at a significantly higher than average price-point. High End differs notably from "luxury" in that provenance and exclusivity are not pre-requisites.

How much of this High End is price, how much is exclusivity? Where is the balance? Clearly, there is one thing operating through – superior quality. This is the flesh that embodies the soul of High End. One of our experts put it succinctly: "*The best product in its category. Usually, although not essentially, the most expensive. By best I mean highest design, quality of construction or attention to detail*".

The moderate price High End – Tex by Olivier Lapidus

When High End "perceived exclusivity" is achieved by scarcity "Price" need not be high to drive the perception of quality and High End. Olivier Lapidus, the visionary couturier, created his Tex collection of clothing following the guidelines of the luxury market. The line, "Tex "Creation de M. Olivier Lapidus", is distributed in the 217 French hypermarkets of Carrefour, a mass distribution store. The collection is ***Made in China*** under the supervision of French and Italian production experts. The collection is eminently affordable, including highly refined suits at Euro 220 and Euro 175, excellently cut coats at Euro 150, superb ties at Euro 25 each, impeccable shirts at Euro 45 and leather shoes at Euro 75 per pair, plus a small collection of home garments and accessories. The quantity of items produced for this collection is as limited and exclusive as the distribution channel is massive.

What we have just described sounds very much counterintuitive in the tradition of the High End. You might expect such High End proposition to be equally massively advertised, in the best tradition of a large distributor of commodity goods. This is however not the case for at least two reasons.

> The real novelty, or better said the revolutionary news, is the combination of the best sartorial quality with the lowest reasonable price point. Raising the price point might therefore simply affect, if not endanger, the integrity and the power of the proposition.

> There appears to be no need for communication beyond word of mouth. The Tex collection was rapidly sold out. The buzz generated by the Carrefour customers who had been simply and passively exposed to the physical presence of such levels of quality at such low price was more than enough to carry the news from mouth to mouth, all across France.

For Lapidus' Tex line the product itself generates its own best advertising. However, we do not believe that the Tex experience really is what applies to most high end propositions. Yet, we found it irresistible to present the story of a proposition so good that it generated its own communication campaign simply by being placed in the distribution channel!

<u>Location and the power of authenticity by design –Anthropologie</u>

Let's move on from the powerful vision of Oliver Lapidus to the issue of authenticity through location. How does a marketer make use of the 'origin' of something to move it to a High End? To answer this, let's look at the concrete example afforded us by retail design strategy. We turn now to Anthropologie, the US clothing and accessories lifestyle brand.

Anthropologie founder Richard Hayne and his team totally dismissed advertising as a marketing tool. In place of advertising they created a whole new approach to retail design. To achieve this breakthrough, Anthropologie partnered up with New York hip firm, Pompei AD. Led by former artist and former CNN Principal Voice, Ron Pompei, Pompei AD is a unique mix of visionary leadership and hands on talent. With a workforce of more than 50 young creative minds, Pompei AD creates world class retail design for firms like Mavi Jeans, Urban Outfitters, Kiehl, 66 degrees North and more.

What makes Pompei AD's design for Anthropologie uniquely authentic is the way Pompei and his team transform any Anthropologie "location" into a true "point of origin" for the brand, rooted in the local cultural and aesthetic milieu. If the Anthropologie store is a Chicago theatre, then these roots emerge in a vibrant façade capturing the Midwest urban feel. If it is in Los Angeles, then a completely different palette will face the public, featuring colors that resonate with the light of the Californian sun. And if we were in Connecticut, then the stones and the wood of the rich nature of this state will constitute the main motif.

We see in this particular approach by Pompei AD for Anthropologie a high moment of High End strategy. The regional building 'fits' the local context. Such an approach is not simply a design tactic to distinguish Anthropologie from competitors, but rather embodies an "ideology of the origin". The brand itself is not afraid to change and adapt to meet the atmosphere of the local context. The result is quite astounding. Anthropologie is not just another example of an American brand but it becomes a national presence, with a different expression for each state. Of course, there are elements in the store design that maintain a specific visual identity and unity, for otherwise we would have chaos without a unified proposition. The outcome of this original approach focusing on the relevance of location in a flexible system is what Fast Company's writer credited to Anthropologie, and by default Pompei AD in 2002, as a shopping experience unlike almost anything else in retail.

<u>On line style from the country of elegance – Yoox.com</u>

We start our next case history by diving into the presentation at Florence's ESOMAR's Luxury Forum by Massimiliano Benedetti, Global Sales and Marketing Director at Yoox. A chemical engineer who turned to business consulting and to the creation of one of Italy's most successful global start-ups in digital retail, Benedetti has the presence of a character created by the imagination of Fellini.

Yoox, located in Bologna, with 50 billion Euros gross sales in 2005, has grown from strength to strength, with a turnover 50% greater in 2005 versus 2004. From its Italian headquarters, Yoox operates in 25 European countries, as well as across the Atlantic in US, Canada and Japan. Yoox has been acknowledged as a leader in e-retailing by the likes of Gillian De Bono, Editor of the FT "How to Spend it" magazine, Harvard Business Review Online in Italy, Vogue Italia, The Wall Street Journal, the Yomiuri Shimbun in Japan and many more. Yoox administers a website that enjoys three million visits per month. While the dreamy nymphs and the elegant profiles of the frescos in Palazzo Capponi were looking like their curiosity was aroused by Benedetti's speech, he went through the data and the stories, the names and the brands that make Yoox a true new economy success.

To attract the mass of "fashion savvy" consumers Yoox presents a portfolio of offerings that could be taken as a user's manual for the High End. First we find the much-vaunted "price accessibility" of end-of-season items. Fashion-aware, average consumers are attracted by the combination of great brands at affordable prices. However, that's not all. To reinforce the feeling of exclusivity, a must of fashion shopping, Yoox offers limited editions. These are special projects courtesy of fashion gurus like Malcom McLaren, Hussein Chalayan, Bernhard Willhelm, Alexandre Herchovitch and others. Arianne Phillips, famed costume designer and stylist for Madonna and Courtney Love, was also involved in a project, teaming up with Jeremy Scott, and Colette, the Parisian temple of fashion and style. The premier event, launching their line, was an online broadcast by Yoox. Also part of this level of Yoox portfolio is the Diesel Denim Gallery, where the Italian maker of top casual wear makes limited editions available to Yoox surfers.

Dreams that made history – Salvatore Ferragamo

Back to Florence: if you walk out of the spacious rooms of the Palazzo Capponi, now exiting through the main door, and look at the Arno River, right in front of you, there it is. The still-magnificent Italian Renaissance seems to linger here, radiating its magic from the river and landscape. Cross the bridge to your left, walk another few seconds, and you will find Palazzo Spini Feroni. The palazzo was erected in 1289 by Geri Spini, a banker for Pope Bonifacius VIII, and sits happily, we might even say majestically, on the left bank of the river. Palazzo Spini Feroni is where Salvatore Ferragamo is honored by a museum at his own name, the Museo Salvatore Ferragamo.

We cannot imagine a better way to express the notion of "residual value" than creating artifacts that resist in time to the point that their unique silhouette and the lifestyle attached to them become icons, dignified in the collective imagination, by the shared desire of seeing them "rieditati" or reissued, revivified. When this happens as in the case of the endless re-articulation of the shape of the Porsche 911 or of "Ferragamo's Creations", the notion of "residual value" migrates to the High End. The object moves from a tangible creation to an icon in the cultural landscape. And so is born another dimension of the High End.

Summing up – the four questions of authenticity & value

Let's wrap up this first dimension of what is turning out to be the charter of the 'High End proposition'. The best synthesis looks life a combination of four notions. These four are "origin", "exclusivity", "price" and "residual value", respectively. Or, as expressed by the four elements of "authenticity and value":

1. The "origin factor". Is the High End proposition grounded in a specific country or region of origin or design?

2. The "exclusivity factor". Does the *apparent* scarcity of the item create a specific added value in terms of perceived status of the owner?

3. The "price factor. Does the item come with an entry price that restricts its accessibility, while at the same time remaining accessible to at least 20% of those who aspire to buy it?

4. The "residual value" Can the company establish a legacy in terms of museums, vintage editions? Can the audience re-sell the artifacts themselves at the same or even a higher price?

The High End Proposition Charter - Dimension 2 – Design & Experience

Let's start from an interview with one of our top experts, Philips Consumer Lifestyle CEO Andrea Ragnetti. The interview took place in the fall of 2007, and dealt almost exclusively with the value and future of design:

> Marco Bevolo: Design is at the moment very much "in vogue". In New York, London or Paris art auctions and galleries use design as "the" new hot domain. At the same time, design thinking is looking further than objects and artifacts, moving towards a role of thought leadership in societies. We are facing a dilemma here in terms of what design is, and where it should go. Looking in your crystal ball at the next decade, how do you believe design will serve the business success of high end companies and brands?
>
> Andrea Ragnetti: *Design as graphic embellishment of a product is clearly an outdated notion. We need to rethink design as an integrated practice, including and starting from foresight and future studies looking 10 – 15 years ahead of us. Furthermore, we need to carefully consider the context and the industry we want to analyze. Fashion, for example, is a relatively small industry. Fashion strongly depends on an externalized system of supply and production, with the consequence that it must focus on the short term. In our business of innovation-based consumer lifestyle, development processes and lead times are long. Tom Ford might design his collections with a 6 – 12 months lifecycle ahead of him, while we work with a 5 to 10 years lifecycle ahead of us. The role of design changes with the industry in which you conduct your analysis. For us future studies and foresight*

is key to identify the cultural parameters the give our work long term success and even residual value.

We strongly believe that when design is applied to experience, there emerges for the High End a unique opportunity to match and even occasionally to leapfrog luxury propositions. Design can ensure that the envisioned and planned experience resonates with cultural values on the one hand, and provides the necessary sensory aesthetics on the other. By sensory aesthetics we mean satisfying vision, audition, touch, taste and smell.

<u>The anatomy and the promise of experience design</u>

Today's technology gives us a new way to incorporate design into experience, and by so doing add another dimension to the High End. Let's demonstrate this by quoting a definition of luxury from the viewpoint of what we call, nowadays, "experience design". We refer to the conversation between Peter Marino, architect of contemporary luxury, with design customers such as Chanel, Louis Vuitton, Valentino, Dior and Donna Karan, and glass artist Jean-Michel Othoniel. The conversation was recorded, edited and published as an article in "Crystallized, The international magazine for Swarovski Elements" published in Spring Summer 2007. Marino describes it in his own words:

> *"I collect a lot of things and right now I am totally obsessed by my collection of French books about parties the royals would give. In the 17th Century, party invitations were sent out a year in advance because it took six months to plan your wardrobe –and another six months to get there. That such a great a idea! These events were so complex. If the King was going to have his birthday in Strasbourg, his people would have to plan it for years. Afterwards, they would produce a party book, a list of the nobles who were there and what they wore. These books are marvelous. They are all engraved and illustrated. I just got a very rare one dating back to Henry VI. As for the events themselves, they had the finest artists creating sumptuous decors".*
> (Peter Marino, in "Crystallized", Spring Summer 2007)

Let's dissect this interview a bit to get a better sense of what "experience design" is all about. First, look at the sequence. The process goes from "impression" to "memory". We have the sense of Marino's drive to encompass all the elements of the human experience, and manage all steps of the interaction between people and propositions. The dance of steps begins from the very first manifestation in terms of triggering people's interest, and stops at the lasting memory of the entire experience.

Now let's fast forward from the French aristocrats described in the world painted by Marino's words. Today, in the 21st century, we deal with two other elements, "technology" and "time". Technology enables our everyday to be memorable, interactive and structured in narratives. Think of a birthday party flowing in the digital space of a Philips Photoframe, in perpetual repetition of the moments when joy and happiness were experienced. Also the "time" factor is different. Thanks to digital technologies, we can "design" our party experience, not just once a year, but almost anytime we like, in a very concentrated time. Once again, technology and time translate the 'trickle down' of unique sensations and experiences from the original widely restricted circles to the upper classes to the middle class of today. Let's see how this can happen, by design, from dream and idea, to system solution.

Experience Design in practice, and the move from today to tomorrow

During the summer of 2001, Philips Design partnered up with the Royal College of Arts for an exploratory series of programs, including "Aurora", a vision of interactive wallpaper based on LED lighting technology. One project in Aurora was called "Nebula", an 'immersive bedroom environment' of the year 2020. "Nebula" constituted a space where high tech and superior interaction design meet. Nebula's technological backbone is seamless, anticipatory and pervasive, but most important, designed around and for people. For instances, Nebula's bed is no ordinary bed. Intelligent fibers transform the bed into a real time, real life "remote control", detecting as best as possible the state of mind and body condition of its occupants. With that information Nebula's bed adjusts the settings of the entire room. The room itself, then, is no longer merely a "blind and deaf environment", but a true high tech media interface. The ceiling itself offers the opportunity to project content, such as movies, sports, news, or even atmospheric stimuli, which provide welcomed sounds and background images.

The real breakthrough for the thinking and the vision of design and technology as drivers of the High End experience would however happen in the world of healthcare and hospitals. We began above with a discussion of the Nebula project, for an immersive bedroom experience. Nebula would lead to a wonderful High End experience, not in the home but rather in the hospital, the one place where functionality has always trumped comfort, and where cold technology seems always to overwhelm human warmth.

Ambient experience quickly became the driving principle behind the *fully immersive, highly responsive examination rooms*. This was a breakthrough in three ways.

> For the first time design for medical machines would leapfrog beyond the actual machine unit, and turn to the holistic inclusion of the environment. This turn of focus would establish a far better hospital experience for patients, their families and healthcare professionals.
>
> High tech applications and possibilities were linked and fused in ambient experience environments, as never before. The convergence of high tech capabilities in the interest of engineering experience leapfrogged beyond classic distinctions and the silos of corporate divisions. The exercise put people, not technology and not task, at the center of the experience.
>
> The results informed not only the medical performance of machines, but also, and probably most important, the actual comfort of patients. At the Chicago Lutheran General Children's Hospital, one of the first to install ambient experience environments, the sedation rate of young patients could be reduced of 30% to 40%, a major coup that delighted all major 'stakeholders' in the hospital, patient, doctor, and administration alike.

Flexibility and scalability makes Ambient Experience potentially appealing to "luxury commissioners" in the healthcare world such as those found in the cosmetic health care industry in the Middle East, catering to high net worth customers willing to fund the surgery out of their own pockets. At the same time, Ambient Experience has a much wider appeal. Projects in Sao Paulo, Brazil's Hospital Sirio Lebanes, as well as in Sao Paulo's medical imaging laboratory, Fleury Higienopolis Unit attest to the potential of the High End in medicine. Additional projects in Rio de Janeiro, for Minas Gerais and Espirito Santo, prove that Ambient Experience can be scaled down for general hospitals, to what Philips Medical Systems named its "Insight" version, i.e., dealing only with wall projections and lighting effects. These projects with the scaled-down version show that parts of the High End can integrate experience with design in a holistic manner. Thus a discussion of unconventional hospitals in a book about the high end and luxury may truly show the core and soul of "High End thinking".

The *better* experience at an affordable price – Virgin Atlantic's 'Mid Class'

Think about royalty, who in our fantasies, have access to almost any comforts and quality of life that is reasonable. We're not talking here about impoverished nobility, but about the notion of 'royalty' in the way Marino described at the beginning of this chapter. Now let's think about including other people, not so much with material possessions as with experience. Simply stated, this means extending the access to comfort and quality of life to a more general audience than the royals described by Marino, or even the "have's" who can afford the best in life, no matter what the price. This extension happens through the mechanism of "trickling down", where High End can also be seen as the luxury comfort made accessible to wider audiences.

One good example of this extension is the invention of a new middle range category of service. This is precisely what Virgin Atlantic did with its "Mid Class", a service aimed at cost conscious business traveler who chooses to maintain the financial efficiency of economy class but wants the comfort of additional space in the cabin. On the 26th of September 2006, Virgin Atlantic launched the newly redesigned and improved Premium Economy Class service. Design played a key role in driving this small revolution towards increased comfort for travelers who, as the Virgin Atlantic slogan says "*want to stretch their legs but not their budgets*".

The new Premium Economy goes further to integrate holistic vision and service design. Premium Economy offers its passengers the "High End" benefits of dedicated check-in, separate cabin, priority boarding and duty free, a dedicated toilette, and quicker luggage reclaim. Additionally details are included in the package to delight the customer, such as a pre-departure drink and a post dinner liqueur or a fresh fruit bowl service, all managed by a dedicated attendant crew. The Premium Economy by Virgin Atlantic seems to be pure High End at its best, and expressed an overall design strategy to reward Virgin passengers at all levels and in all classes.

China's comeback, by Design

Design as a leadership factor for creating and delivering High End propositions has moved beyond advanced economies, and has started to spread outward. A good example comes from China. Filled with a vision of the future, China has recently initiated a program that in the next years will create more than 400 design schools across its entire territory. We need only think of the number, and then let our minds project how the massive quantity of talent to be formed there will make a difference. With a continuous feed of designers from 400 schools, we will see enormous changes in the way Chinese companies expend their efforts to switch from plain production factories to "Made in China" brands, having appeal to the rest of the world.

The future of High End in China is not limited to these schools. China has a grand history, replete with venerable luxury companies aiming to find their way back on the map of global High End. One of these companies is Hengyuanxiang of Shanghai. Created in the 1920's as a luxury brand, then famous for its refined tailoring and its excellence in production processes, Hengyuanxiang specializes in branded, wool-based products.

Legend Liu, business leader within Hengyuanxiang, got the company to rethink its brand strategy by design, first by involving Davide Quadrio. Italian born Quadrio is a veteran of the Chinese creative scene, with a long track record as founder of BizArt, Shanghai, creative director of Bund 18, and the brains behind several entrepreneurial projects in the fields of art and design. Quadrio understood the deepest implication of the Hengyuanxiang brief. First, the project demanded both a viable design strategy for Hengyuanxiang to regain by design a leadership in the Chinese and international wool markets. Second, the project created a learning process from an internationally acclaimed design team, which in turn created and nurtured the ongoing opportunity to share vital knowledge.

The outcome of Quadrio's efforts and the 'rest of the story' was the invitation to Droog Design of the Netherlands, the world-famed collective team that rose to glory in the 1990's, and in so doing established the blueprint for the global success of Dutch design. Hengyuanxiang had a clear goal when it selected Droog Design. The goal, quite simply, was to become an inspirational brand. When the management of Hengyuanxiang speaks of their brand, their vocabulary resonates with terms more suitable to religion instead of business process. Hengyuanxiang's scope has grown to encompass public environments, interior environments, mobility, and the sphere of body and personal care, respectively. The direction is both business and learning. What Quadrio identified as a key strength in the situation is the ability by Liu and his team to change their views as the process unfolds. If the trend continues the 'Wild wild west' economies of emerging countries like China, will once again let design flourish, and with it the 21st century High End.

Summing up – the four questions for 'design & experience'

Let's summarize our key observations in four simple questions:

1.The "holistic" factor. Does the proposition entail a holistic and coordinated approach design and experience across all the brand's touch-points?

2.The "craftsmanship" factor. Does the proposition provide product quality that reconnects users to the type of product that a craftsman might produce?

3.The "design leadership" factor. Does the proposition possess a superior design quality that stands out from the average?

4.The "inclusion factor". Does the proposition entail a design approach sensitive to minority groups, and other cultures?

The High End Proposition Charter - Dimension 3 – Innovation & Leadership

As designers and as researchers one key question that returns to challenge us is how can we achieve true culturally-sound, design-driven innovation for repeatable business success, and how do we translate this innovation to the High End? Since his appointment to the post of CEO of a large corporate design department, one of the authors (SM) has actively promoted a policy to grows innovation by inviting outsiders to collaborate and to partner. This vision and the resulting invitations create a unique path of projects and programs that produce a portfolio of value.

The experience has produced three major insights about 'how the world works':

> Collaborations stimulate new ways of thinking inside one's own organization, offering the opportunity to raise the bar in terms of organizational ambitions.
>
> In today's competitive, stressed, talent-seeking market, partnerships represent an interesting way to provide ongoing motivation and fit people's inner needs for freedom and stimulation. After all, it is more stimulating for top talent to work for a large, secure, strategically oriented company like Philips Design, but at the same time encounter the best of the best in terms of international design, with companies from Olivetti to Alessi, to Cappellini to Nike, from Swarovski and others.
>
> Collaborations are the seedbed of profitable innovation, the true territory where partners of equal status and reach meet to share diverse solutions to common problems and challenges. Partnerships often create the best framework for high speed innovation engines, resulting in true business success.

For the high end, and especially for design-driven innovation, a successful collaboration and partnership demands two things to succeed. One is hard assets, the 'something' from which innovation comes. Without that 'something', there is essentially no innovation. No one would argue this. The second, however, is a bit softer, but no less relevant. This second factor is a mind-set to collaborate in high end and design, which is particularly strong in some global regions such as regions in of Finland, of France, of the UK, but especially in the North of Italy. We will read more about the collaborative nature of creative thinking and doing design in the next chapters, both at the level of academic analysis and in further explication of the High Design approach.

Returning to individual case histories, how does innovation in a High End-driven company really work? Let's move now from theory to practice, from Finland or Italy to Switzerland, to a market-leading company. Let's look at a practical case history of innovation-driven business in the High End.

<u>Innovation as a way of life – Tag Heuer</u>

Tag Heuer is a company created before 1860, a company that had, decades ago, established a fine tradition of leadership in terms of timekeeping and time-tracking for sports events, with the likes of Scuderia Ferrari making use of their tools. Yet we are talking also about a company and name that while maintaining the fundamentals of its reputation intact through the decades, had somehow slipped into the moving sands of the mid-market, low entry price, not-so-prestigious world of mundane objects.

Driving from Geneva, it takes a couple of hours for us to reach Le Chaux-de-Fonds, the small town where Edouard Heuer founded his watchmaking company nearly 150 years ago. And there the company still is, although with a slightly different name –"TAG" was added in 1985 when the company "Techniques d'Avant-Gard" absorbed Heuer. In a now completely different corporate context, President and CEO Jean-Christophe Babin runs a high growth brand that, since 1999, has been part of the portfolio of LVMH.

The history of TAG Heuer provides us indeed a perfect blueprint for innovation excellence and leadership. What we would like to focus on now is *why and how* TAG Heuer decided to move back into the High End, most likely as an intermediate step towards a renewing its luxury status, after years of emphasizing the mass market affordability of its products. We hear the dynamics behind this change straight from TAG Heuer Innovation Director, Thomas Houlon:

> *"The functional need for watches has become lower and lower. In fact, the time is displayed everywhere around you any time during the day or the night. Should you be in your living room, your kitchen, in your car or at work, you actually do not need a watch anymore. More over, since the democratization of mobile phones, almost every body is already wearing the time. …The number of young people wearing watches is constantly decreasing, but several serious market studies are clearly showing that they still aspire to buy high end or prestigious watches, when they will be able to. High end and prestigious watch-making are definitely facing a great future…. It seems that watch-makers are bound to create more and more value to reach or stay in the high end level if they want to take benefits from this huge market opportunity.*
>
> (Source: Thomas Houlon, paper written as input for this book, May 2007)

TAG Heuer is carried through by ideas, concepts and prototypes that are, and will surely be in the forthcoming years, the liveliest manifesto of the company slogan: *"Swiss Avant-Garde since 1860"*. We will meet this company again soon, in our "Marketing Communication and Distribution" dimension.

<u>Innovation and the hospitality industry</u>

Innovation need not be simply new technology. Rather, the practice of "innovation" might occur by introducing new elements into an otherwise conservative context. And to find one surely "conservative" context, we need only travel back, from Chaux-de-Fonds, Neuchatel, the Swiss Alps, Chiasso, Milano, Bologna, and then onwards to Tuscany, and to its capital city, Florence. Florence itself established a fine tradition of innovation. It was in Florence where the Italian language was "invented", as the Florentine "vulgar" became, in the hands of Dante Alighieri, "the" literary foundation stone for all Italians. Here, the Renaissance brought humanistic philosophies and classic aesthetics to unprecedented heights of sophistication and perfection, literally pulling the entire Western world out of the "dark" Middle Ages.

And here in Florence the international traveler can savor the vibrant sound of the local dialects and the beauty of buildings and paintings with a world-class local cuisine, perhaps one of the best in the whole Italian landscape. For gourmets there is a wonderful expression, *"buone forchette"*, the Italian phrase to describe those who love good food in the highest quality and the biggest quantity.

Part of the portfolio for the Lungarno Hotels in Florence could be described as an innovation peak of some courage. It is called "(The Fusion Bar) SHOZAN-GALLERY". This is located within the Gallery Hotel Art, and it is dedicated to the fusion dining, in an innovative mix of sophisticated hospitality and contemporary catering. Integral to the Gallery experience, defined by its press kit as a true "city engine" for people to gather and mix, the Shozan-Gallery surprises its visitors. Just to name two, here we find the first Japanese tea room in Italy, together with bold cuisine experimentation ranging from thematic events, e.g., the chocolate nights, to innovative combinations of Mediterranean flavors and Oriental tradition. One of the authors could himself taste the delicacy of a green tea tiramisu'. It is in these unusual dishes and the magic of fusion cuisine that we see the innovation at the high End. The Fusion Bar manage to create bridges between two of the most sophisticated food cultures in the world, each historically less inclined to experimentation. Of course fusion food is by now no longer 'big big' news in the global culinary world. Yet the Fusion Bar in Shozan Gallery provides a new dimension to the High End, fittingly appropriate for the Florence that centuries ago was the undisputed capital of the Renaissance.

Summing up – the four questions for innovation & leadership

Let's conclude our journey across the theme of innovation and leadership. At the end of this part of the journey here is more or less what we have learned as essential to innovation for high end propositions. You will see that the four principles we suggest are put forward in the form of questions, for like all innovation, it's hard to predict what this 'new thing' will be. However, it's likely, as conventional wisdom states, albeit for pornography, rather than the High End, 'you'll know it when you see it'.

1. Is there 'innovation factor'? Does the high end proposition 'evolve; or drive the development of its category / industry through a continuing introduction of superior technological features?

2. Is there a "revolutionary factor"? Does the high end proposition contain within it a paradigm-changing, breakthrough technological or scientific feature?

3. Is there a "partnership" factor? Does the high end the proposition create a fruitful partnership with non-competing companies, to generate both knowledge-sharing as well as positive attention from the media?

4. Is there a "thought leadership" factor? Does the high end proposition involve the participation of a leader who represents the brand in public life?

High End Proposition Charter - Dimension 4 -Marketing, Communication & Distribution

Why not regard communication and distribution as key pillars in the creation of the stage where some of the experience happens? And let's even go further. Let's bring in culture to the mix. In our view, culture is the fertile ground where experience takes place. Culture is also a sphere where experience itself can then be more profoundly understood as the matrix that embeds the needs, dreams, and technologies of daily life. When we understand these cultural values, we will find the 'why's' of experience design, what people want, what works at the High End, and why it works.

Premium brands and high culture: a marriage made in Heaven

From Fondation Cartier in Paris to Fondazione Prada in Milan, to the Shiseido Gallery in Ginza, Tokyo, the ability of High End players to enter the realms of higher culture is unparalleled. In particular Fondazione Prada is an institution which, under the initial guidance of art critic "guru" Germano Celant, managed to assume the role of cultural engine in a city like Milan, rich in funding and sponsors, yet until now a city where exhibitions of high quality in contemporary art are surprisingly uncommon.

Prada's true ability is however to mix such high cultural engagement with subtle, culturally charged events and operations. This mixture is managed by AMO, the research think tank of Rem Koolhas' architectural firm, OMA, led by Reinier de Graf in Rotterdam. AMO established a long term relationship with Prada and Miu Miu, Miuccia's second brand, for whom they ideate and produce events, shows, and create an on-line presence for the Italian fashion icon. AMO repeatedly proved its ability to push the boundaries of luxury by staging unique performances for the Prada brand, such as the recent America's Cup launch at Valencia's Mercado Central. For one night only, refined Prada products mixed with everyday's dairies and commodities, in a nonchalant placement that added to the natural "radical chic" allure of the brand. What better demonstration of the sophisticated ability of the brand to play across the "distribution" stereotypes of both High End and mass market?

The celebrity factor – celebrity as public user of the artifact

The optimal relationship between a High End brand and its evangelists creates a particular 'manifestation' of the brand, so that the brand resonates and integrates with the celebrity's life style. A perfect case thereof is the dialog between the aforementioned Tag Heuer and Tiger Woods, that led the Swiss maker develop the first ever "Professional Golf Watch", ergonomically engineered with Woods to meet his own personal needs and demands, and therefore by extension the needs of all players. Tag Heuer created and patented the watch, based on coaching by Woods.

The relation between Woods and Tag Heuer went far beyond the standard sponsorship or "testimonial – brand contract". Tag Heuer had the opportunity to be truly exposed to the mindset, the ways of working and the discipline of the American champion. The creation of a specific product resulted in a new offer to golf players, who happen naturally to correspond to some of the High End potential customers. Press coverage and opinion made the media took notice, and covered accordingly, resulting in a major boost to the image of the brand, as intended. The dialog between Tiger Woods and Tag Heuer represents a perfect case of engagement at functional level. The celebrity now becomes the trigger of a new, innovative angle of the High End proposition, and invests his "cultural capital" and public prestige in the brand at the most intimate level, that of product creation.

A second general 'celebrity approach' approach also well used by Tag Heuer, establishes an emotional connection with the myth as personified and embodied by the "celebrity-vested" individual. Tag Heuer enjoys a direct connection with Steve McQueen's legacy, established through the common ground of the racing world. McQueen's passion for motors was undisputed, resulting in his starring of movies like "Le Mans", and his direct participation to racing events, sometimes against the will of the majors to whom he committed in his professional contracts. It takes a certain amount of luck, in the life of a company to enjoy a direct and universal connection with myth. Stars of the caliber of McQueen are simply not "measurable", not to mention "repeatable" when it comes to the celebrity aura they project on a brand.

From Western contemporary celebrities and legendary icons, let's move to China. What what will be the best next there in terms of celebrity marketing and endorsement? We spoke about it, as part of a larger conversation, with Bessie Lee, CEO of GroupM in Shanghai:

> Marco Bevolo: In July 2007, GroupM entered a partnership with Fremantlemedia, one of the best production companies in the world, to produce "Soccer Prince", a reality TV show broadcast on Hunan Satellite TV, one of China's most innovative channels. On that occasion, you declared to the press: "Investment in content opportunities is core to GroupM and we are very excited to have such a high-profile project as our first one in China." In Europe, the proliferation of reality TV led to the creation of "instant celebrities", leveraged by brands as testimonials and beyond. Do you believe this will become a constant phenomenon in Chinese society as well, and would you advice high end brands seeking popularity and equity in China to associate themselves with such specific "evangelists"?
>
> *Bessie Lee: Reality TV has been in China for a while and has produced many instant celebrities – winners of The Super Girl, a national singing competition, to name an example. Most are not qualified to be celebrities and fade away as quickly as they rose. The reality TV boom has passed. Choosing celebrities for endorsement in the high end sector should be a considered process rather than jumping on the latest fad. The person has to be appropriate, talented and authentic. "Instant celebrities" often fill none of these categories.*

If the red carpet is the natural milieu of celebrities, then let's keep the glitz in our eyes, and, while we move to a more "classic" advertising case history, get ready to enjoy the shining vibrancy of the most celebrated crystals in the world, and first-ever classic brand advertising campaign.

<u>Swarovski and its first-ever advertising campaign</u>

In 2006, after more than 110 years at the top without the need of an overall "classic" marketing communication effort to support the brand in its widest sense, Swarovski launched its first ever cohesive brand campaign. Swarovski chose an agency, SelectNY, highly specializing in the luxury field and in its most immediate ‘relatives’, namely mass luxury and High End. Select NY delivered for Swarovski a campaign of high aesthetic impact desired by the Swarovski team. Fashion photographer, Craig McDean, shot a mesmerizing portrait of top models Vivian Solari, Guinevere van Seenusa and Maria Dvirnik. The theme for Swarovski’s first-ever “umbrella brand” campaign by Swarovski is the Greek myth of the Three Graces.

Let’s leave the floor again to Markus Langes Swarovski, one of the key actors:

Marco Bevolo: For its first advertising campaign at “umbrella brand level”, Swarovski chose a sophisticated imagery, as art directed by SelectNY, with three top models as subjects and the “three Graces” as the narrative theme. At the same time, we have seen a proliferation of “bottom up” testimonials and models in campaigns by various lifestyle brands.These range from Melissa’s MariMoon in Brazil to the precise “ideological” choice by Dove, winner of the Cannes Advertising Film Festival with its Canadian viral campaign, turned commercial. All unveil the reality of beauty versus the “photoshop” treatment of fashion icons. We might be at a turning point where cultural trends demand brands to change their own visual expressions towards a more realistic aesthetics. How do you think the image factor within the context of high-end advertising will evolve in the next decade?

Markus Langes Swarovski: Brand language has to be careful when it comes to assimilating trends. Our brand represents our most basic mindset, and we aspire to stay true to that mindset. Our desire is to depict goddesses, and we aren’t going to change that simply because it is trendy to do so. On the other hand, one must always keep a critical eye on the distinguishing features of one’s brand and be able to adapt to the times when necessary. The grammar of our brand will always be marked by “swan-like-femininity,” which, by cultivating a sensitive intelligence, we strive to express in a language that will be understood.

From this brand campaign the seeds were provided to communicate the joint proposition by Philips and Swarovski, launched in March 2007. What are we to make of this interaction between the High End and the agency, the marketer and the designer? The outcome is really the meeting of these two brands, blessed by a design-based harmony. “Active Crystals” is the joint proposition by Swarovski and Philips, who merged their design efforts. With Active Crystals, the two companies established a new dialogue between the world of High End, high style and the world of high tech.

The two in-house design teams delivered a unique line of beautifully functional state-of-the-art earphones, and USB memory keys. Material design was clearly critical in this joint proposition, so the teams used silver metal and transparent crystal. The sensual outcome is a High End combination of fashion and digital tools. Active Crystals was launched at Colette, in Paris. From the website, www.active-crystals.com, we experience Swarovski-like styling and posture of a Caucasian model with a delicately pale skin complexion, immersed in the experience of the Active Crystals earphones. The scene recalls the atmospheres of the Three Graces campaign, especially the “In the grace of light” version.

From Paris *"tres chic"* locations to your own very living room: Philips Aurea

On the summer solstice, the 21st of June, 2007, in Paris, Philips proved itself worthy of this field of the High End by organizing a visually stunning pre-launch for its new "Aurea" Ambilight TV. Philips Ambilight TV builds upon the notion of *Ambient Experience Design* by integrating lighting into the frame. Proprietary software delivers light of different color and intensity as necessary to complement the images flowing on screen. The result is far more than the description might lead one to expect. Amblight immerses the viewer into the cinematic experience with an aura of light complementing the moving pictures for the best visual effect, and a memorable visual experience. The viewer's eye does not simply "see" a point in space but rather sees the entire context around it. Ambilight TV's could be considered the first TV technology that truly enhances the eye in terms of holistic pleasure of viewing. "Aurea" represents a paradigm-change, a High End experience engineered into the product using software.

Philips went a step further with Ambilight, to attract the High End customer. Hong Kong born director Wong Kar Wai, well known for work in the High End such as with Lacoste, created a short film inspired by the campaign theme. On August 30, 2007 the movie was shown at the world wide TV premier of Aurea. The event was held at a traditional venue, the IFA consumer electronics fair in Berlin, Germany. By shooting a special movie rather than relying on traditional modes of advertising, Philips moved Aurea several notches up to the High End. The effort moved on with fashion photographers, and ended up with a relationship at the Lanvin stores, again a move towards the very top of the High End.

This last reference above to the Philips launch of "Aurea" brings us back to "placement", the last aspect of "marketing communication and distribution" for the High End. The presence of "Aurea" in the very "holy ground" of luxury represented by the Lanvin boutiques is beneficial for both brands. Lanvin associates itself with the top of high tech, namely people-focused, experience-driven innovation. On the other side of the coin Philips has a clear presence in a venue where luxury and the High End define themselves. The importance of placement can be also seen by the thinking behind the Paris launch of the aforementioned Active Crystals. The launch was held at the world renowned Colette, one of the most important "temples of taste" in the world of luxury. Afterwards the distribution took place in Asian, North American and European department stores, consumer electronics retail, and in Swarovski stores. Here, again, we see how Swarovski gains access to the global retail powerful presence of the Philips brand, and Philips elevates its status by being physically present and "placed" in a High End name's own branded channel.

Summing up – the four questions for marketing, communication & distribution

1.The "grassroots" factor. Does the High End proposition benefit from the buzz effect generated by culturally-driven grassroots communication?

2.The "image factor". Is the High End proposition associated with a compelling and appealing visual presence, so that the brand can demonstrate its promise?

3.The "celebrity factor". Does the High End proposition benefit from the public endorsement of celebrities?

4.The "placement factor". Does the High End proposition feature selective distribution, launch or presence in specific channels?

High End Proposition Charter - Dimension 5 – Sustainability and simplicity

The role of High End is simple here. For sustainability to operate at the individual, personal level, the High End will be nothing more than the ability of High End 'artifacts', products and services, to anticipate and comply with human needs, desires and habits of use, respecting the planet and the human societies that populate it.

It is now time for a change of scenery. We now introduce a few aspects of the social and ecological aspects of sustainability. We go to the city, to explore the cauldron where lifestyles are born that will be the inspiration, the Greek 'genius' of inspirational power of the High End. Here, a Philips Design research program helps us.

Cities and a better future by design

In 2006, Philips Design engaged in a world class exploration to identify and then verify key directions of urban futures and 'tomorrow's developments'. The approach was systematic, the focus was global and regional cities. A structured path was followed, one learned from previous efforts all across the decade before, using both continuations of the previous efforts and as well as new research approaches.

The program emerged from the qualified vision of world class opinion leaders. The 2007 city.people.light" program was run with the participation of many urban and architectural masters. Some of them of these are design greats, such as Richard Rogers, Robert Venturi and Denise Scott Brown, Deyan Sudjic, director of the Design Museum of London. And the list goes on. As the best argument to express our belief in the value of such approach to research, we present the following quote, gathered in one of the most intense interviews:

> *"The city of the future will inevitably have to be compact, multi-centered, with good public transport, designed to encourage walking and biking as alternative means of mobility with the lowest ecological impact as part of a mix aimed at minimizing pollution. It will be a well-designed environment with socially mixed living / working options integrated in its DNA for new communities to emerge and flourish in a safe and fair context. The transformation of contemporary problems into future opportunities is the only way to pursue such positive change. It remains a field of open opportunities for High End propositions to be launched and positioned in tomorrow's urban markets".*
> (city.people.light architectural thought leader interview, 2006)

The trend directions that emerged became starting points for innovation workshops, performed with professional leaders in urban planning and lighting design. These workshops took place around the world in a number of cities (Nice in France, Philadelphia in the US, Shanghai in China and Hamburg in Germany). The workshops offered the participants a rare opportunity to enjoy an open platform for discussion and networking. The output was significant, generating a collective production of nearly 150 concepts. These concepts were once again captured in a book, which was presented at a major industry-wide forum in Rotterdam, during May, 2007. Nearly 500 urban professionals attended. The results of the "city.people.light" program were also made available to the public because it was felt by Philips management that sharing the information would benefit society at large in the same way as does sharing academic scientific research. Urban futures are essential to the high end. As we will see later in this book the city will come back as very important in our exploration of tomorrow's High End.

<u>Environmental sustainability – Lexus</u>

From cities to cars, the connection seems a bit outdated indeed but to some it might still sound logical, carbon tax permitting. The focus on "societal sustainability" in the urban and industrial context will be important, but should not, of course, subtract attention from the second pillar of a sustainable High End proposition, namely the ecological concern for the environment.

From this viewpoint, we would like to go back to one single example: the Lexus brand, and its quick adoption of *<u>hybrid engines</u>* in its range of luxury saloons and SUV's. We could discuss the design aspects of the LS600h, in terms of simplicity and style, with the purpose to deliver an understated yet triggering and inspiring vision of how the premium segment of contemporary sedans can look and feel. The important factor here is Lexus's ecological promise, its true achievement in view of the "sustainability" dimension of our "High End charter".

<u>Personal sustainability, or Simplicity for all of us – Philips and the home of the future</u>

Here return to Simplicity. What precisely do we mean by "simplicity"? "Simplicity" does not mean, by default, over-simplification, as we read in an extract from the interview we held with Markus Langes-Swarovski:

> Marco Bevolo: There is a general agreement among observers about the necessity to offer digital solutions and applications that simplify people's life, yet with a strong element of emotional appeal. How do you personally see expressions of simplicity being articulated in the next years?
>
> Markus Langes-Swarovski*: This "simplify your life" business may be wonderful indeed, but simplicity need not be exaggerated. Simple, but no simpler than that! The essence should remain intact. This can be seen, for example, in bad architecture. The urge to minimize often overshoots the goal. As Einstein himself remarked, "Everything should be made as simple as it is, but not simpler." The fractal nature of the world can no longer be denied, and the syncretistic, more or less osmotic tendencies of the creative disciplines must be harnessed and put to use. Consumer electronics becomes fashionable, fashion goes electronic. Architecture becomes poppy, pop music goes electronic. This blurring of boundaries gives rise to eclectic and comprehensive ideas. We ought to cull these. We need not limit ourselves by swearing permanent allegiance to simplicity. Quite simply, certain fundamentals require suitable talent in order to be expressed smartly, intelligently, and simply.*

Simplicity is not, paradoxically, simple to pin down. In a purely virtual dialogue existing on this page of this book Langes-Swarovski is joined by Andrea Ragnetti, who in his tenure as first ever CMO of the Philips Corporation, put the notion of “simplicity” squarely in center of the brand’s future:

> Marco Bevolo: Simplicity is at the core of Philips. Today, brands speak to people's hearts like never before. Brands can encapsulate the soul of their time. Like Nike did in the 1990's with "Just do it", or like Apple is doing with "Think different". I would like to project the Philips "sense and simplicity" into the future of our cultural evolution, where it might become almost the trigger of a possible "cultural revolution" in our advanced economies. Do you believe that in the next five to ten years the idea of “simplicity” could expand to become an “ideology” driver of change in societies?
>
> Andrea Ragnetti: *I would like to make a clear separation between strategy and execution, here. I believe that “simplicity” is a very strong theme in our societies, in our lives, and for this reason it represents a very important positioning for our company. This can be seen everywhere, from trend studies to our everyday lives. I would like to just mention the sense of oppression that derives from multi-choice options as one superficial example. The idea is very strong and will hold its relevance in the future.*
>
> *At execution level, I do not have the arrogance to state that Philips will be the only company to achieve excellence in simplicity. I think there is a good degree of braveness for a corporation in setting the bar so high, and defining such an ambitious challenge for ourselves. Of course, I think that the journey we undertook since the launch of our positioning will do us a great good.*

Personal sustainability entails the design and the delivery of artifacts and applications that truly contribute to the well being of people. Let’s look at an example from everyday life. We know that the repetitive use of a plain PC keyboard may lead to muscular distress and in some unfortunate cases to Repetitive Stress Injury, requiring surgical correction. Even this simple device, the necessary interface between people and the digital world of applications and the Internet, presents a potential opportunity for High End thinking and design.

It is perhaps too early to see the final end of this process. Yet we can already see the trend towards simplification with propositions such as Pronto which brings together all these entertainment controls into one simple-to-use control system, In 1999, we were all a bit like that old, venerable, old fashioned grandmother -- waiting for the metaphors to understand the nature of our digital futures, and for the organizing principle to simplify our lives. It will be wonderful to see how, in the next 10 years, companies can further deliver on such principles behind this powerful vision.

Summing up – the four questions forf sustainability & simplicity

1. The “green factor”: Does the proposition entail environmental sustainability as part of the proposition?

2. The “society factor”: Does the proposition entail policies and strategies to improve the life of local communities within its span of reach?

3. The “personal factor”: Does the proposition improve the life of those individuals who adopt it?

4. The “simplicity factor”: Does the proposition ‘simplify’ life for people in a desirable way?

SECTION 3:

A SYSTEMATIC VISION OF FUTURE HIGH END DIRECTIONS

The best, and the most appealing part of this book, we believe, may well start here. Why? Simply, here are the ‘systematics’, where you now start to do the High End yourself, for the propositions that are relevant. We now visit tomorrow, and look around to see how the High End is all over, in areas you actually work in today.

If you have just read the previous introduction to the High End Charter, look back to what you read, and take another look. The Charter is a framework for you to understand, structure, and then move forward in the High End. The Charter will guide you when you explore topics, areas, worlds that you find interesting You, like us, will keep coming back to this Charter, as a jumping-off point, to identify what exactly in the future is going to happen, and how you can understand it today. And, if like so many, you’re reading this book for fun rather than for business, then think of the Charter as a guide, sort of the type you get in a book about Shakespeare, where you can see the character and plot at a glance.

Chapter 5: The fish and the net

The High End meets the future, and the other way around.

Introduction - Reaching the High End for repeatable business success

We use as the basics of this chapter the thinking and the design methods developed over the past 20 years by one of the authors (SM) and his teams. The method developed and optimized by Stefano and his worldwide team over two decades, called High Design, embodies a unique, knowledge-based process for industrial design. High Design incorporates 'humanistic sciences' and future studies in the effort to create a fertile, nourishing stream of design. High Design leaves in its wake knowledge, artifacts, and services which populate the world of the High End.

For more than a decade Philips Design has advocated an enriched vision of design, which incorporates the social and psychological sciences of sociology, anthropology and psychology. Within High Design we see a philosophy of creative direction which joins together the 'product designer' with the 'sociologist', together with the technical and managerial talent of business, such as budget management. The creative outcome addresses today's and tomorrow's needs in a way that at once combines elegance, art, and an eminent orientation to reality. High Design is realistic, deliverable and practical.

Such a vision does not emerge fully formed as the Greek goddess Athena emerged from the head of Zeus. What "ideological blueprint" might we reference when describing High Design? Perhaps one might retrospectively and purely on theoretical basis consider the 'regional innovation engine' of Italy's design-driven High End. In his December 2006 article in the Harvard Business Review, Professor Roberto Verganti of Politecnico di Milano provides the key discoveries points from his Compasso d'Oro award-winning research.

Verganti demonstrated how the fertile networks of creative leaders, business entrepreneurs and R&D experts in a local region provide the context for the sociological equivalent of "basic research". His thesis underscored the difference between the two ways of working. One was that of the 'Milanese District', which featured fluctuations of opinions and free spirited minds engaging in "cultural R&D". The other was the approach of US innovation masters IDEO, which embody a more Anglo-Saxon, action-oriented approach involving consumer ethnography and workshop sessions. Praising the more holistic and organic approach by the Italians, Verganti crystallizes the design-driven innovation approach typical of the Lombardy ways of working, summarizing the approach as a three phase process. The phases begin with "Absorb", the cultural analysis and social research moment, move on to "Address", the actual delivery of products, services and solutions, and finishes with "Announce" through the interpretation of insights and vision, and the innovative Italian approach to marketing communication.

The process is not simple and linear, but rather like a tree, with many branches. Announcing itself involves many different activities. For example there is exhibiting in museums, and also creating limited editions in order to raise the awareness. There is also "seducing" the market by publishing books or presenting the ideas and creation in other communications that are high profile. Finally there are exhibitions of the highest quality in selected top retail in the world.

One of the elements of strength in the Italian way to design highlighted by Verganti is cooperation within a district. Thus in the Milan District companies cooperate for home interior and design. Look at bit west at Turin for collaboration in automotive and transportation design, a bit east for eyewear, to Tuscany for leather, and so on. The "Lombardy model" works. The questions are how and why.

In the Milanese design district studied by Roberto Verganti or indeed in any other creative district in Italy, there is to be found a concentration of fragmented excellences, reporting to different masters, but each engaged simultaneously in the act of creating. Contrast this natural scatter with High Design process, comprising a more or less formalized arrangement and flow, where people with different competencies and from different expert fields gather so that that they can interact, then contribute, and finally generate good ideas for the design. This 'process' description sounds a bit like the updated artist's school/studio where many artists really worked together to create masterpieces. Perhaps it is.

One might say High Design translated the cultural seeds of Italian districts and their networking richness into structured, high tech, corporate-scale processes for repeatable business success. But there is more to High Design. Underlying the process we discover a concern for the future that can only be accomplished by singular focus, with the level of control that comes from a business perspective. . High Design enriches the picture with a specific concern for understanding the future. Future studies are integral to and critical for High Design.

Design has always been about the future because every designer envisions products and solutions that require something new, something different from what exists today. High Design establishes the principle that repeatable, rational success demands a *systematic approach.* Rather than risking the future of a product or a service on one's own intuition or even partial information, High Design combines knowledge, scientific evidence, and creativity. High Design merges poetry and method to anticipate the future, develop a blueprint, and then by design using that blueprint generate business propositions. For the High End, nothing could be more important than the organizing blueprint because the High End involves many market and individual intangibles that need a guiding vision to 'play together'. We already encountered an example of High Design applications, namely the multipurpose strategy for urban futures as applied to the city.people.light program by Philips.

It is to City.people.light once again where we go next, to start our journey towards an understanding of tomorrow's High End.

Where will the high tide of High End hit the shore?

The city.people.light project from Philips Design was executed in 2006-2007. This high profile project focused on the emerging opportunities for cities as hubs for future creativity.

Again and again it became clear from the research that cities will be the main hubs where the next wave of High End will be created and adopted.

It will be in cities where High End propositions and products have the best chances to prosper by meeting people's demands and expectations. The connection between cities and the creation of new concepts and lifestyles is not only historical and as we now realize, but also crucial. Urban culture has been, is and will continue be the optimal seedbed for forging new visions, new options and new styles of living. We're not talking about the local charming area, but rather the creation of the High End, where the vibrancy of the soul resides. After all, historically weren't cities the natural engine of fashion and style for centuries already? Of course there will still be the local charm of certain remote locations, such as Grasse for the fragrance industry or Tuscany for the leather industry. These regions will continue to propel the High End with their craftsmanship, their flavors and their ingredients. In the vision of experts such as Richard Florida and Richard Rogers, cities will maintain their lead role. Cities will remain key enablers of the High End, because they will allow and even promote new lifestyles. And in turn, these lifestyles will nourish the expression of immaterial and symbolic dreams and desires.

It is now time to share the outcome of such research, and to explore together where the High End will manifest its high tide, continent by continent. Let us should begin with four urban macro-trends.

<u>From societies to cultures: urban trends as the backbone of the future High End</u>

Let us move to the context where the future will happen -- the playground and the geography of the landscape where we will operate in the next half decade or so. We can best understand this future by looking at today's "blueprint cities", where the future can be glimpsed. Our approach analyzes the patterns of culture and consumption in these blueprint cities, which happen to be distributed world-wide on four continents.

This is what will matter to urban humanity in the next decade:

Community, with these keywords: communication, continuity, connection, trust and openness. Cities will continue as social engines of aggregation and assimilation. High End propositions may be integrated into the city far more easily, if they respect and enable the informal life in cities.

Diversity with these keywords identity, bodies, difference, differentiation. From Milan to Mumbai cities will manifest their own nature, from the architecture of buildings to the natural flow of fashion and physical presence of humans, that ultimate city statement. This is good news especially for the makers and marketers of High End brands.

Complexity. From the principles of architecture cities of the future will have to re-learn the notions of sustainability of biological processes and the sensibility of a "liquid" society.

Density. Through the alchemy of innovative planning, the fundamental quality of physical proximity within cities will turn into a precious asset for the urban quality of life. New thinking will be required. It will be competitively advantageous to think High End.

Future High End will inevitably have to follow these four general directions of next human and social evolutions in order to meet the expectations and anticipate of desires of urban populations at all levels.

Urban futures in Europe - seedbeds for innovation in the old continent

From socio-cultural urban futures, let's move now to the continental general lines of evolution and regional differentiation that will play out in the next half decade. These emerged thought-leadership interviews through the city.people.light project.

Advanced European economies and the New Europe of the most recently joining countries within the European Union are likely to continue to oscillate between regional boom and continental stagnation. The challenge of environmental management will be particularly relevant in the urban culture of cities like London or Rotterdam. Those cities will welcome architectural experimentation, cultural tolerance and creative ways to harness the water that surrounds them.

The new thinking will generate innovation in its wake. This innovation will inevitably spread to the High End, as people use technology both for protection and for enhanced quality of life. At the other end of the European spectrum, Moscow represents a challenge for urban thinkers and beyond, with its paradoxes and complexities, and also a possible longer-term development exemplar for the other political and economic capitals of Eastern Europe.

We expect to see innovation and new aspects of the High End for old world cities like Essen, which have to convert industrial assets and mindsets into drivers of the service economy and of creative industries, respectively. In this game of 'cultural re-qualification or death', we expect to see some important but non-capital cities of Europe take the lead based on traditional public events and attractions, such as major sports events, museums, and more. As these non-capital cities look for ways to gain cachet with their efforts again we find opportunities for the High End. This cluster of cities includes Barcelona and twin cities in two countries; Milan – Turin in Italy, Basel – Zurich in Switzerland. And finally we have Reykjavik, with its vibrant cultural scene and the unique impact of spas, mixing urban vibes with eternal nature.

Urban futures in Asia - brave new world aspiring to become the new hotspots

Not surprisingly, Asian cities might present paradigms by which to understand our metropolitan futures. Chinese cities represent living laboratories of expansion and growth. At the same time Chinese cities are starting to come to terms with the pressing need to re-elaborate the traditional wisdom of ancient Chinese urbanism. One of the city.people.light experts offered a vision of a leapfrogging Beijing by bike, sketching the hypothesis of a Chinese capital that might want to consider skipping additional automotive traffic, to fashionably continue just biking.

Outside the Cantonese / Mandarin galaxy, the two most relevant cities in Asia command opposite extremes of an imaginary wealth scale. These are Tokyo in Japan and Mumbai in India. Tokyo's postmodern mosaic of lifestyle and pop culture imaginary will remain a benchmark of urban life. In contrast Mumbai's internal contradictions will remain powerful, oscillating between spiritual serendipity and atomic weapons, between Bollywood glamour and starving masses, between the Indian economic miracle and the challenges of a complex society. For the foreign visitor both cities have something of a lively schizophrenia. Perhaps they will meet in a few decades when Mumbai is expected to take over the position of the world's most populous city from today's Tokyo.

Lastly, although geographically positioned outside what is conventionally discussed as "Asia", we have Dubai, possibly the most fashionable luxury hub in the past few years. Dubai has evolved to where it can redefine the role of cities in the Middle East, and more specifically in the Persian Gulf region. If the conversion from oil to service economy and tourism lives up to its promise in Dubai, then new landscapes of opportunities might emerge for key cities in this today-troubled region.

Urban futures in the Americas - areas of growth and areas of hope

The Americas will no be less exciting than Asia in their next ten years of metropolitan development. The emergence of the great Brazilian Cities, from Sao Paulo to the carefully designed Curitiba, might be the big news of the next millennium. These cities will have an advantage in the likely in the event of an oil crisis that would endanger the sustainability of older, automotive-based megalopolises, such as Los Angeles.

From the optimal city management of Bogota, representing a true 'best practice' of urban sustainability, to the lively explosion of informal economies and networks in Mexico City, Latin American seems the most relevant space for experimentation, for innovation, and for the true engine of future trends. At the crossroads of the entire continent, Miami well might become the next American frontier, as it evolves into the cultural and economic junction of the two Americas, North and South. And opportunities for requalification, repositioning and the creation of new, more sustainability attuned environments are likely to rise from the lively energy of Americans everywhere on the continent. For example, Philadelphia's City Centre enterprise for the requalification of downtown might be perfectly described as a case study of "High End thinking" applied to urban life.

Cities and the High End: where will it happen, and how?

Armed with this powerful knowledge about socio-cultural trends and their implications, it is time we now move on to more specific economic factors, and to more city names that will resonate with the future of High End success. This time, we change the source of our knowledge, switching out from Philips Design city.people.light to a world-wide research effort.

Enter the Hakuhodo Global Habit survey. Hakuhodo is the leading Japanese advertising giant behind countless winning campaigns. The Global Habit research is part of their R&D efforts. Periodically the research is compiled into a global lifestyle report and high level trend analysis, coupled with a tool, the Brand Navigator, generated from deep accumulated data concerning consumer's behavior in leading cities in Asia and the rest of the world. The Global Habit survey covers 32 trendsetting cities, from New York to Los Angeles, from Milan to Moscow, with an extensive coverage of Asia Pacific, including –among others- Shanghai, Beijing, Chengdu, Dalian and Guanzhou in China, and then Seoul, Bangkok, Ho Chi Min City, Delhi and Sydney, plus the Japanese leading lifestyle centers. The coverage is enormous, with over 20.000 participants in one year, and represents a single source for lifestyle, product/brand perception and media studies. Topics include demographics, lifestyle, shopping habits, category perception and media habits, and the vast array of product categories covers, among the rest, automotive, consumer electronics, mobile communication, personal care and cosmetics.

We asked Rieko Shofu, Executive Manager at Hakuhodo's Corporate Design, how their knowledge basket could help us to identify the cities and the segments of urban populations where High End might take off by looking at spending inclinations and orientations worldwide. The response from Hakuhodo's database gave some very interesting indications. The analysis we received demonstrated how the highest score at global level was recorded in Hong Kong, with young people up to their late 20's willing to pay a premium. In contrast, Singapore recorded the lowest score.

According to Radha Chadha and Paul Husband, who covered Singapore in their book "The Cult of the Luxury Brand", Singapore is at the most mature stage of evolution of the luxury market, approaching what they call the "way of life" stage, where luxury consumption is integrated in everyday life. Despite that, the Singaporean shopper still focuses strongly on price. The theme of the Singaporean shopper is 'visible status at a reasonable price plus resale value'. Perhaps, frugal Singapore is the place to teach us a lesson in value at the High End. Singapore seems to be the market where 'price' will only translate into 'value when there is REAL value to be found in objects and services. We might conclude that both Hong Kong with positive attitude towards spending, and Singapore with more restrained and value conscious spending would offer ideal seedbeds for the High End. Hong Kong would require a more ostentatious image, whereas in contrast Singapore would require a better image of function and residual value.

Let's stay in Asia a bit more, because Asia is the fastest growing opportunity for the High End. Let's move now to consumers who maintain their stated intention to purchase and spending attitude even when the price is high. Let's begin our examination of this particular in Tokyo, Japan, and then move to Taipei in Taiwan and Seoul in Korea.

Looking more closely at Japan we find that spending in Japan peaks around a young cluster of consumers, about 20-24 years old. Here is the opportunity, rather than among the more affluent but far more frugal 50-54 year old. Moving to Taiwan and Korea, we see the opportunities spread across all the ages, not just among the younger. The pattern isn't quite clear however. In both countries the young consumers, ages 15-19, are unexpectedly far more inclined to pay a premium than are the older consumers. The rest of Asia Pacific that Hakuhodo shared with us, including Chinese major cities, Kuala Lumpur, Ho Chi Min in Vietnam, Manila, Bangkok and Jakarta appeared substantially less promising as hot beds for the High End.

The data about cities and the High End, in Asia as well as across the world suggest four trends and qualitative that we ought to consider:

All over the world the younger generations seem relatively more likely than the older generation to invest their money premium propositions. This trend is good news for the future of High End, as a general willingness to acknowledge a premium price by purchasing should grow in time;

When the price is high there is a general decline in willingness to spend among consumers who age falls towards the end of the demographic curve, ages 50 – 54 years. However, we might be missing a more sophisticated proposition, such as the Ambient Experience hospitals, which might well attract the aging baby boomers. We just don't see that yet, but it makes logical sense.

The marketer ought to re-think strategies for those countries, cities and demographic segments that show lower inclination to spend. An understanding of cultural 'fit' of the High End might be relevant here, to better position the product as 'affordable luxury'.

It appears crucial in the BRIC markets in particular (Brazil, Russia, India, China) and for emerging markets in general, ***not*** to position a High End product as an 'out of poverty enable'. This strategy might generate good sales at the start, but we feel that those good sales are really 'false positives'. As the middle class expands, the first impression, i.e., the 'poor' might stay in people's minds, even if it is close to or actually a High End product. It is probably better to raise the bar by emphasizing quality and offer 'affordable premium'. FIAT did that with the Linea model designed for emerging markets – a full featured Italian car that could be priced for the emerging markets. Here price and quality with cultural fit will generate heartfelt brand adoption.

But there is more. BRIC countries should eventually leapfrog other countries, as forecast by one of our top participants, self-made millionaire and Indian entrepreneur Rattan Chadha:

The company of the future should guard and nurture the core "idea" that represents its intrinsic value to people, and the "concepts" that translate such idea into concrete propositions. All the rest should be simply outsourced to the best makers and consultants in the world. In India, Bharti, a mobile communication company, outsourced everything, even its core technology, maintaining the control on the customer relationship that represents their real value proposition. We are rapidly moving towards, or better said we already are, in a global economy where the "idea" is all that matters, and all the rest is simply outsourced.

From this consideration about the power of India as one of the leading BRIC countries, let's move on to analyze the future context where experience design will have to perform for the High End. We have scoped the big picture and the general lines of future evolution. It is now time to explore the world of the senses, in its urban articulations.

<u>Into the heart of urban High End – The five senses</u>

From longer term socio-cultural trends and next directions of consumption, we move to experience design and aesthetic developments in the making right now, as we write. From our primary research with more our experts, one message kept emerging. The future will present a proliferation of sensorial design solutions, integrating ancient crafts of fragrance and flavor making/ mixing with high tech applications and solutions.

Again, we relied on the generosity of Hakuhodo to help us identify patterns and development directions about the senses. The database showed the different relative importance of the five senses in the vafrious countries and cities of the world, as well as their practical impact on retail and point of sale. Once again, the information provided below is not a "future projection", Rather it describes and then synthesizes the fundamentals of cultural differences, forming a platform to guide tomorrow's developments.

> Sight incorporates fundamental design qualities like aesthetic appearance and colors. The most visually oriented urban cultures are to be found in Delhi and Mumbai, India, followed by Ho Chi Minh City in Vietnam, Singapore, Jakarta and Bangkok. The least visual urban hubs appear to be, in decreasing order, Seoul, Korea and Tokyo and the Kansai area in Japan. In the future, High End could flourish on sensorial design, e.g., the visual orientation of Chinese wealthy classes
>
> Smell 'paints' a completely different picture, with New York and London leading the pack at a great distance, with the Kansai area of Tokyo third, followed then by Manila, Philippines, and Seoul, Korea. Delhi and Mumbai in India and, in last place, Singapore, show extremely low relevance of smell. "Smell" is highly regarded as a sensory input for enchantment and experiential design, especially in cities such as Milan, or by the Chinese wealthy classes in major cities.
>
> Hearing, the sense associated with sounds and music, is much more important in London and New York, but much less relevant for the Chinese and Indian major cities, as well as Taiwan. Tokyo is perhaps the lowest ranking when it comes to the importance of hearing. Creating a High End experience for Japan only thus entails a different sensory profile than a High End experience focused on New York.
>
> Touch divides into texture and feel. The sense of touch is most relevant for Asian cities in Taiwan, Hong Kong and Thailand, followed by Milan and Seoul. Touch is almost irrelevant in Japan and in Malaysia.
>
> Taste (and flavors), our final sense strongly resonate with Japanese in Tokyo, with Koreans and Philippines (especially Manila), but far less important, perhaps almost irrelevant for people from London and Ho Chi Minh City.

This sensorial exploration of the world offers us an important opportunity to opine that the future of the High End will not be designed and experienced as were our past premium products. Rather, we will see an expansion of creativity and an explosion of features and benefits created to reach us all through our five senses. This flourishing is where findings as described above will become ever more precious in terms of cultural understanding.

Summing up

Awareness and the understanding of cultural differences like the ones described above will enable and sometimes actually drive business success for those who aspire to populate the universe of High End commerce. We hope you will also feel like saying: "What a fascinating journey, from the future of continents to the very presence of sensorial perceptions!" And yet, how magically the High End connects all of this. The connection, the *trait d'union,* is created out of the common aspirations of people, be these aspirations through macro-regional evolution, sensory gratification or merely the desire for a better life.

So, how can we conclude this first part of our future exploration, sketching the general landscape behind the emergence of the High End? The next decade will be the decade of great cities and urban lifestyles. High End propositions will be there to support the quality of life of the immense metropolis and their inhabitants. We will see greater numbers of people living in more densely populated spaces and environments, demanding higher quality of services and better artifacts to reflect their economic and cultural growth. This is a very motivating and inspiring context indeed for the future of High End, one that leads to the question, where can we start to make it happen? Here comes again the High End Proposition Charter, and the full firepower of its systematic nature, to lead us into explorations and considerations of future developments.

Chapter 6

From anticipating to designing the future High End – *HOW* to make it happen

In our research we asked a quarter of our contributors to go a bit more deeply about the future. We pushed them to think along with us, to anticipate what they expect would happen, and especially how they believed High End would evolve. We wanted to know how business success and creative excellence in companies might change the High End. We did not know what to expect, so the answers inform us a great deal. Let's look at the results now, by re-interpreting our "High End Proposition Charter", presented across the last five chapters, with the eye towards the future and its developments.

<u>High End Proposition Charter - Future Dimension 1 – Authenticity & Value</u>

The key business question in this first dimension, of course, is just one - can the High End increase its (perceived) value to justify its price point? "Exclusivity" is the one single factor that needs to be carefully managed for optimal result. Perhaps this is the most challenging factor of the entire High End, after we realize the ambiguous relation between "access" and "perceived elitism" that forms the foundation of the High End itself. How will this work in the coming five to ten years?

We have been talking here about value and price. However, value is not created through price alone. In previous chapters we discussed the relevance of 'exclusivity' as a marker for value. When looking at the future we heard this same notion of exclusivity emerge again. There is a constellation of factors in play described by our experts with the following ten words and phrases:

1. Personalization
2. Limited editions
3. Distinctiveness – products have to be clearly stand out, different from the mass
4. Aspiring –products need to mark status, help enhance self confidence
5. Ultrapampering
6. Ultrapersonal
7.Ultrasophistication
8. Offers a significant degree of customization to the user
9. Elevates the individual above the crowd
10. Being part of an "exclusive group".

At first glance this group of terms seems to be far more relevant to the world of luxury than to the world of High End. Could our experts have actually mixed up the two worlds of High End and luxury? We don't think so. This short list of qualities show that what luxury is today will probably migrate tomorrow to become the High End. As long as the economy grows, including emerging economies around the world, we may expect to see universal improvement in service levels. Just one example suffices to bring home the nature of this evolution. In her aforementioned article about outlet stores, Avril Groom discussed the changing landscape of 'discount luxury', how outlet stores are being upgraded for fully dignified commercial venues for luxury fashion. We believe this is a very relevant business area to monitor in order to understand early manifestations and new evolutions of the High End.

<u>High End Proposition Charter - Future Dimension 2– Design & Experience</u>

All signs point to experience as key to the High End. These signs come both from the short-term view of the business community, as well as from the long-term view of the inevitable cultural change that flows through our world. Our experts saw that as well. Three of the most general futures were: *"Richness of experience, Network of Experiences, Continued drive to an experience-based product"*.

Design also kept coming out, occasionally almost in sexual terms. Here is one of the most memorable. You can get a sense of the person trying to wrap the mind around the nature of experience: "S*election of the fittest but also selection of the sexiest: it delivers intriguing aesthetics, representing style leadership"*. Service design will be the key to attract more people to the High End. This might indeed be the right time to extend our notion of design from artifacts and interfaces to services. Although one might expect to find the notion of 'service design' tucked away somewhere in a chapter on marketing, we think that when the discipline of design is brought to services and relationship building, the High End takes on a new aspect that will, in turn, inevitably accelerate its evolution. We waited for a discussion of service design until the chapter on the future because the notion is just beginning to take hold in the design community.

How will the design function operate in services when for the most part design deals with the visual world? Our answer comes from the way the world is being re-shaped in the presence of ever-improving, quickly-evolving technology. First, technology will provide us with an abundance of digital solutions to problems, and digital opportunities that can be crafted to help the world of service. Second, in the digital realm, communication and service can be thought of as parts of a single continuum, a continuum that will make life more pleasant, and increase personal sustainability. Sustainability is a key facet of the High End, and design leadership will play a new role in services for the future High End.

We would like now to shift our attention from the "what" to the 'how' – how will it all happen, so that the High End can extract as much as possible from design. We asked, in the context of a larger dialogue, an opinion about organizational aspects of corporate design and the outsourcing of creative projects to Karl Schlicht, business leader for Lexus in Europe:

> Marco Bevolo: "A few years ago at the Geneva Motor Show, Italdesign Giugiaro presented the Toyota "Alessandro Volta", a stylistic exercise in the form of a hybrid engine propelled supercar. Within the high end and luxury automotive contexts, the name of "star designers", from Italdesign Giugiaro to Pininfarina, is often proclaimed as a statement of design leadership, and accordingly displayed proudly on the car's exterior body. Would you believe in a future evolution of higher end automotive design that relies more on such "charisma" added value? Or would you instead see the organizational consolidation and flourishing of internal design teams within automotive corporations?"

> *Karl Schlicht: Outsourcing design development can and does work, perhaps on certain projects or for a limited time. It does not help to mature a brand's design personality…... Being premium requires being authentic as one key factor of a brand's credibility. Our Chief Designer Wahei Hirai brought the turnaround in Lexus design, not from scratch, but because he knows the inner values of Lexus better than any other. It is only Lexus' own designers that really understand the brand roots, cultural habitat and character nuances of Lexus, for it this takes years to learn and express them to be ultimately able to progress design and visualize its vision. So, we would rather the design of the car be the star, and our own designers being their 'father' so to speak.*

Given the very nature of their profession and the latest evolutions thereof, design leaders stand at many crossroads; of aesthetics and philosophy, of the spiritual pursuit of beauty and the material dimensions of materials, of ancient archetypes and the creation of the new grammars of the digital age. In short, designers may well evolve into the true voices and souls of High End propositions by sharing their view of the world.

At the time of this writing in 2008 it appears that designers will manifest their influence in two ways, as artisans and as mentors. First, designers will form and create artifacts. Second designers will become powerful storytellers. In the future people will increasingly screen brands and designers, looking for the story that embodies the truth of the vision underlying the product or service. It is up to the designers to raise their voice and let their stories resonate with the souls of brands, in an authentic, genuine, and substantive fashion.

High End Proposition Charter - Future Dimension 3 – Innovation & Leadership

Considering the fact that half of the authors are professional designers, we would like to look at innovation and leadership from the vantage point of design. Here is where we would like to further elaborate on the aforementioned notion of High Design, the Philips Design approach to managing creativity for innovation and business success. High Design, the formalized approach that creates the High End comprises a simple set of five phases. Note the discipline as described, and yet the freedom in that discipline – certainly the *alphas and the omegas* of art and business:

1. Initiation;
2. Analysis;
3. Concept;
4. Finalizing the concept from prototype to production;
5. Evaluation.

Of course, there is more than just method to innovation by design. For High Design to truly work the Italian model of 'textured networking' needs a mirror in the corporation which provides it a home and the necessary resources. To reach what author Malcom Gladwell identified as a "tipping point" in his pivotal book about trends, we believe indeed that new dimensions will need to be incorporated in the innovation process.

Let's look at a few trends here. Corporate partnerships and networking, for example, might evolve from "soft lobbying" into a more structured business capability. The evolution will occur as companies realize the growing importance of connecting different people working for different industries. Networking will be more and more visible in tomorrow's companies involved in the High End The role of "corporate mavericks" will be re-evaluated, and re-valued. So will be those individuals who own the vision and "surf" corporate processes with a sense of purpose and a precise direction, invaluable assets to ride the high tide of the High End.

We return here to thee Italian district-driven approach to design innovation. High Design should find its intellectual point of origin in this undisciplined yet productive heritage. In return, the Italian way to design finds in High Design a corporate process, an organizing principle and philosophical vision that now can migrate productivity by networks of small family companies to productivity in Fortune 500 corporations.

We have found that with the proper corporate nurturing High Design no longer need only grow isolated in one happy region, blessed by the accidental combination of individuals with different, necessary, and complementary talents. Rather, the power and discipline of corporate thinking, sometimes the bane of creativity, is in this case harnessed to the knowledge-development and creative effort of a company with a much wider reach, with deeper pockets, and with the need to innovate on an continuing basis

High End Proposition Charter - Future Dimension 4 – Marketing Communication & Distribution

We begin here from where goods normally end, retail and distribution. What about the future of this crucial 'space', those physical retail channel and other distribution channels where the placement of goods actually occurs? What will these stores look like?

On occasion of the 2007 Corporate Research Exhibition, Philips Research created the ShopLab, a simulated retail environment where the applications of tomorrow could be experienced 'today'. ShopLab was visited with great interest by the leaders of some among the best luxury brands, eager to get a sneak preview into what tomorrow might bring. Two of the new High End developments featured in "ShopLab" had been designed specifically to offer viewers a sense of the future they would encounter when they shop. Keep in mind that the objective was to not call attention to these new developments, but rather to understand how High End products would be seen in a store of the future, when merchandised in new ways.

Let's look at one of these, ILLA, or Intutive Interaction for Lighting Atmosphere. A continuing issue is the need to 'understand' a specific product, and then with that understanding create the appropriate 'atmosphere' using lighting. The products vary, but the problem remains – how to optimize the lighting on a case-by-case basis. ILLA comprises a suite of technologies designed to make merchandising the High End significantly more powerful through the use of light. ILLA simplifies the High End merchandising of different products through the use of light, whether the light comes from the optimized color selection of background lighting (done by ColorSensor) or the from the ability to 'paint the show area with light', by simply scanning and pointing (done by LightWand).

Let's move now to a closer look at marketing communication. In tomorrow's world of the High End traditional methods of advertising and indeed of creating the High End will change, as the digital world expands. One of the participants person summarized it quite simply as *"Less* *successful will be big marketing campaigns, more importance will be leading grass roots media"*. In the coming extreme polarization between mass media and 100% user-generated content we expect to see an intricate network of 'gray zones'. The High End will develop from methods other than the traditional communications.

The notion of communities continued to come up when we asked participants about the future of the High End. Yet it wasn't quite clear how the communities would be built, except that it was through communication. When it came to just what type of communication would build the High End and the associated communities, the results were mixed. For example, we heard this comment, or a variant, six times, suggesting that communication is changing, but no one really knows what form it will take: *"Grassroots (e.g., blog-based or word-of-mouth-acquired) reputation"*.

What about Ads, will they disappear at all? Top down advertising and communication will still be crucial but it isn't always the rule anymore. Viral communication and grassroots media are unavoidable, as the content of communication is increasingly being taken over by the consumers of the communication. It is in the virtual world that many High End brands, and indeed celebrities, communicate. For example, sponsoring a regular concert might be good promotion for a High End brand. Yet in the world of tomorrow's High End, sponsoring such a session in the digital media landscape of virtual worlds, like Nokia did in Brazilian SecondLife with Fat Boy Slim, might be more powerful, more truly '*au courant*'. In this virtual world the customer may be ready to accept a brand, especially a high tech brand, when the focus is on functionality yet the tonality of communication is one of fashion and lifestyle

High End Proposition Charter - Future Dimension 5 – Sustainability & Simplicity

Let's start from sustainability in its widest macro-context. The key question is where will sustainable challenges take us in the future? And how will future High End emerge from there? Since 1996, the Millennium Project of the World Association of UN Associations and the American Council for the United Nations have periodically reported on the "State of the Future" in a comprehensive report detailing the key challenges and opportunities ahead of us all. The report then talks about the 15 global challenges.

1. *How can sustainable development be achieved for all?*
2. *How can everyone have sufficient clean water without conflict?*
3. *How can population growth and resources be brought into balance?*
4. *How can genuine democracy emerge from authoritarian regimes?*
5. *How can policy making be made more sensitive to long-term global perspectives?*
6. *How can the global convergence of information and communication technologies work for everyone?*
7. *How can ethical market economies be encouraged to help reduce the gap between rich and poor?*
8. *How can the threat of new and re-emerging diseases and immune microorganisms be reduced?*
9. *How can the capacity to decide be improved as the nature of work and*

institutions change?

10. How can shared values and new security strategies reduce ethnic conflicts, terrorism, and the use of weapons of mass destruction?

11. How can the changing status of women help improve the human condition?

12. How can transnational organized crime networks be stopped from becoming more powerful and sophisticated global enterprises?

13. How can growing energy demand be met safely and efficiently?

14. How can scientific and technological breakthroughs be accelerated to improve the human condition?

15. How can ethical considerations become more routinely incorporated into global decisions?

(Source: “2007 State of the Future”, The Millenium Project)

Now speculate on the role of the High End in the context of these 15 global challenges. The High End of the future will be associated with creative solutions to these 15 challenges, both indirectly and occasionally directly. Our experts were asked in what way might the future lead to a flourishing High End, given a specific choice to embrace one or another form of sustainability. We were particularly struck by the positive, occasionally emotional response here, namely the notion of sustainability envisioned as “**the opportunity**”. For example, a notion of upgrading versus replacing is important from ecological viewpoint, and it is particularly relevant for High End makers of digital-based products. Blue-sky thinking is the horizon, here, and the sky is truly the limit. Needless to say, we were, of course, delighted.

We conclude our review of this dimension of the High End Proposition Charter with the final factor, ‘simplicity’. As we debated in our earlier chapters, together with the important contributions by Markus Langes Swarovski and Andrea Ragnetti among others, “simplicity” is here to stay as a key theme for the High End of tomorrow. We also, indeed, believe in the power and promise of simplicity.

Summing Up - Tomorrow’s High End – Restatement & formalization of the High End Charter

At the end of our journey into the future of High End we have created a portfolio of hypotheses designed to trigger discussion and stimulate exploration. We have put this into our ‘High End Proposition Charter’. We created the charter by extracting the dimensions of the High End. For each of the five dimensions we identified four relevant factors. The charter is a tool that allows you to check off the features of what may be the High End of the future. The charter is not carved in stone, but rather provides a series of checkpoints to assess the nature of propositions being considered. In the following chapters you will be able to use the power of science, of people’s attitudes, and of experiments (called RDE or rule developing experiments) to understand the future, and to gauge the High End nature of propositions that interest you.

But first, let’s reiterate what the future looks like it will be, at least at this writing in 2008.

Dimension 1 – Authenticity and value.

1. The "origin factor". Future High End brands and propositions will not be based on today's strict criteria of pedigree. They will rather have the label 'Designed in', recognizing today's production practices in the era of globalization. *"High End propositions in the advanced economies will be influenced by the new Asian and particularly Indian brands that will soon hit the market"*.

The real challenge, here, is for BRIC and other emerging countries to conquer the heart of luxury and High End consumers. Shanghai Tang made its first attempt as Chinese luxury brand, with mixed outcome and a happy ending. Tata recently purchased the Jaguar and Range Rover brands from Ford, in an effort to move higher in the premium ladder. Ultimately, time will tell whether or not a next "Made in Japan" as quality benchmark is really in the making, and how long it will take for it to compete against established countries of origin.

2. The "exclusivity factor". Exclusivity will continue to be crucial in the future, but perhaps it will be the 'icing on the cake'. Of course, there will always individuals, especially in emerging economies, who will pursue self-elevation by purchasing status-inflating brands and products. However, consistency may eventually become even more important than exclusivity for the High End.

3. The "price factor". Future High End propositions will be more desirable than mass market goods. Ultimately the High End will have a stronger reputation, based on functional superiority that comes from innovation + design combined with the allure of image and reputation. This combination will support a higher price. With the emotional added-value of a premium image, the "price" factor will be one of the key "luxury" components of High End.

4. The "residual value" factor. Of course, we are not addressing here the world of auction houses or luxury collectibles. A potential future, superior form of High End may reside in creating products that enjoy an increase of market value over time. The shift from industrial design to consciously crafted collectibles of the future will happen perhaps thanks to the new possibilities offered by digital design and co-creative immersions in virtual world. One way or the other, the rise of the "connoisseurs" has already started, and it is here to stay.

Dimension 2 – Design & Experience

1. The "holistic" factor. High End propositions and artifacts will increasingly be future-oriented and holistically designed. Collaboration with human sciences and future studies within the design process of goods, services and digital applications will become increasingly important. The collaboration may allow High End brands to leapfrog towards higher realms of luxury by better fitting with the values and needs of people in the future. The holistic factor might extend its reach beyond the support of new lifestyles, towards a humanistic concern for emerging societal needs.

2. The "craftsmanship" factor. A natural marker of true luxury, craftsmanship will surely exercise a powerful attraction for High End audiences. Artifacts of the highest quality will maintain their privileged position as well in the premium and "democratic luxury" markets. What, then, do we expect to change over time? Digital channels and applications will offer the

opportunity to re-define the notion of craftsmanship, maintaining the qualities of exclusivity and uniqueness, while at the same time giving access to wider audiences. Such "digital craftsmanship" might result from integrating insights about people with design-based, high tech opportunities.

3. The "design leadership" factor. High End brands will demand that their designers lead. Such prominence will come from the high ground of cultural thought leadership, maintaining consistency and authenticity all the conventional brand touch-points. We may expect to see an almost ideological component, where designers transform into evangelists. Such evangelization might continue from the natural "holy countries" of design. We may see leadership from the more conventional countries such as Italy and Scandinavia. In the future we may also see leadership coming from newly established players in the design arena, ranging from The Netherlands to Brazil, with the potential promise for other emerging countries, from China to India,

4. The "inclusion factor". From the privileged viewpoint of thought leaders, the High End will be the "golden spot" opportunity to stretch the notion of inclusiveness. Inclusion may begin with the necessary support of citizens in need, but it will move onward to the creation of service platforms designed for the enormous future proliferation of urban lifestyles. Diversity will provide the seedbed of High End opportunities. City environments will be a natural incubator. It might perhaps be a challenge to shift the "soft belly" of potential High End customers to this side of the proposition, from exclusivity of the user to the inclusivity of all people. Yet the concerns expressed by intellectual, academic and creative class elites in countries like the US or China, as registered during the 2006 city.people.light workshops, give every reason to believe that the inclusivity factor will sooner or later become highly influential. Awareness of this ongoing societal development has not as yet surfaced yet among wider audiences, as we will see in our later quantitative chapters.

Dimension 3: Innovation & Leadership

1. The "innovation factor". This will be expressed by functional as well as technological features. The key here is a multidisciplinary integration, rather than innovation for the sake of innovation. The integration will provide the necessary roadmap. For repeatable succes, High End enterprises will have to adopt a structured design approach that anticipates and then incorporates the cultural and social expectations of their audiences. The blueprint of High Design, the approach created by Stefano Marzano and tested in the nearly 20 years of his experience as CEO of Philips Design, might be one of the 'systems' that generate repeatable success.

2. The "revolutionary factor". The revolution will not work in larger organizations such as corporate conglomerates, unless talented, maverick individuals can trigger, provoke and bring such organizations towards their next "tipping point". We see a short term necessity for paradigms that allow the company to accommodate and nurture 'blue sky' thinking, and disruptive innovations. The High End will benefit from this revolution factor only to the degree that the company can allow revolution to work. On the other hand, on a longer term, we may expect to see only truly "inner revolution" oriented companies survive and thrive.

3. The "partnership" factor. Partnerships will encourage innovation to succeed. The goal is to fuse the best of two worlds, combining assets from high tech companies with the image, critical weight, and financial strength of top brands. What people will want is clear in the words of our experts. Corporations and big organizations also will benefit from the action of networking-oriented "maverick executives", capable of connecting them across categories and industries. The result will be new opportunities for High End innovation beyond the silos of the status quo. And co-branding, cross-branding and other form of meaningful, truly relevant partnerships, will add new groups of consumers to the corporation's customers.

4. The "thought leadership" factor. It was thought leaders' own opinion that the potential success of 'thought leadership' as High End factor will vary from culture to culture. The reason is straightforward; "leadership" is deeply connected to cultural differences indeed. Thought leadership at cultural level will be a very appealing asset for High End entrepreneurs and top managers of the future, because this premium part of the market will constantly search for new ideas, concepts and visions. The search will entail not only speaking from their heart and meeting societal expectations, but also mastering and controlling one's "inner voice" in the new media channels that Web 2.0 and virtual worlds will encourage. Again, awareness of these evolutions has not clearly emerged as yet among the wider public.

Dimension 4: Marketing, Communication and Distribution

1.The "grassroots" factor. This factor is already perceived as very important by large organizations, as proved by the popularity of tools like the Net Promoter Score. The grassroots factor or *vox populi* (voice of the people) will become increasingly crucial. High End brands will need to relate to opinion leaders in the population, the so-called *Influentials.* High End brands will also need to explore new venues and new ways to anticipate cultural change, acting as "citizens of the virtual world" with authenticity and honest enthusiasm.

2. The "image factor". Cinematic quality and top aesthetics is currently a discriminating factor for High End brands to position themselves, and does not look like it is going to go away anytime soon. However, the rise of new aesthetics determined by the Web 2.0 type of content in time will change our own cultural perceptions and prescriptions of what beauty and style entail. Cultural studies and trends research appear to be key assets for High End brands to anticipate the developments of tomorrow in terms of the new aesthetic canons of image

3.The "celebrity factor". The fundamental mechanisms that drive the world of celebrities is ruling entire industries at the moment, and seems critical drivers of success for luxury and High End brands. The celebrity factor is especially strong in specific regions like BRIC countries. One might wonder about the risk of overload, however. Furthermore, looking at a longer term future, the definition of 'who' a celebrity is and what she or he does, will inevitable change as the society and culture evolve. For those who aim to stay on the high side of the High End, 'being out there' to sign the hottest testimonial of today might therefore needs to be strategically complemented, by proper analysis of what will be next red carpets, or silver screens, and even other opportunities that emerge out of society and culture itself. This celebrity factor remains one of the High End factors mostly likely to change in unexpected ways, as we will see from our quantitative tests and experiments in the next chapters.

4.The “placement factor”. The nature and level of service and a general high quality and attention to the overall sales experience, be it on-line or in shops, will continue to differentiate luxury from High End, and in turn High End from mass market. New technologies will enrich the point of sale and the store environments of the future. We may expect to see sensory-based enrichment and response-based enrichment, both incorporated into the very physical dimension where “placement” takes place.

Dimension 5 – Sustainability & Simplicity

1. The “green factor”. This is an area where each of us, people or companies, will need to engage for change in the future, both as an objective necessity but also as a plain civic duty, The urgency has been particularly emphasized by the interviews with urban thought leaders and by the workshops of city.people.light 2007. Countries are already deploying signs in the everyday reality about how adopting the ‘eco’ approach to daily life is ‘cool’, and worth imitating. At some point, however, over time and not so far ahead, green will be nothing more than a plain hygiene factor for each brand, mass or luxury, and therefore part of the due diligence that every company does in order to keep functioning.

2. The “society factor”. Societal values will evolve towards a new role for local communities and an increasing value attributed to authentic cultures. In this context, companies and brands will have the opportunity to respond to such evolutions. Savvy companies and brands will take the lead, and exercise the leadership role to guide the macro-changes, or alternatively choose to be an engine of community-building in their specific areas of competence.

3. The “personal factor”. Digitalization and high tech will offer the best opportunities for High End personalization, including the possibility to upgrade applications and artifacts at the touch of a download. Digitalization will not be enough. Technological assets have to be guided by, and accompanied with relevant human warmth and meaning. The soul *and* the machine, not the soul of the machine, is the operative phrase here.

4. The ”simplicity factor”. Simplification with genuine meaningfulness of people’s lives is and will be a key theme. Simplification will turn out to be a reservoir of opportunities for those aiming to operate at the High End of their categories and industries. The consensus among participants, here, was virtually universal about just how important simplicity will be.

With this synthetic overview of the High End Proposition Charter attuned to visions of the future, we conclude our qualitative explorations. From semantic analysis we move on to statistic rigor, from journalistic geared conversations we shift to mathematical analyses of the ‘algebra of the consumer mind’. We believe that the two worlds not only do not collide, but they truly complement each other. In this book the meeting of these two planets of research, the “soft” and the “hard” ones, is the act of intellectual exploration and union upon which the very architecture of this book was born out. We invite you to enjoy reading the next chapters as much as we enjoyed writing them, together as authors, in spite –or maybe exactly because of our different backgrounds.

SECTION 4:

'ALGEBRA OF THE MIND' FOR TOMORROW'S HIGH END

For a High End proposition to be successful in the future, customers, those ultimate adjudicators, will have to buy it. Sometimes, superior quality and beautifully premium designed products find their way to the dusty shelves of discount stores whereas their inferior competition, whether we like it or not, hits the jackpot. In most cases success has nothing to do with sheer 'luck'. Rather, it is a result of better and deeper insights into the customers' mind, their perceptions and preferences, predilections, etc.

Marketing the High End can be challenging. For decades marketing science has struggled to find methods to "unlock" the minds of customers. One key finding keeps coming up - direct questioning of customers, unlike the case of industry gurus, does not and perhaps cannot answer most of the important questions. This is why we invited more than 70 industry experts and thought leaders to join us in the qualitative research explorations that led us to define the High End Proposition Charter. And this is why we chose a different approach to involve people like you and me.

When it comes to the "man in the street", or regular folks, however, by what means can we ensure we truly understand their future orientations? Ask a customer what a contemporary high-end product ***should be***, and chances are high that in return you will get a moment or two of 'ad-speak', a regurgitation of today's crowded advertisements. Now think about predicting the future this way, with the voice of the consumer as the guide. The task is even harder, because nobody can really articulate what has never been seen, nobody can desire what has not been invented, simply because of lack of knowledge. It is very difficult for a majority of consumers, if not impossible, to conceptualize future potential artifacts which just at this moment simply do not exist. Who could have imagined a cell phone with digital camcorder and virtually fully fledged computer insight, just 50 years back? The future can only be described by means of metaphors and analogies with the present.

In general, most people do not know or cannot articulate what they want, now and especially in the future, except of course in the simplest, routine, prosaic cases. Yet, adopt the experimental approach, show them several alternatives and pretty quickly they point out (albeit indirectly) what they want, and usually why.

We just completed the first half of our journey by structuring visionary ideas into a powerful analysis and consulting tool, out Charter. We propose, now, the experimental approach to map out the quantitative future High End, using vignettes (test concepts) that describe parts of the future. People have no problems identifying which one of the alternatives they prefer or rate their perception of how much one product is more high-end than others are. Knowledge 'pay-dirt' comes not so much by direct questioning but rather from the analysis of 'experiments', where these experiments comprise vignettes about a future, the responses comprise agreement/disagreement or liking, and the analysis looks for patterns. Within this method, the patterns underneath people's responses to vignettes are, in fact, their 'guesstimates' of what the future may be.

With this scientific approach in mind, come join us now for the next step in our journey to tomorrow's High End. This time we take you there with numbers, to complement the opinions of our experts. But the numbers themselves will be quite interesting. They're not the numbers of quantitative forecasts, of economic reports, of sizes of markets, but rather numbers of the mind, heart and soul. Come, our journey is about to resume.

Chapter 7

Measuring tomorrow's High End Mind: An RDE Backgrounder

Introduction – Probing the mind of today's customer

Today's business world is very familiar with science, experiments, and analytics Indeed it is fair to say that even those dealing with luxury are aware of and use experiments to discover out what people want. The practice is straightforward – and often resembles nothing so much as a 'beauty contest', where the best performer wins. Yet, there's more. That **more** is a whole discipline and science about how to learn what's really in the mind. Or, how to discover 'rules' to make oneself smart. Or, in some cases, how to discover what to do next, even if one feels like guessing is a viable alternative.

We start with current practice, the beauty contest that we just mentioned above. To learn what's in a customer's mind, much of today's business practice creates a limited set of concepts, and all too many cases just one embodying the 'best guess'. Then a researcher, brand manager, or entrepreneur presents these concepts to customers, in focus groups or in more objective 'concept-screening' tests. Whatever the method, the objective is to discover which concepts win, and perhaps why the winners win and the losers lose. In more cynical situations the research is abandoned in favor of a more politically correct method -- solicit the responses to a few concepts from the head of marketing, the president, or some relative of a board member.

Let us try to improve on this oft-discouraging path of create/measure/decode/re-try/re-measure approach. We will use experimental science to find out what actually drives perceptions of tomorrow's High End, i.e., for approximately the next 3 - 5 years.

What if we could create 'test combinations' by mixing and matching ideas, present these vignettes to consumers, who then rate each vignette on the degree to which that vignette describes a plausible future High End, say in 3 - 5 years time?. Let's pursue this idea a bit more. If we are sufficiently diligent, then we could use statistics to determine which individual ideas in our vignettes 'drive' what a person would think to be the future High End .

This is the experimental method in one of its more elegant incarnations.. To the people taking this 'future-scenario' test, it's probably just like evaluating a group of advertisements. Yet within that disciplined approach lurks the answer. People react to these vignettes with very little problem. At the end of the process, standard statistics reveal exactly which ideas in the test vignettes really drive the perception of the future High End that waits in the months and years just ahead of us.

We have just described the systematic method known as RDE (Rule Developing Experimentation). RDE measures what wins/loses, but even more important, reveals the rules by which to make even better ideas. Because it is structured, powerful, but fairly straightforward, RDE is now a popular method in business, and spreading world-wide. Today, RDE finds application in the development of products, and services, advertising, package optimization, etc. Most exciting for this book, RDE has evolved to a discipline with which to create a base of knowledge about the mind, the so-called 'algebra of the customer mind'. In our particular use here RDE will uncover what the near future of the High End might look like, pulling these visions out from the mind of consumers in different countries.

Where did RDE come from?

Incubated over the last decades inside most innovative and forward-looking global companies, the RDE approach has been formalized and developed by Moskowitz Jacobs Inc. in cooperation with Dr. Jerry (Yoram) Wind from the Wharton Business School (University of Pennsylvania). The term was initially coined by two of the authors (HRM, AG) in a series of articles and conference papers. The knowledge-building approach for systematic design and developing/using the rules in various applications was formalized in their book *Selling Blue Elephants: How to Make Great Products That People Want Before They Even Know They Want Them*.

> ***Rule Developing Experimentation (RDE)*** *is a systematized solution-oriented business process of experimentation that designs, tests, and modifies alternative ideas, packages, products, or services in a disciplined way using experimental design, so that the developer and marketer discover rules and patterns showing what appeals to the customer, even if the customer can't articulate the need, much less the solution.*

RDE isn't new. In fact it goes back decades, to the period when the scientific method first found a welcome home in business, especially marketing. Some aspects of RDE have previously been used during the past 25 years for the design and optimization of physical products, product development concepts, marketing communications, as well as packaging. Beginning in 1982, RDE was variously described in different books and articles by a number of different terms (e.g., product optimization, concept optimization), depending on the application area and the topics. RDE has been effectively utilized over the years by many of Fortune 500 companies around the world in one or another form.

Sometimes RDE is referred to by the generic name of experimental design applied to concepts, called 'Conjoint Analysis' although RDE has a wider meaning. Technically, RDE is based on experimental design, a branch of statistics and mathematical modeling that comprises the orderly arrangement of test stimuli in a way to uncover the contribution of each element, and in some cases, the nature of the interactions between pairs of variables. RDE will help us to quantify people's perceptions of what they feel will determine the near-future High End. The emphasis here is on the word 'feel'. In the previous chapters we looked at trends and talked to experts. Here we talk to actual consumers, the ultimate customers of the High End..

The roots of RDE come from three sources:

> **Experimental psychology** - RDE is founded on the fact that perception and behavior are linked in a two-way exchange. RDE traces its intellectual history to

psychophysics, the study of the lawful relations between physical stimuli that can be varied and the response of people to these stimuli.

Driving power of business – the perennial need to create new products and services that people like, doing so fast and inexpensively. RDE uses advanced conjoint analysis as its statistical basis, since conjoint analysis shows 'what features or messages work' in a compound vignette, of the type a person might see in stores, in magazines, etc.

The world-view of social science - RDE is related to a field called adaptive experimentation (AE), or adaptive management. The most publicized cases of AE are very lengthy, large-scale, even monumental projects in ecology, or in the sociology of the environment. AE doesn't generate rules, however, and so doesn't create a science that can be tapped into later.

The six basic steps in RDE – putting it all into a simple process

Step 1. Raw materials**:** Identify silos or groups of features that constitute the target proposition (name, offering, etc.) For example, based on the High End Proposition Charter, the silos will be the different factors of each dimension. Thus, the appropriate silos for an RDE exploration of 'Sustainability & Simplicity' might be the "Social factor", "Personal Factor", etc. For each silo, identify the ideas or elements that belong to that silo. This first step is ideation and bookkeeping – set up the world you will investigate with RDE, and make the components 'orderly' so you can easily understand your data.

Step 2. Create test stimuli: Mix and match the elements according to an experimental design, creating a set of vignettes (e.g., test combinations, also called concepts). A typical vignette may comprise at most one element from each silo, but often a particular vignette might be incomplete, lacking an element from one or another silo. Step 2 is usually done automatically by a computer 'tool' (on the Web) that creates a unique individual design plan or set of combinations for each test participant. The benefit here is that the analysis of 'what works' is done at the individual level, i.e., for each person.

Step 3. Run the test: Show the test vignettes (also called test concepts) to RDE participants and collect their responses on a rating question. An example of a question might be: "How well does this vignette fit your idea of a future offering in the High End?"

Step 4. Create the model showing 'drivers': Analyze results using regression analysis, a well known statistical technique also called 'curve-fitting'. RDE regression reveals the specific numeric contribution of each element to the general perception of High End. Some of the elements add to the perception of High End (positive numbers), others detract from it (negative numbers), and yet others do not change it at all (numbers close to 0). As it is all done automatically by RDE tools, there is no need to understand in-depth what happens 'under the hood'.

Step 5. Divide to discover**:** People differ from each other. Identify naturally occurring mind-set segments of the population who show similar patterns of the impacts. RDE reveals different groups of people who are similar to each other in how they respond to ideas about the High End in the future. In turn, the groups differ from each other, just as the participants in a single group or segment are similar in their mind-sets. More about that later in this chapter.

Step 6. Create and improve: Use the results of RDE to 'optimize' the ideas in the vignette. Find the best combination that has the highest sum of impacts. Then using these rules, create new High End propositions. Make sure that the new ideas have winning features so that you capture the best of what could be.

Why we selected RDE to explore the future of High End

We selected RDE to explore the quantitative or more science-based future of the High End because it offers discipline, powerful analysis, and simple-to-understand results.

Disciplined exploration: RDE imposes structure, making the thinking disciplined, the analysis sharper, more pointed. Disciplined thinking produces a higher success rate. As Pasteur is reputed to have said in 1854, *Chance favors the prepared mind*. Couple that sharpness with good interview and observation methods, and you have suddenly multiplied the power of RDE. Users report that preparing for RDE (six steps above) helps them to better understand the problem and find solutions.

Powerful data analysis**:** RDE 'measures the mind' of each individual participant in the RDE interview. In other words, RDE creates a set of numbers that describes the person-by-person perceptions. This set of numbers creates wonderful possibilities for an astute trends observer, manufacturer, or marketer.

Look at mind-set segments. RDE clusters people together, based on the similarity of patterns across people underlying what drives the perception of High End. The process is called 'mind-set segmentation'. Segmentation is not based on the more traditional but possibly less useful division by demographic division of people by gender, income or geography. Rather, we use attitudinal segmentation, which is also called 'latent' segmentation. ***For example, in the world of opera, it's not where you sit for an opera series and what you pay, but what parts of the different operas you like.*** People sitting next to each other may enjoy radically different parts of the same opera. They are of different mind-sets, even though as far as the opera house is concerned, they are similar in where they sit, and what they pay.

Efficiently target your High End customer by mind-set. It is not necessarily the traditional 'where', 'how much', etc. that make people similar. It's their minds, what appeals to them. Marketing to such more homogeneous segments is much more efficient than to the general crowd. Why? Simply because the messages and the offers can be fine tuned, be narrower, and thus be more impactful. We will talk about that again later.

Look for ideas that synergize so that 1+1 = 3. For example, you can find out how different brands drive the effectiveness of other claims in regards to the perception of high-end. Or what effect does the “Made in China” label exert on different ideas about personal and environmental sustainability ideas, etc.

Discover weak signals and spot future developments. RDE ‘experiments’ develop databases for analysis of future evolutions across time and cultures. Well-created databases uncover so-called statistically-grounded ‘weak-signals’, ongoing developments that are might become trends with the promise to replace today’s High End with tomorrow’s. We call these signals ‘weak’ because you don’t quite know whether you are dealing with an unusual, one-off phenomenon, or with the start of the trend. RDE experiments executed over time, across countries, even across product categories, may uncover these newly emerging opportunities.

Type the mind for 1-to-1 marketing. This 1-to-1 marketing has long been the holy grail. If you can engage a person whose mind-set has been ‘typed’ by RDE, then for that person you know to what mind-set segment they belong. You also have a database of ‘what works’ for that segment, in terms of ‘offerings’ and ‘communications’. Now you know what to make for that person, what to say about,, and perhaps even where to say it. RDE gives you a ‘scratch test’ of the mind. To emphasize how important is this idea, think of the benefits of genomic testing to understand a person’s predilection for a disease later in life. Imagine how fortunate a person will be to discover this particular predilection EARLY in life, so that precautions can be taken. Read more about typing and its promise in Chapter 9.

Case History
Pilot test using RDE to study “future drivers” of the High End

We believe we described RDE enough. Now, let’s do something with it. Instead of merely listing the benefits in a dry fashion, let’s jump into a sneak preview. Join us now in our ‘research kitchen’, and see how RDE actually comes alive for the High End. We’ll illustrate it by an easy-to-understand case history. Come on and follow us in.

Drivers of the High-End – a painless introduction

To better explain the approach, we are going to take you on a journey through the process. We ran our first discovery project in the summer of 2007, just to see how deeply we could penetrate into the mind of the High End customer. We were still in our preliminary editorial phase, so we had a chance to explore different hypotheses both at content level (what participants said) and at methods level (what nuances are required to apply RDE to the High End). We felt that were engaging in sort of a dry run of a marriage: statistics meets luxury, and they live happily forever – after they establish a good common ground. To see ‘what bubbles up to the surface’ we ran our study in the US, one of the most important luxury markets and one of the most challenging cultures for luxury marketers,. We knew from our interviews that there were certain mind-sets that would welcome the High End, but frankly until these initial explorations with RDE we didn't know what would really resonate with Americans.

We built a first set of hypothesis about the future of the High End based on a mix of qualitative analysis and expert interview, primarily the material behind the chapters you read so far. Then we translated these indications into simple silos and simple, direct, declarative phrases. Finally, through RDE we looked at how these phrases performed in an RDE test. You should keep in mind that we want to create a business-bridge between the world of opinion and the world of statistics, between the expert and the people. They are mostly held so apart. They shouldn't be.

Follow us now into the world of experimentation. Enjoy with us the unfolding of ideas, and the transformation of these ideas into numbers.

Raw Material for the test

We now invited you to join us in our "research kitchen". In our preparations for the four country RDE (described in the next chapter), we launched this pilot project with the preliminary conclusions from interviews and limited the scope of data collection to US only. This pilot was performed before finalizing our High End Proposition Charter. Although we have used vignettes that are more refined in our final RDE, this chapter is a good introduction to approach and will help you to navigate easier through the next two chapters.

Now follow us closely as we dive into the heart of RDE. For this first study, we developed five silos (buckets of related ideas) that would be relevant for the future of High End, in this case in the US.

Silo A. Design
Silo B. Style
Silo C. Experience
Silo D. Emotions
Silo E. Exclusivity

Each silo comprised four different elements. Let's look at one silo below, Silo A for design. You will see that we have selected four ideas, and expressed them in short, direct statements. For example:

A1 Craftsmanship with a personal touch
A2 Multi-functional ... beautifully crafted ... effortlessly simple to use
A3 Beautifully designed ... so simple to operate
A4 Limited edition...designer products

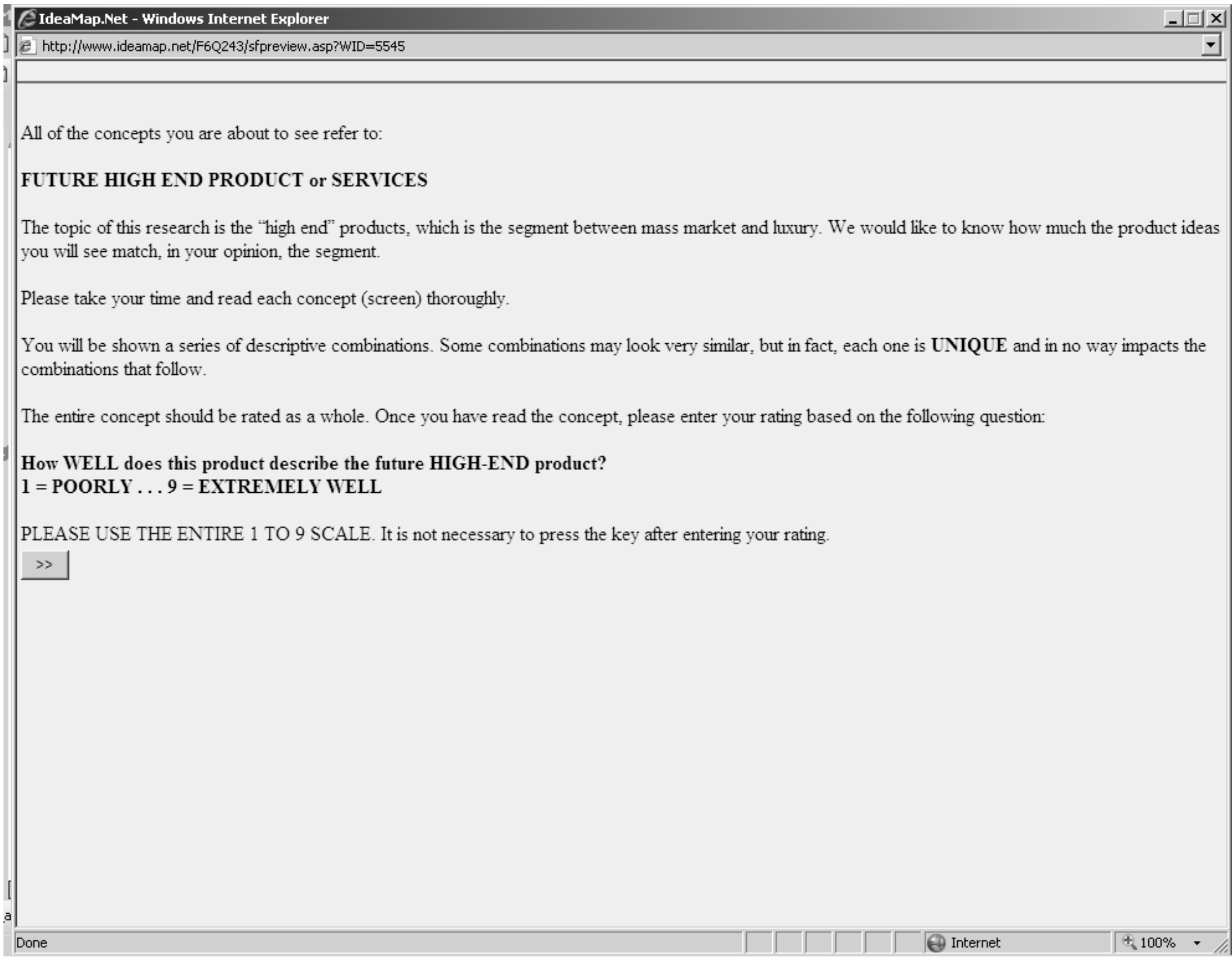
Where is the continuity with our earlier chapters? Well, you will recognize it immediately: our quantitative RDE silos system perfectly mirrors the qualitative High End Proposition Charter we built with you in the first six chapters of this book. Words, these magic assets that make humans unique, are the "tool" we used to connect the visionary ideas with consumers using the rigor of statistics.

Now, what is the outcome? Whenever we analyze RDE results (or any other research for this matter), we should consider the possibility that the phrasing or selection of the messages is limited or one-sided. We use the inductive method here – test elements, get results, and then try to understand what nature seems tell us about the dimensions and the factors in the dimension. Sometimes we need to explore more phrases, more ideas. But we won't know until we 'do the experiment'.

Data Collection

Our first RDE exercise to identify future markers of the High End used 373 members of a panel from the US. Look at Figure 1 to get a sense of what people first see in a typical RDE study. This Introduction screen familiarizes the participants with the task. It often comes as a surprise to those of us who work with consumer participants that it is important to be specific. If you read the instructions in Figure 1 carefully, you will see that we tell them that the study is about the High End – but nothing else. We don't want to bias them. The Introductory screen tells the participant what the study will show, but doesn't lead them to what might be the right answer. In fact, there is no right answer. There is only their opinion.

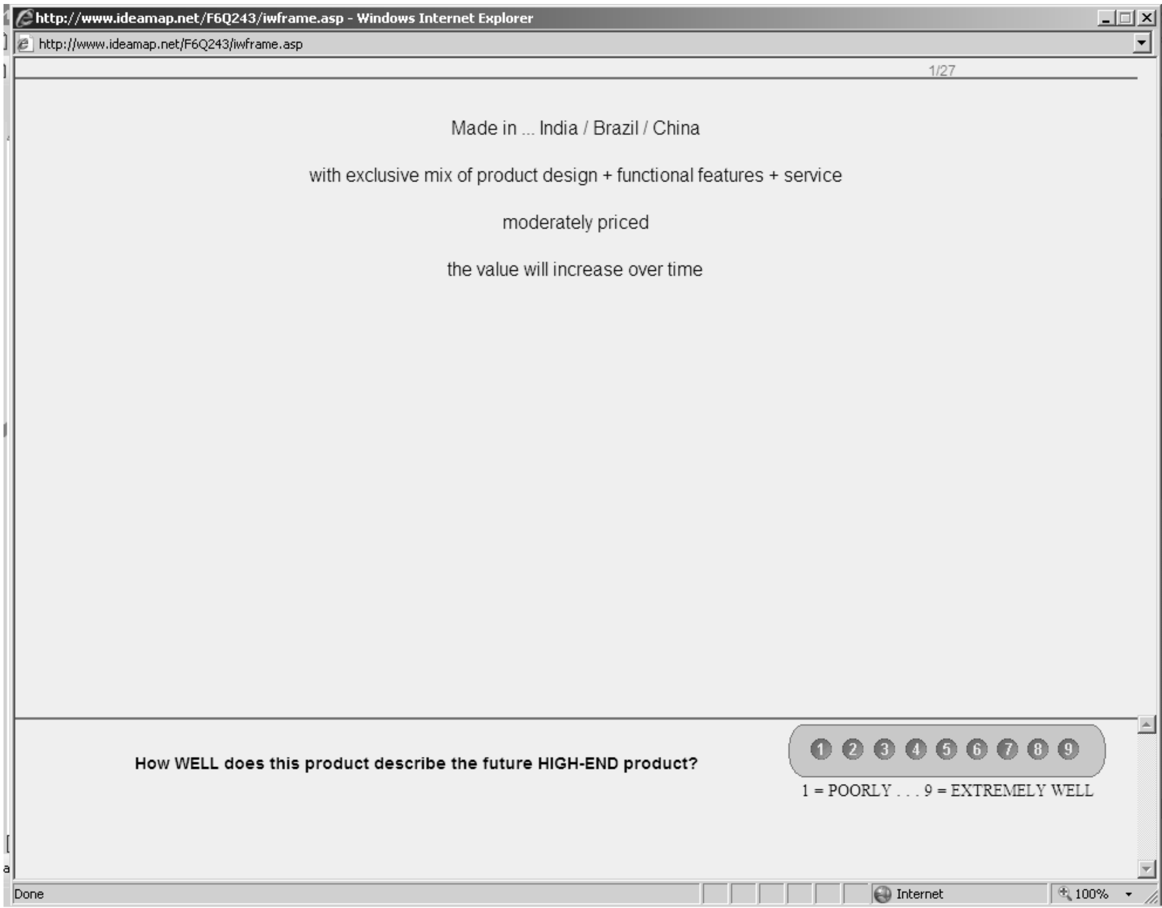
Fig. 1. A typical introduction screen for an RDE project.



Let's move now to the heart of the study – presenting the vignettes or test combinations. We presented our participants with these sets of vignettes. We see an example of a vignette in Figure 2. Notice that we mix and match the elements. In any vignette at most one element appears from each silo. Occasionally a silo is entirely absent. Don't worry about that. It's part of the design. Importantly, when participant evaluate these vignettes they don't have any problem with the 'incompleteness'. In fact, most people have little problem with these types of RDE projects once they get the 'hang of it'.

The RDE tool systematically mixes and matches the elements according to experimental design. An experimental design is simply a set of prescribed combinations. You can think of the design as separate recipes of ideas. Each concept is just another recipe. The test concepts or vignettes comprise different numbers of elements. Some concepts comprise 2 elements, others 3 elements, others 4 elements, and still others 5 elements. We don't yet know what works and what doesn't. We will find that out in the analysis.

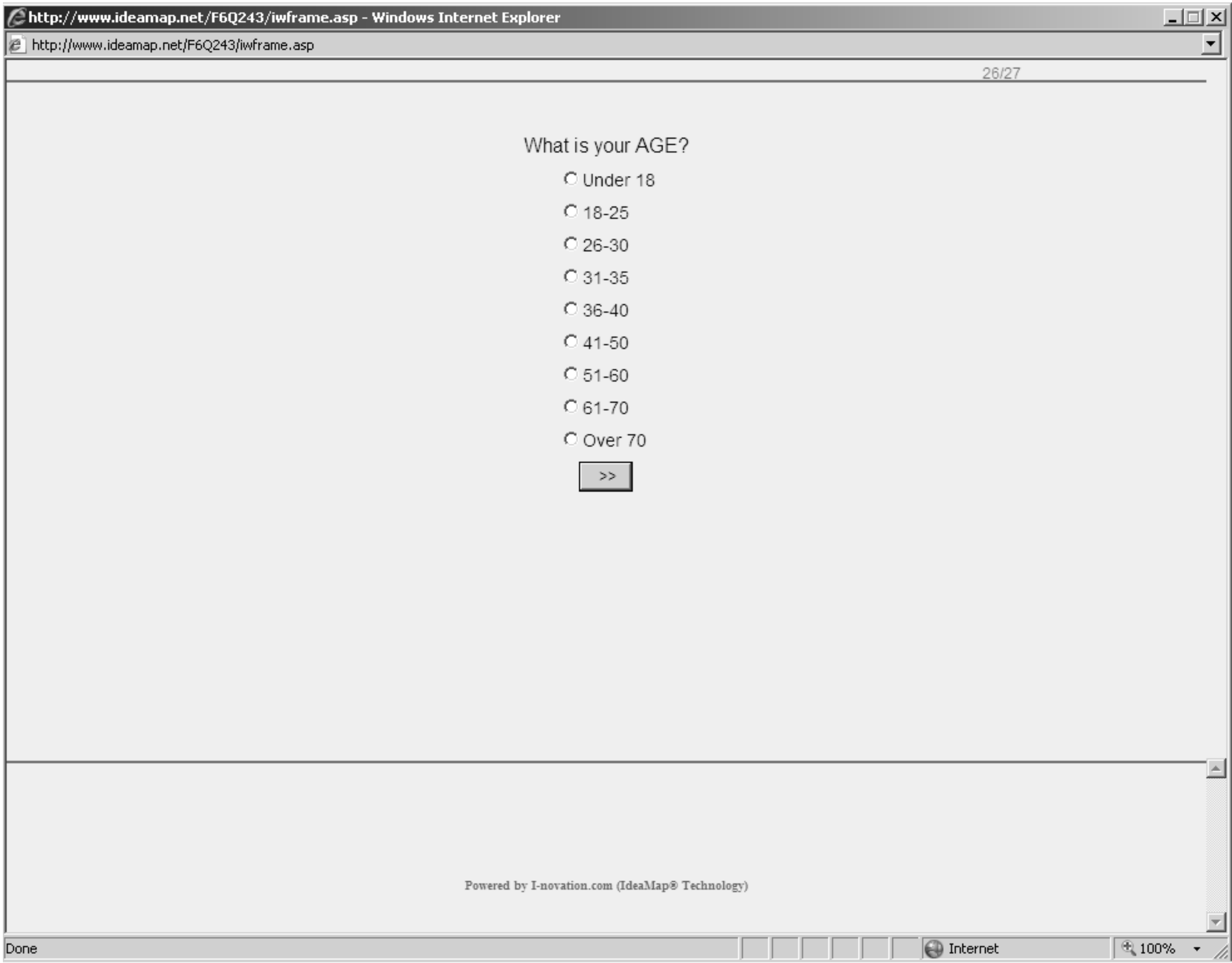
Fig. 2 Sample test concept for the RDE study.



In the RDE test the participant reads the test concept or vignette, and rates the entire combination using a simple scale. Our scale is: 'How well does this product describe the future High-End product? We used the word product twice, just to make sure that the participants had a sense that we were talking about something real. We used the 'future tense', however, to put them into the frame of mind that the project is talking about the future, and not today. Of course no one knows the future, but this strategy of emphasizing 'the future' in the rating scale puts the participant in the proper frame of mind. Each participant evaluated a unique set of 25 test vignettes.

After evaluating the different vignettes about the future High End, the participants completed a self-profiling questionnaire, telling us who they are, e.g., their age, income, etc. This is important information because it allowed us to look at different groups of participants. When it comes time for analysis we can use this self-profiling or classification questionnaire to break out the study participants by age, by gender, or indeed by almost any criteria covered in the questionnaire. We see a sample screen from the classification questionnaire in Figure 3. The particular question in Figure 3 allows the participant to tell us age.

Fig. 3. Sample self-profiling question (age)



<u>Uncovering a person's 'mind-set' for the High End through RDE analysis</u>

You followed us through the steps we took to investigate this field by interacting with people, although mediated by the internet screens. We now have finished the experiment. Our 373 participants who agreed to participate have all gone through the 25 different screens, rating each screen on the future High End. We exposed them to compound vignettes, different combinations, rather than to single ideas. As a consequence, in the mind of a participant different ideas have to fight it out. It's not a matter of sitting there and simply agreeing with everything that we said. No. Rather, in the participant's mind the ideas compete with each other, and eventually the participant assigns a rating. Most of the time a participant isn't even aware of what is happening. The participant simply gets a 'feeling', a 'sense', and assigns a rating. And that's where the magic comes in. ***We don't want an intellectualized response. We want this intuitive or gut feeling, this 'sense', this 'immediacy'.***

By presenting participants with vignettes rather than individual ideas, we expose them to more realistic situations, similar to the diverse offering people see every day. Through regression analysis RDE determines what every one of the 20 separate ideas or 'elements' about the High

End contributes to each individual's perception of the total 'High End'. Even if a person cannot articulate what drives his or her perception, and judgment, nonetheless the regression analysis will pull out the different factors, i.e., what each element 'brings to the party'.

Now let's move on to the data, which are the numerical impact values. RDE provides us with two types of numbers. The first number is the baseline. The second is a set of 20 numbers, corresponding to the individual impact of each of the 20 elements. To understand the idea behind these numbers here is a metaphor that explains what we get from RDE.

> The Baseline (additive constant**).** In show business terms, the Baseline is like the *general mood of the people in the audience*. Sometimes the audience is very open and receptive to jokes a speaker uses. A good gag would cause people to laugh hysterically whereas a modest gag might elicit a mere smile. With this receptive audience, even a bad joke is most likely to be ignored and forgiven. Contrast this with the hostile or negative audience, where no one is prepared to laugh. The general mood is dour. The jokes can be equally good, and get the same amount of laughter, but with a pretty cold audience to start with, i.e., with a much lower baseline. An experienced comic can 'read' the audience to get a sense of their predisposition. The material may be the same, but we start at different baselines.

Let's go a bit more into detail, with a numeric example. Let's assume, for example, a baseline of +30, such as we see in Table 1 for the Total Sample. What is the RDE analysis telling us? ***Well, this +30 (or 30%) means that about three out of ten participants are predisposed to qualify a product or service as high-end, even when no elements are shown.*** In more technical terms the baseline (+30) is the expected proportion of test participants who would call the vignette 'High End' without any elements. It's a sense of their willingness or predisposition to see the High End in a proposition.

<u>Impact value (coefficient)</u>**.** The second part of the regression analysis comprises a set of impact numbers, one number for each of the 20 elements. The impact number shows the contribution of that particular element to the High End. We know that the person does not sit down and mentally assign weights – at least most people don't. However, when we systematically varied the elements and put them into combinations, the person assigning the ratings did use some type of mental scheme. The person may not have been aware of it.

Regression analysis pulls out these individual weights. Unbeknownst to our participants the combinations varied in a structured fashion. Regression analysis relates the presence/absence of the 20 elements to the rating. Regression returns with a multiplier or coefficient, which we call **impact.**

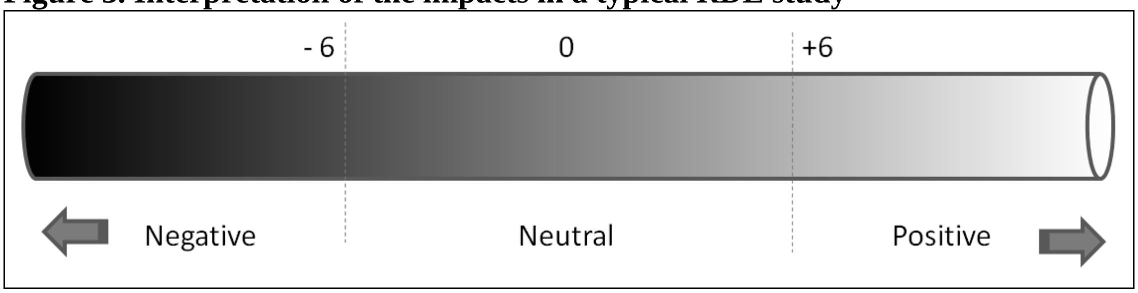
The impact shows how the presence of the element in the vignette drives the perception of High End. You can look at the impact number as a percent, just as the additive constant is a percent. The impact number for a specific element shows the percent of participants who would call the proposition 'High End' when that particular element appears present in the vignette or concept. Regression analysis pulls out these impact values from the pattern of responses.

The impact value can be positive or negative. As we work through the data, we should keep in mind that the impact represents the proportion of participants who label the proposition in the vignette as ‘high-end’ when the element appears in the vignette. **Sometimes the impact value is negative, meaning that the element actually decreases the proportion of participants calling the vignette high-end.**

<u>Some rules of thumb – How do we know what works and what doesn’t?</u>

What works? What doesn’t work? Look at the thermometer scale in Figure 3. For the majority of RDE projects we consider impacts with values of +6 and above to be good. The elements increase the number of people who think of the product as High End. In turn we consider impacts with values of -6 or lower to be poor. The elements below -6 actually ***decrease*** the number of people who think of the product as High Impact. The elements with impacts between a low of -6 and a high of +6 are irrelevant. Of course these numbers are not ‘written in stone’. Use them to guide you when you look at results, in this chapter and in the next where we deal with the five dimensions of the High End, explored in four countries (China, Italy, UK, US).

Figure 3. Interpretation of the impacts in a typical RDE study



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<u>Driving perception of future High End for the *Total Panel*?</u>

We just went through the exercise. Our 373 participants sat in their homes (or perhaps offices, or maybe yachts and country clubs), and went through the exercise. For each person we created a ‘model’ or description of what that person feels to be the High End in the near future and what does not. Now it’s time to see how our exercise makes all of us smarter. Remember that the participants were asked to think of the vignette in terms of the future.

We have 373 impact values for each of the 20 elements, one impact number per participant per element. Our exercise generated a rich database about the mind of the individual participants. It’s time to make sense of what we have discovered, and look for the ‘story’ that may be sitting right inside these data.

The first thing to do is reduce the individual data to a consensus or average across all 373 participants. We do this for each element, one element at a time. Let’s now see what ‘wins’. From this exercise where the elements keep coming at the participant in new, ever-changing combinations, what works? The worst news would be that nothing works, i.e., our impacts for all 20 elements hover around 0. Or just as bad, all elements do equally well or equally poorly, so nothing stands out, and we are left with a blooming, buzzing confusion, without any anchors, without any real discovery. Fortunately, such ‘flat results’ generally don’t happen because there are strong elements and there are weak elements. But, let's look at the data and you can be the judge.

We list the impact values of each of the 20 elements in Table 1. We did this for the total panel, for gender and for four mind-set segments. We'll get to gender and segment in a minute. Right now concentrate now on the first data column – total panel, where we have the averages of our 373 participants. If you are impatient, just skip the text and go right to the data. Most readers do that after they get the idea of how to read the table. For right now we'll go through these results in a bit of detail so you can get the sense of how to look at these results.

Table 1. Performance of 20 elements tabulated for the total panel, both genders, and four mind-set segments. The elements within each silo are sorted from high to low, based on the impact value from the total panel.

	Element Code	Element	Total Panel	Male	Female	Segment 1: It's the experience	Segment 2: Exclusive Fun	Segment 3: Status and Style	Segment 4: Craftsmanship
		Sample size	373	71	302	52	91	94	135
		Baseline (additive constant)	*30*	*32*	*30*	*36*	*33*	*32*	*25*
Design	A2	Multi-functional ... beautifully crafted ... effortlessly simple to use	11	8	12	10	7	7	18
	A1	Craftsmanship with a personal touch	10	7	10	7	4	3	19
	A3	Beautifully designed ... so simple to operate	10	8	11	11	6	5	16
	A4	Limited edition...designer products	5	2	5	-2	3	-2	12
Style	B1	Improved service ... better features ... xquisite attention to details	10	8	10	4	1	17	13
	B4	Technologically sophisticated, yet elegantly understated	8	7	9	7	1	15	8
	B3	Features ergonomically superior design	6	7	5	5	-6	15	7
	B2	Created to be a style leader	5	8	4	6	-5	12	6
Experience	C1	Provides you with a richer life experience ... just try it	5	1	6	14	14	1	0
	C3	An experience that can't be easily bought ... but still can be yours	3	2	3	13	7	-2	-1
	C2	Feel your life in a more intense way	1	1	2	11	7	-3	-3
	C4	Try it ... you may feel delight, even reverence	-1	-1	-2	7	6	-2	-9
Emotion	D1	As individual as a fingerprint	6	5	7	7	6	5	7
	D3	Problems solved instantly...making life more pleasant	5	5	5	3	2	4	8
	D2	Embrace it...feel the radiance and vitality of others who have done it	4	4	4	2	1	5	6
	D4	Suited for first-class taste	4	3	5	5	8	3	3
Exclusivity	E2	Delivers the ultimate level of personal touch and care	8	4	9	-6	12	13	7
	E4	Feel unique ... it can be customized to match your individuality	8	6	8	-1	14	9	6
	E1	Elevates you above the crowd	4	3	5	-6	12	9	0
	E3	Lifts you beyond the mass	1	1	1	-12	10	5	-3

Looking at Table 1, let's search for elements that do well, i.e., show the highest impacts. These are the elements that our participants feel will drive a proposition towards the High End of the near future. That is, these are the elements that High End propositions ought to have. When you look for these 'drivers' don't worry about the particular silo. The silo just tells you the type of element. ***The real information about the High End is to be found in the particular element, specifically its meaning.***

The four elements listed below are the one's that our participants feel will strongly increase the perception of a proposition as being premium, or High End, in the near future. Each has an impact of 10 or higher, meaning that when the element appears in the vignette an additional 10% of the participants feel that the vignette describes the High End of the near future:

(A2) Multi-functional ... beautifully crafted ... effortlessly simple to use	***(+11)***
(A3) Beautifully designed ... so simple to operate	***(+10)***
(B1) Improved service ... better features ... exquisite attention to details	***(+10)***
(A1) Craftsmanship with a personal touch	***(+10)***

Do men look at the future differently from the way women do? Statistically speaking, no!

It is natural to expect that beneath these averages there must be different cross-currents, sometimes acting together, sometimes acting separately. Market researchers, public opinion analysis and trend watchers know quite well that often there exists inexplicable variation among people. The average may, in fact, not necessarily represent the different individuals. If we bring this possibility to our investigation of the High End, then we might feel that the average doesn't represent in reality what people think about the near future. We ought to look at the data with a finer lens. Let's do that.

The conventional methods for dividing customers create groupings based on easy-to-acquire, so-called 'exogenous information'. This information may be gender, age, or occasionally easy to acquire behaviors or attitudes. You can buy this behavior from companies that aggregate the records of transactions, such as car purchases, mortgage applications, and the like. Such exogenous information is easy to get, if not directly from the participant then from records of transactions, etc.

Although people behave differently, when you look at standard ways of dividing people, like demographics, the pattern of impacts tend to be very similar. The same occurs here. Even though the people differ in how they are classified (age, income, etc.) their views about the High End of the near future are remarkably similar to each other. There certainly are some differences, yet as we will find again and again, these differences are rather small, haphazard, and most likely just random noise. ***The differences between males and females, for example, exist but you can't find a statistically clear pattern. There's no clear pattern in the gender differences regarding what they feel will be High End a few years from now.***

Mind-sets and segmentation

We get a much different feeling about the groups when we divide participants by the pattern of the impacts, also known as concept-response segmentation. To explain the notion of the approach let's go out of the world of vignettes for future High End and high-end and into the world of foods, specifically pickles. This is a purely methodological explanation in order to clarify how RDE really works. But it ought to do the job.

> Imagine for a moment that you own a pickle company. You need to produce a pickle for offering to a wide audience – and in fact, the more people like the pickle you make the better off you will be. You have to please them in order to get repeat business, and put money in your pocket. You know, however, that some people like strong tasting pickles, whereas others like mild tasting but

crunchy people, and still others can't really tell you what they like but when they happen upon a soft yet very sour and garlicky people they seem to like it. What should you do when you are the marketer, or the product developer, or even a big food chain that wants to survive by featuring products that your customers will adore? How should you make sense out of this blooming, buzzing confusion of preferences for pickles?

Now try to analyze the data from many people. Figure out what the average customer of your pickles would like, and make it. Chances are you will end up creating a product somewhere in the 'middle' – not soft, somewhat crunchy, and slightly spicy, etc. Quite likely, your pickle will be just 'acceptable' to most people, but not particularly the pickle of THEIR choice. Now just suppose you could run a taste-test, give your customers some different pickles, and find out what they really like, not what they tell you they want. Watch them eat the pickle. When you group the people based on the patterns of what pickles people like, you will find several groups of people with very different tastes. Now create pickles to cater to these groups with different 'tongues' and you're likely to please a number of different groups of people. Typically, you will find 2-4 groups with different taste preferences. It's up to systematic experimentation, the RDE approach, to discover these groups and to determine the optimal pickle formulation for each. Experimentation is not hard, and the rewards can be superb – e.g., a place in the pickle hall of fame, for one. Or you might win a prize for the story about how to ensure the Future of Pickles.

Whether you think about segments in terms of operagoers as in the example at the beginning of this chapter or as pickles connoisseurs, mind-set segments exist everywhere. You can find them in all the demographic groups. Most of the time you have to find these mind-set segments by some type of 'scratch test' – either actual tasting in the case of pickles, or responses to a set of phrases that describe the High End. But we get ahead of ourselves. Let's go back to the job of discovering these segments, of tongue or mind, the way people have begun to do it successfully. They use statistical methods that look for patterns in what people like. The methods are called 'clustering procedures'. People showing similar patterns of what they like fall into the same cluster. To wrap it up, within this system, it is people who "make" the pickle. Statistics are just the way to make such connection evident and actionable to "pickle business leaders"

Now let's return to our project about the future High End. Let's return to the data from our pilot study. Recall that our RDE test gives us the 20 impacts for each person. Let's look at the pattern of the 20 impacts, one per element. We're going to put together people into one cluster if the patterns of their 20 impacts (one impact number per element for each participant) are reasonably similar.

The clustering procedure is primarily statistical, making no judgments about the meaning of the clusters. The procedure puts our 373 participants into two groups, into three groups, into four groups, and finally into five groups. The clustering tries to create the groups so that inside a group or cluster the patterns of impacts are similar, but across clusters the patterns are dissimilar. There are many ways to do this, but the common theme is that clustering is a mechanical, routine method, dictated by objective statistical criteria.

We looked at each of these solutions (2, 3, 4 and 5 segments, respectively). We couldn't really make sense of the 2 and 3 segment solution. The elements which floated to the top didn't tell us a coherent story. The statistical method worked, but it was important that the elements in a segment share something in common, so that we could see the story behind the numbers. By the time we got to 4 segments, the segments made sense. The strong performing elements in each segment were similar. We didn't feel that there was any forced interpretation. So, that is what we went with. The winning and losing elements in a single segment 'tell their story simply and convincingly'.

Here are the four segments, and a little description of each:

1. Two segments value experience:
    a. Segment 1 - *It's all about the experience* (design generates an experience, but experience is the reward here)
    b. Segment 2 – *Exclusive Fun* (style is not important)

2. Two value *design and style*:
    a. Segment 3 - *Status through Style* (design creates a product that endows status).
    b. Segment 4 - *Craftsmanship* (design creates the perception of craftsmanship)

<u>Segment 1 'It's all about the experience'</u>. This segment is very positive to all the messages in the 'Experience' silo. That is, talk about 'experience' and the segment feels that you are really talking about the heart of the future High End, or premium. For example, *"Provides you with a richer life experience ... just try it*" drives up the perception of high-end by +14 points. Segment 1 also resonates to statements about design and, to a lesser degree to statements about styling. At the same time, Segment 1 does not want to hear about exclusivity, and to them exclusivity is not High End.

> *In general, Segment 1 values the design as future marker of the High End. However, for them it is just a step to personal experience without regard to the status.*

<u>Segment 2 'Exclusive Fun</u>' This segment reacts strongly to ideas that talk about exclusivity (+10 to +14) and likes see a future High End proposition described in emotional terms *("Suited for first-class taste", +8).* Segment 2 wants to hear about 'Experience' (from +6 to +14 points) but doesn't want to hear messages about style. Design is valuable for this segment but not by itself.

> *For Segment 2 the sense of exclusivity and experience is a marker of High End in the near future. Design is just a vehicle of exclusivity. Style is not important all for Segment 2.*

<u>Segment 3 'Status through Style</u>'. Segment 3 values style above all (from +12 to +17 points) and also values design, although to a much lesser extent. Segment 3 also feels that exclusivity

drives High End (+5 to +13). At the same time, Segment 3 is indifferent to statements about the experience and emotions

> *Segment 3 sees a stylish design as a way to achieve status. Status through style is the one marker that determines a valid High End proposition There is nothing emotional about that, and they do not search for an 'experience' with a High End product.*

Segment 4 'Craftsmanship'. Segment 4 is the most oriented to design and style oriented. All design statements cause their perception of a proposition as being High End in the near future to jump up 12-19 points! Segment 4 likes style (+6 to + 13) and responds to emotion statements as a driver of the High End. Segment 4 is indifferent to messages about experience.

> *All-in-all, Segment 4 values craftsmanship through design and style. They want to enjoy the design and style. When they think about a future High End proposition, e.g. a product, they are not looking for an experience. Segment 4 does not mind feeling a bit exclusive and responds somewhat emotional but this is all secondary.*

So – how does a High End proposition do? – Adding the components together.

If we measure then maybe we can go one or two steps more. We have collected our data and analyzed it using regression analysis. The regression analysis gives us an additive constant (the baseline) as well as an impact value (performance ability) for each element that could be used to describe the High End of the near future. Now, let's use the learning to estimate the likely score for High End' if we were to synthesize a new vignette, say for a new idea.

Let's start building a stronger High End proposition by combining the 'right' elements. Recall that we divided our high-end position into five general silos (groups of elements or idea), with each silo containing four different elements (ideas). Our participants didn't know that – they responded to the vignettes. Let's see what elements do best as drivers of 'high-end'. We saw the results in Table 1. For right now let's just look at the best. Here are the highest-rated ideas from each of the categories, i.e., the single idea in each silo that drives the proposition to high-end:

(A2) *"Multi-functional ... beautifully crafted ... effortlessly simple to use"*
(B1) *"Improved service ... better features ... exquisite attention to details"*
(C1) *"Provides you with a richer life experience ... just try it"*
(D1) *"As individual as a fingerprint"*
(E2) *"Delivers the ultimate level of personal touch and care"*

Now to tally the results. Let's add the impacts of these elements, put in the baseline, and compute the sum. All of these elements have impact values estimated by the regression equation. The sum is the approximate percent of people who would consider a proposition to be a high-end. We want to get the sum to be as high as possible, using as few elements as we can. The only other requirement is that the elements 'fit together' or at least not contradict each other. That is a judgment call.

For, the set of elements listed above and their corresponding impacts from Table 1 we can add the impact values. The percent who would describe this proposition as a High End when thinking about the near future can be estimated:

(Baseline) + (A2) + (B1) + (C1) + (D1) + (E2) = 30 + 11 + 10 + 5 + 6 + 8 = 70

Let's go a bit further, and interpret what we just computed. The sum 70 means that 70 out of 100 participants would perceive this proposition as High End. This 70 is a big increase from the baseline or general predisposition, which had a value of 30. The sum is more than double. Why did this happen? Quite simply, we took the basic predilection to call a proposition High End (from the baseline), and cherry-picked the strong elements that give the proposition more 'premium-ness'.

We just stacked the deck in our favor by using the best ideas in this specific RDE study. If you happen to choose 'bad' (low scoring negative impacts) ideas from the same table, you might actually create a much lower sum, i.e., a much lower perception of your proposition as being High End compared to what you just optimized. Let's look at how poorly you might do if your proposition were to contain the following messages:

(A4) "*Limited edition...designer products*"
(B2) "*Created to be a style leader*"
(C4) "*Try it ... you may feel delight, even reverence*"
(D4) "*Suited for first-class taste*"
(E3) "*Lifts you beyond the mass*",

The total number of people feeling that this proposition is a high-end product drops from the very satisfying 70 above to a lower, less satisfying result, +44.

(Baseline) + (A4) + (B2) + (C4) + (D4) + (E3) = 30 +5 + 5 +(-1) + 4 + 1 = 44,

This lower value, 44, means that 44 out of 100 participants would perceive this proposition as high-end – a sizable increase from the baseline (general predisposition) of 30, although substantially lower than 70% in the previous example.

Happily, our pilot study does not have many negative impacts compared to what we will see in studies for some of the dimensions in the next chapter. If it did, then choosing wrong messages could drive the general perception even below the baseline. ***In that case, the 'wrong' ideas would leave the consumers with even lower perception of High End for a proposition than they had 'ahead of time' before you starting talking about specifics!***

Summing up

In this chapter, we introduced you to the approach and science of RDE, Rule Developing Experimentation. There is nothing opaque behind numbers that RDE provides. Think about them as building blocks in one's perception of the High End. High positive numbers add to the perception. Negative numbers detract from the perception. The starting point is the general predisposition of the participants to the idea of high-end proposition (baseline) on top of which you build the total offering.

We hope you found the math as enjoyable as the expert opinions in our earlier chapters. We did because knowledge is always fun, and here it becomes even more so because knowledge and opinion have been measured so that the High End proposition can actually be created and controlled. We were also very pleased, as research professionals from the two camps of qualitative and quantitative methods. Through discipline and structure, through language and nuanced feeling, we have managed to build a mutually motivating and scientifically rewarding bridge between these two, all-too-often, divided worlds. The High End Proposition Charter acts as the glue that holds things together, giving meaning and direction to the act of measuring.

All the findings in this chapter introduce you to the actual large-scale projects that we ran in the USA, UK, Italy and China and which we unpack in the next chapter.

Chapter 8

The world and the High End – who will want what?

The future of the High End will be, by definition, at once regional and global. It will be regional because of the renaissance of macro-regions like China and the permanence of style-leading countries such Italy which have becomes fixtures on the luxury radar. It will be global, because of its reach and ultimate potential. Although today Japan is the world's largest luxury and High End market, China is expected to overtake Japan by 2014. As of time of this writing (2008), Chinese customers are buying about 10% in dollar-value of the world's luxury brands. This 10% is, however, the result of a mere 1% of the entire Chinese population getting around to consuming luxury and High End items. This astounding statistics from *BizChina-Update.com* merely hints at the shape of things to come.

Yet the story doesn't end with China, but only begins. Anyone in business wants to know the future, whether to maximize opportunity or to minimize risk. Let's peek into the future, and see what the astute businessperson should focus on for the next 3 to 5 years, to envision and create propositions for the High End in different world markets.

What can we see coming in the future? More people with more access, possibilities and opportunities mean, at the very simplest level, a demand for higher quality of life and better artifacts and services. This definitely represents a more High End lifestyle to which one might aspire. But it's not enough to have a book of future directions. It's a matter of the ***actionable*** future directions. It's a sense of how those directions should lead to High End thinking on the part of manufacturers, service providers, and even countries to supply waiting customers with the right propositions.

The big trends are fairly obvious, perhaps not to everyone, but at least to those who travel, shop, get a feeling of the 'soul of the country', and just 'hang out' in the urban districts. You read about these evolutions of the landscape in our earlier qualitative research-based chapters, and we systematically organized for you these directions in the High End Proposition Charter. Let's recap three of these trends:

> China is clearly a big player. Chinese growth means more money for lots of people, and a chance at the proverbial 'brass ring' through the High End. It's the cities in China that hold the key here.
>
> Cultural changes in the US and UK are driving citizens to become more conscious of the environment, society and personal well being. Consumption is no longer 'keeping up with the Jones', but rather having redeeming values.
>
> Design in general worldwide, is becoming more sophisticated, more business oriented, more internationally focused. Of course, the future of the High End will be defined by other countries such as India, Brazil, Russia, and then Scandinavian nations, and indeed entire regions of Europe as well.

After considering these lines of evolutions, we asked ourselves the simple question – what is the soul of the High End going to be in the near future, the next 3 - 5 years? It was clear to us that the High End will become bigger. Yet the nagging question kept returning – is there one global way to think and do the High End, or will the world come apart, so that in front of our eyes the world of the High End is subtly morphing into different regions, ruled by different values? We decided to answer some of this question through understanding the consumer mind world-wide using RDE as our tool.

Looking at the world through RDE

We know from Chapter 7 that RDE reveals the 'algebra of the consumer mind'. Now in this Chapter 8, we unleash its power, to understand and then compare selected key markets that we know to be regionally different but globally crucial for the future of High End. On the basis of our High End Proposition Charter, expert interviews and thought leader opinions, we selected four different countries to explore with RDE, China, Italy, UK and US. We wanted to understand the dimensions of the High End as a world phenomenon, using the rigor of a scientific method. And most of all, we wanted to reduce the learning about the High End to simple, operational principles. Our goal was simple – statistically prescribe for the future using the visionary ideas and best practices we described so far.

We set out on our trip with only two rules. The first rule was that whatever we did had to be exactly the same in all four countries, so that we could compare the findings. No adjustments, no changes, other than the proper language would be allowed. The second rule was that we could not pre-judge. We would look at the world as one big field of High End evolution, and see how the global future High End 'shakes out'.

Whenever a serious effort involves consumer responses in a survey, it's always best to work with professionals. This project on the High End is no different. We felt the opportunity to establish the foundations of a new business method for success, what somebody might even define as the "science of High End". We used our High End Proposition Charter and the RDE tool t measure subjective opinions. We chose a solid, long-term partner for our studies, SSI (Survey Sampling, Inc.). It always helps to work with the best, with people who know the pitfalls, allowing us to spend out time on the knowledge, not on the hygiene of the study:

> *Survey Sampling International LLC (SSI), the premier global provider of sampling solutions, offers access to consumer and business-to-business participants via Internet, telephone and other means; survey programming and hosting services; and survey consultation. SSI is the supplier of choice for more than 1,800 companies, including 46 of the top 50 marketing research firms in the U.S. and 18 of the top 25 worldwide. SSI manages Internet panels in 22 countries and offers Internet participant access in more than 50 countries.*

Our work with SSI evolved to an increasingly close partnership on this project. We began with the issues of panel selection. We moved on to working with SSI as our data gathering consultants, soliciting their advice regarding appropriate ways of inviting participants, and asking them how to phrase certain terms and sentences for each country. The effort turned SSI from a supplier to the project into a research partner. They made available to us specifically tailored panels comprising upper-middle class and immediately adjacent (income-wise) groups. Having 'feet on the ground' in all four countries made SSI an invaluable resource, and more often than we would like to admit, a referee in some of disagreements about who to ask, and how best to ask it.

One key example comes to mind – sample definition, the 'who' of our research. The definitions of upper-middle class, although very vague, were somewhat relaxed to ensure that we would obtain opinions from the wide range of High End product buyers, current and future. Based on the input from various industry insiders, we chose to survey only the participants in the following income brackets:

US: $75,000 - $200,000
UK: £40,000 - £110.000
Italy: Euro 40,000 – Euro 100,000.

It was even more difficult to define the target group of participants in China. The range of qualified incomes was decided based on the expert opinions from both the West and China itself, with SSI as the referee:

China: RMB100,000 – RMB 400,000.

These were our country choices when we set up the study in Autumn, 2007. There might and may be other countries just as relevant, but we wanted to work in countries that would make the RDE task easy to implement. This meant having urban and suburban areas with Internet access. We limited the participants to the urban and suburban areas, after we jointly verified with SSI that, as envisioned and described in the earlier chapters of this book in Chapters 5 and 6, many of the future directions for the High End would be most likely to emerge in the more densely populated areas.

In retrospect we occasionally wonder whether the rural areas can reveal new trends that we might miss because we pay so much attention the 'rush to the city'. Yes, this might be the case. However, historically the urban environment is where we expect to find the incubation and accelerated adoption of High End thinking and consumption. For example, when 'Slow Food', promoting quality and artisanal food prepared in the traditional way, reached New York's fine restaurants, it happened in New York, not in the suburban region. We believe, together with our experts, that this will continue to be the case.

We are aware that deeper and wider explorations will be necessary, expanding the study into less dense areas, the suburbs and the so-called 'ex-urbs'. There will be opportunities, we hope, to do so. Perhaps this could be "your" own High End business idea, for your own next success, starting from this book.

<u>Some RDE specifics for the five dimensions of the High End Proposition Charter</u>

The High End Proposition Charter comprises five dimensions. We deemed it crucial to explore in depth each one of these five dimensions. You have to bear in mind that the research method behind this book is in itself innovative. It has the ambition to connect qualitative and quantitative studies in seamless continuity. Following that decision, we created five different RDE projects, one project for each RDE dimension in the Charter. Each project comprised four silos, and four elements per silo. We ran the same exactly project in four countries selected on their current and future "High End relevance" - China, Italy, UK, and US. We wanted to create a 'global study', so that we might understand 'people' as individuals on a comparable spectrum, rather than configure each project to the individual country. It was tempting to apply the knowledge that we had to 'fine tune' the RDE study for each country, but we resisted that temptation. This fine-tuning, country-specific effort might constitute a possible next step, for a next book or, again, for a start up High End company.

Before we dive into the data and let people speak to us via statistics, let's review what RDE gives us and why each result is important for our knowledge of the High End.

> The nature of the elements that we test in RDE. Participants who read these vignettes in RDE want specifics, not generalities. The test vignettes must possess a sense of life, of concreteness, of reality. We have five different dimensions based on our High End Charter. Each dimension has four factors, to give a sense of the different topics in the dimension. Each factor, in turn, has four elements, to give a sense of different options within the factor. The elements are simple phrases. We chose the phrases to get the ultimate insight derived from the factor, and to give the factor a feeling of 'life'. Altogether our RDE exercise world-wide encompassed 80 elements (5(dimensions) x 4(factors) x 4(elements) = 80).
>
> The rating scale – focusing the mind on the near future High End. As we have emphasized throughout this book, we are living with the near future being formed in our everyday. We asked our participants to rate all the vignettes they saw as 'Future High End'. After speaking with top experts and business leaders in our earlier chapters, now we look to the wisdom of crowds, to those who will be the future potential customers of High End artifacts and services. We will probe their minds through science, systematic design, and a specific focus on the future, to discover what they believe to be this near term High End.
>
> The baseline level of perception of High End. This baseline or, technically, additive constant tells us the general predisposition of the participants to see a proposition as a High End. Keep in mind the example in the previous chapter about the receptive versus not-so-receptive audience, and how the speaker/performer could use that information to tailor a presentation. Thus a baseline value of 30 means that 30% of the participants are prepared to call a vignette 'High End', even if there are no elements in that vignette. The baseline is exactly that – a predilection to call something High End if the general discussion is about High End.
>
> The contribution of each element to the perception of the future High End (also called the impact values). Statistically speaking, each idea or element in the RDE study adds or subtracts some degree of High End perception to / from the

baseline. Impacts measure the incremental change of this perception. In technical terms, the impact value shows the percent of the participants who would say that the vignette is ‘High End’ if the particular element is present. Thus an impact of +6 means that when the element is present in the vignette, then an ***additional*** 6% of the participants call the vignette ‘High End’. In contrast an impact of -8 means that when the element is present in the vignette 8% of the participants stop calling the vignette ‘High End’. The negative impact means that the element actually reduces the number of people who think the proposition is High End.

There are some guideline rules to interpret the impacts. They are rules of thumb, just to help make more sense out of the results, and give you some words to put around the impact values:

Impact > +15 means an exceptionally strong push by the element towards High End. This is a keeper element, for advertising and brand building.

Impacts +11 to +15 mean a very strong push by the element towards High End.

Impacts of +6 to +10 mean a significant but weaker push.

Impacts from -6 to +6 are close to 0 meaning that the element probably doesn’t do much.

Negative impacts lower than -6 mean that the element pushes away from the High End.

We now begin the analysis. The data are shown in a standard format. Some preliminary last advice for the best fruition of our work:

Look at the side and you will see the silo or factor. Remember there are four factors for each dimension, which allows us to explore the different aspects of a dimension.

Then we have the four elements for each silo. When you read the elements keep in mind that we tried to be specific in the elements, rather than being general.

The first column of numbers shows the impact value from the total panel. The elements are ranked in descending order within a silo, based on the impact values of the total panel. This way of ranking by performance shows you the departures from the general pattern, by country or segment.

The second and third columns of numbers show the impact value from the two segments that we created for each individual dimension. We could have created more segments, but we wanted to see the 'big picture'. Two large segments are often easier to interpret than four segments, especially for world-studies.

The fourth through the seventh columns of numbers show the impact values from each of the four countries. At the top rows we show both additive constant, and the base size (number of participants) for the total panel or for the specific subgroup, respectively.

We introduce the notion of High End Marker. This is a qualifier that defines the High End in the mind of participants. This is a very simple way to translate a statistic outcome of analysis into a concept that everyone can grasp and immediately use.

The study was conducted in each of the four countries separately. Afterwards the data were aggregated to get a sense of global directions for future High End. For sake of editorial synthesis and overall balance of this book, you will find in the next paragraphs the synthesis of conclusions at general and global level. This is not chosen to ignore the regional granularity in this High End research. On the contrary, we believe in the necessity to "deep dive" into regional differences, and we therefore present you with a few selected cultural differences in our last "Conclusions" paragraph.

Dimension 1 for the Future High End: Authenticity & Value

As you will remember from the High End Proposition Charter, here are the four factors for Dimension 1:

The 'origin factor' (e.g., made in Japan)
The 'exclusivity factor' (e.g., exclusive technology)
The 'price factor' (e.g., premium priced)
The 'residual value' factor.(e.g., will become a collector's item)

Now go to Table 1, and let us see what there is to discover about this first dimension of Authenticity & Value. The baseline for the Total panel is 26. In simple terms, this means that approximately one out of four participants in the project would perceive the item as the "marker", or the defining quality, of a future High End Proposition, if it were positioned as generally authentic and delivering premium value.

Table 1. How elements about Authenticity & Value (Dimension 1) drive perception as High End (positive numbers) or detract from perception of High End (negative numbers).

			Total	Seg 1 (Status seeker)	Seg 2 (Connoisseur)	US	UK	Italy	China
Number of participants			369	*196*	*173*	*99*	*94*	*90*	*86*
Baseline perception of future High End			**26**	**25**	**27**	**23**	**16**	**34**	**34**
Origin factor	A2	Made in ... Italy / France / Switzerland / UK / US	10	18	2	8	14	13	8
	A1	Made in ... a specific country of origin	-2	7	-13	-3	0	-5	-2
	A4	Made in ... Japan	-4	6	-16	-8	4	-2	-11
	A3	Made in ... India / Brazil / China	-17	-4	-31	-18	-14	-26	-8
Exclusivity factor	B3	outstanding service support	9	4	13	5	6	10	14
	B4	with exclusive mix of product design + functional features + service	8	1	16	3	13	5	13
	B2	exclusive technology	7	0	14	3	13	1	10
	B1	exclusive design	5	-1	11	2	11	5	1
Price factor	C2	exclusive priced	5	7	3	6	2	3	7
	C1	premium priced	5	7	2	10	2	-1	8
	C3	moderately priced	-7	-1	-14	-4	-10	-7	-8
	C4	very affordable	-9	-3	-15	-5	-2	-9	-21
Residual value factor	D2	will become a collector's item	7	-3	18	7	5	4	10
	D1	the value will increase over time	6	-2	14	6	7	2	8
	D3	resell value above purchase price	4	-5	14	7	5	1	2
	D4	not a purchase.. an investment	4	-5	14	8	5	2	1

Could individual items in the general picture change this perception? Let's now look at a couple of elements that stand-out of the 'crowd', specifically the highest and lowest scoring ones, and see whether we discern a pattern.

The strongest element driving up the perception of future High End has an impact of +10. When we talk about *Made in ... Italy / France / Switzerland / UK / US*, it substantially increases our participants' opinions about a product as a future High End proposition; the impact of +10 means that an additional one in ten consumers would see the proposition as High End. The notion of 'exclusivity' is also important. For instance, *outstanding service support*, and *with exclusive mix of product design + functional features + service* drive the perception of what will be considered High End in the future. Go to countries where manufacturing is outsourced, however, and all of a sudden the product definitely is not perceived as potentially the manifestation of a High End proposition at all: *Made in ... India / Brazil / China.* (-17, meaning that almost 2 in 10 participants less, compared to the baseline, will call a product made in these countries as High End).

Mind-set segments for Authenticity & Value

In the previous chapter, we saw that the most interesting insights into participants' minds happen when we segment them into groups based on the patterns of the individual impacts. Based on the total number of participants and their patterns, there might be two, three or more such segments. In our projects we decided to limit the number of segments to just two. We ran a separate segmentation analysis for each of the five dimensions.

Columns, labeled 'Seg 1' and 'Seg 2' show the results for the two segments in the first dimension of authenticity & value. We have named them by looking at the phrases with the highest impacts, i.e., the phrases that appeal to each segment. The two segments are:

'Status Seekers' (or 'it's about me')
'Investor / Connoisseur' ('it's about product/service).

Let's elaborate further to grasp the actual deeper meaning of these two mind-set segments.

The general predisposition is approximately the same for both segments to rate a product identified by "authenticity and value" as a future High End proposition.

Segment 1 (*'Status Seekers'*) will apparently be quite simple to please. Just mention one of the traditional High End producing countries (Italy, France, etc.), and that the product is premium or exclusively priced. The Status Seekers will call that product a future 'High End'. Status Seekers will look for something that is generally perceived or identified as a High End product. They are not concerned with finer characteristics of High End propositions. It is possible that the Status Seeker comprises less-sophisticated participants who do not have a strong idea of a real premium proposition. They will need some general identifiers (*'Made in...'* coupled with a high price tag) to make a purchase decision. Let's look at what makes the Status Seeker 'tick'. When we put in the element '*Made in… Italy/France/Switzerland/UK/US* we get a very strong positive reaction. The impact value is +18, meaning that an additional 18% of the Status Seeker say that they feel that the product or service is future 'High End'.

The individuals from our second segment t called *'Investor / Connoisseur'* will not be interested as much in the country of origin as they are in the item's quality, and what will happen to the item years later. They react positively to phrases such as *the value will increase over time, will become a collector's item, resell value above purchase price, and not a purchase. An investment.* The Connoisseur feels that an item will be perceived as 'High End' when it is described by a message related to *exclusivity* (impacts from +11 to +16) and *residual value* or *collector's quality* of a product (impacts from +14 to +18). The mention of *collector* is the most decisive (+18). Connoisseurs are very skeptical about phrases such *'Made in...'* everywhere, especially in India, China and Brazil (rock-bottom at -31), meaning that this phrase 'drives away' almost one-third of the participants from perceiving the item as future High End. They are even neutral to *Made in Italy*, etc. Connoisseurs are not swayed by catchy *premium/exclusive* pricing (neutral), and they clearly resent *moderate* and *affordable* pricing claims as having anything to do with 'premium' (impacts of -14 and -15). It therefore appears that that this *Investor/Connoisseur* segment includes either more sophisticated or perhaps at least more experienced participants in the context of High End and luxury. But let's now move on to our second dimension of future High End, to identify some of its "markers" as well.

Dimension 2 for the Future High End: Design & Experience

In full continuity and consistency with our High End Proposition Charter, we started from our four factors to cover Design & Experience as defined there, with supporting data in Table 2:

The 'holistic' factor
The 'craftsmanship' factor
The 'design leadership' factor
The 'inclusion factor'.

Table 2. How elements about Design & Experience (Dimension 2) drive perception as High End (positive numbers) or detract from perception of High End (negative numbers).

			Total	Focus on product Seg 1	Focus on people Seg 2	US	UK	Italy	China
Number of participants			*368*	*166*	*202*	*99*	95	*94*	*80*
Baseline perception of future High End			30	**29**	**30**	26	28	**31**	**34**
'Holistic' factor	A1	designed for a holistic experience	5	3	7	2	5	8	8
	A2	designed to capitalize on your vision of life	5	5	5	8	5	1	7
	A3	appealing before you own it	4	6	3	6	2	3	5
	A4	retains most of its value even when no longer functional	2	1	2	8	2	-4	2
'Craftsmanship' factor	B4	made with the world's finest materials	13	21	6	10	13	17	11
	B2	made with unmatched precision	11	20	4	6	12	12	15
	B1	exceptional hand-made craftsmanship	11	19	4	12	13	11	6
	B3	made by trained professionals	8	18	0	2	12	12	6
'Design leadership' factor	C2	produced by a maker reputed for great design	7	12	3	7	8	5	8
	C1	created by renowned star designers	7	13	2	6	7	6	9
	C4	created by designers whose opinions you admire beyond design	7	13	2	9	4	3	11
	C3	a design icon	2	10	-4	0	2	6	-1
'Inclusion factor'	D1	enables people to live according to new lifestyle choices	5	-7	14	2	-3	10	11
	D4	enables more diversity in the communities of use	-5	-23	10	-11	-14	3	4
	D2	enables senior citizens to live more comfortably	-9	-28	7	-11	-19	-2	-2
	D3	enables minorities to feel more integrated	-12	-32	4	-20	-22	-9	4

Let's examine the outcome of this second dimension using data from the total panel. The baseline perception of the future High End is +30, similar to what we see for Dimension 1. In fact, as we work our way through the five dimensions, we're going to see the baseline perception, the propensity to label something as potential future marker of 'High End', to be about one in four or one in three, after the participant has been primed that the project will deal with premium. This is important because it tells us the basic mind-set of the typical participant. When we look at the segments and countries, we can see departures, if any, from this basic propensity to call a future related attribute or feature or quality High End after the study participant has been 'primed'.

For this dimension of Design & Experience it becomes clear that the factor we called craftsmanship is surely among the strongest driver for 'future High End'. Elements such as *exceptional hand-made craftsmanship, made with unmatched precision* and *made with the world's finest materials* are the strong performers. There might also be some potential negativity associated with the inclusion factor. This factor clearly does not yet drive the perception of High End, at least as of today. It remains open to define how it might play much of a real role in the future, at least from our limited sample of participants.

Mind-set segments for Design & Experience

We elaborated the data and concluded again that we should cluster the participants into two groups. One group responds strongly to the product itself, the quality of the product, and the craftsmanship. We call this segment '*Focus on the product*'. The other group focuses on the person and the experience in the wider socio-cultural context. We call this segment '*Focus on the person and society'*. These two segments begin with similar baseline to call something High End but the similarity ends there. The segments are quite opposite to each other in what drives their ratings. Furthermore, they are strongly polarized.

Segment 1, *Focus on the product*, as the name suggests, responds very strongly to statements about the product, so that elements such as *exceptional hand-made craftsmanship* and *made with unmatched precision* are key for future perceptions of High End. They are highly receptive to any message in the craftsmanship factor as future marker of High End. Craftsmanship statements generate extremely high impacts between +18 and +21 meaning that additional one in five participants would consider a future proposition as a premium when these strongly performing messages are included as a description of design and experience. Segment 1 is also highly influenced by the factor of design leadership.

In contrast, the more humanistic and larger Segment 2, *Focus on people*' responds more to the product as a lifestyle enabler (e.g., *enables people to live according to new lifestyle choices*). These are people who will apparently be completely indifferent to the statements about craftsmanship and design statements as well as indifferent to the holistic factor, with the exception of *'designed for a holistic experience'* which is moderately positive. In terms of High End Markers they will feel, that socially responsible factors like lifestyle choices (+14), diversity (+10), drive the notion of the future High End. Here we see the other side of the coin. A more inclusive-oriented notion of High End can be identified with this segment.

It is quite challenging to satisfy both segments with a single message. After all, the High End requires a higher level of sophistication in strategic thinking and messaging. Socially responsible claims will attract the people-focused segment while at the same time having a big negative effect on the product-focused segment. In contrast, quality and design leadership ideas will attract the product-focused, but not have much of an effect on the people-focused segment. Any future-focused strategy to convey High End premium through Design & Experience requires a great deal of sophistication, because we seem to be dealing with radically different mind-sets. This is why appropriate competency in strategic design will be required to form the concepts and elaborate the directions for future High End propositions. As we wrote before, a new notion of research-based design as the engine of experience will have to rise, well beyond and above the older view of 'design as styling'. High Design, as we described it in our earlier chapters, is indeed the potential blueprint to successfully meet future challenges of High End business complexity.

Dimension 3 for the Future High End: Innovation & Leadership

Let's move from Design and Experience, something that most consumers found easy to deal with, to the somewhat less tangible High End dimension of Innovation & Leadership. Although it might be less visible to the end consumers, there is nothing superficial for the industry itself. To the contrary, innovation itself is one of the most outspoken facets of brand image.

The innovation & leadership dimension has four factors, with the supporting data in Table 3:

The 'innovation factor'
The 'revolutionary factor'
The 'partnership' factor
The 'thought leadership' factor

Table 3. How elements about Innovation & Leadership (Dimension 3) drive perception as High (positive numbers) or detract from perception of High End (negative numbers).

				Focus on leader	Functional innovation				
			Total	**Seg 1**	**Seg 2**	**US**	**UK**	**Italy**	**China**
Number of participants			**360**	**186**	**174**	**100**	**96**	91	73
Baseline perception of future High End			*32*	*34*	*29*	19	24	50	35
Innovation factor	A1	with functional features that anticipate what you want	6	-5	19	10	10	-2	9
	A2	with technological features that anticipate what you want	6	-3	16	10	6	1	9
	A3	innovative in continuity with the earlier generation of the same product	5	-7	18	9	4	0	6
	A4	a natural extension of the current offer from its maker	3	-6	13	5	5	-1	3
revolutionary factor	B4	completely changes the way you live	9	13	4	8	7	9	12
	B1	totally revolutionary	7	9	4	5	9	1	13
	B3	just creates a new product category	0	1	-2	-1	-2	-1	3
	B2	somewhat provocative	-2	3	-7	-2	-2	-6	3
partnership' factor	C2	offers multiple functions	8	6	9	11	7	1	11
	C3	combines benefits from different industries	7	6	9	8	10	1	11
	C1	intuitive to use	6	5	8	6	8	1	11
	C4	created thanks to a 'maverick CEO'	3	7	-2	2	-2	-1	15
'Thought leadership' factor	D3	comes from an authority I trust	2	7	-3	8	3	-6	3
	D2	one of the many creations of a public leader	-4	6	-15	-3	-9	-6	1
	D1	from an executive who is a public personality	-7	3	-17	-6	-7	-9	-4
	D4	from a creator with a seducing charisma	-7	4	-18	-10	-7	-8	-1

The baseline perception for Innovation & Leadership (+32) is in line with what we have seen before for the first two dimensions of Authenticity & Value (Dimension 1), and Design & Experience (Dimension 2). Thus about one in three participants is ready to define a future proposition as High End when positioned as a manifestation of Innovation & Leadership. When it comes to the elements, there are no surprises for the total panel. People feel that if the item is '*totally revolutionary*' (an appeal to the emotions), then it will be perceived as a manifestation of High End. Consumers expect that a true future High End product will '*completely change the way you live*', not '*just create a new product category'*. Other drivers of the future High End perceptions include the functionality of the offering, more in line with what Steven van der Kruit defined as "Extra Value Products".

Mind-set segments

The participants divide into two approximately equal-sized mind-sets, with similar predisposition to consider a proposition as High End. Let's see the different drivers of this perception for each segment.

Segment 1*: 'Disruptive, focus on the leader'* considers it as a High End Marker if the proposition is **not** a continuation or extension of a former offer, e.g., '*innovative in continuity with the earlier generation of the same product*' (-7). Segment 1 expects a High End solution to be *'totally revolutionary*' (+9) that '*completely changes the way you live'* (+13). It also should come from a public leader (+6), somebody they trust (+7) or '*created thanks to a 'maverick CEO*' (+7). Segment 1 responds to the 'partnership factor'. The offer should be multifunctional (+6) and combine advances from multiple industries (+6).

Segment 2: 'Functional innovation' is all about innovation and with a lot of expectations from a High End proposition when it comes to High End Markers. Segment 2 will want the future High End product to have features that *anticipate what you want* (+19). At the same time, Segment 2 will look for evolutionary innovation which will deliver solutions that are '*innovative in continuity with the earlier generation of the same product*' (+18) or are 'a *natural extension of the current offer from its maker*' (+13). Not surprisingly, Segment 2 does not want '*somewhat provocative*' products (-7). The reason might be that these products might not be seen as useful or functional, perhaps resulting from participant's experience with an unwelcome abundance of pseudo-revolutionary products. This prospective customer of High End propositions likes functionality, but remains very dubious about future flashy personalities creating or introducing them. '*From a creator with a seducing charisma*' drives down their rating by 18 points; '*from an executive who is a public personality*' drives it down by 17 points and '*one of the many creations of a public leader*' drives it down by 15 points. Why are these elements so negative? One hypothesis here is that people do not trust an 'abstract' (self-proclaimed?) authority in the way we phrased it for our RDE investigation. The impact of a concrete, well-known authority in the field such as a renowned designer might be completely different.

What do the two Segments actually share in terms of High End Markers? Segments 1 and 2 agree only on statements related to the partnership. If a single proposition will be developed for both segments, then avoid focusing on personalities with the exception of '*comes from an* *authority I trust*' which is positive for Segment 1 (Disruptive) while neutral for Segment 2 (Functional innovation). **Claims about future functionality and multi-industrial, multidisciplinary vision and heritage should do well with both of them.** The thought leadership factor should be approached more carefully as the numbers generally do not support the positive impact of this factor on the future premium perception. Putting a stress on the trust might be a safer approach. This controversial finding requires further consideration and evaluation.

Dimension 4 for the Future High End: Marketing Communication & Distribution

Dimension 4 from our High End Proposition Charter again comprises polarizing factors and ideas. We see the same types of differences between general statements and specific statements. Compare these two phrases: *'I'll give you all the riches in the world'* and '*Here is the engagement ring, the best I can afford'*. Which is the more powerful, the grander but less concrete, or the smaller but more concrete? With this in mind, let's review the data for this dimension that we have divided into four component factors (with supporting data in Table 4):

The 'grassroots' factor
The 'image factor', explored within RDE also as 'production values'
The 'celebrity factor'
The 'placement factor'

Table 4. How elements about Communication & Distribution (Dimension 4) drive perception as High End (positive numbers) or detract from perception of High End (negative numbers).

				Forms own opinions	Swayed by others				
			Total	**Seg 1**	**Seg 2**	**US**	**UK**	**Italy**	**China**
Number of participants			**359**	**181**	**178**	**100**	**91**	**90**	**78**
Baseline perception of future High End			*28*	*28*	*27*	23	18	35	35
Grassroots factor	A1	referred to me by a friend	7	4	11	7	9	7	6
	A4	created a buzz in a community I am part of	4	2	7	4	7	3	4
	A3	discovered through a non-conventional media	3	-1	7	2	2	2	7
	A2	positively reviewed in blogs and discussion groups	1	-4	7	0	4	0	3
Production values factor	B4	with top quality communication	6	3	9	1	4	5	15
	B3	with the associated colors that are beautiful to you	5	2	8	5	5	4	6
	B2	with the associated aesthetics that are beautiful to you	4	4	4	2	7	4	2
	B1	with the associated images that are beautiful to you	0	-1	0	-2	1	3	-2
Celebrity factor	C4	if you were a celebrity you would own this	-1	-4	2	-8	-1	-6	14
	C1	used by celebrities in their own life	-3	-6	0	-7	0	-12	8
	C3	with a celebrity brand spokesperson	-6	-11	-1	-13	-3	-10	4
	C2	with a celebrity testimonial used in advertising	-6	-9	-4	-11	-4	-8	-1
Placement factor	D1	with a superior point of sale	9	15	2	12	9	10	4
	D4	prominently displayed in a store	7	13	0	12	5	5	3
	D2	with the packaging that stands out on the shelf	6	12	1	11	7	4	3
	D3	exclusive on-line offer, not available in stores	1	9	-6	8	7	-3	-9

The baseline perception of High End for the Total (+28) is in line with that of the other dimensions, meaning that one in four participants would consider a future proposition as High End if the positioning deals with marketing, communication and distribution. No elements score particularly well, in general. Talking about specific aspects of marketing, communication and distribution apparently will be only a modest driver of the High End, at least for the total population. We will see some country and segment effects, however, coming up shortly.

Mind-set segments

Again, in line with our earlier analyses, we identified two equally sized segments with essentially the same additive constant, so both will be equally likely in the future to call a proposition High End when the focus is on marketing, communication and distribution. Let's see how the "High End markers" work more in details.

Segment 1 *Form own opinions'* are those who will respond strongly when they can see the product in the appropriate merchandising area. The impact or probability of a future proposition being labeled premium is +15 when people in this segment are told or read '*with a superior point of sale*' and +9 for '*exclusive on-line offer, not available in stores*'. If you want to convince them that your next proposition is a High End one, then you should try hard to impress Segment 1 with exciting points-of-sale and displays in stores, using packaging that stands out. They do not like the typical celebrity endorsements or associations. Keep in mind the explanation above that these findings apply in a general way.

Segment 2 may be defined as *'Swayed by others & authorities'.* The name of the segment says it all. Participants in this segment feel that to label something in the future as High End they need guidance or reinforcement of their decision in form of good referrals and reviews. The most impact one will be from a friend. This segment may be a good candidate for a viral or social campaign because the participants respond to 'buzz'. The participants are similar to their counterparts in Segment 1 when it comes to celebrity endorsements. They will react positively to the production values of the communication, such as 'with top quality communication' and 'with the associated colors that are beautiful to you'.

Dimension 5 for the Future High End: Sustainability & Simplicity

The 'Sustainability and Simplicity' dimension of our High End Proposition Charter has four factors, with supporting data in Table 5:

The 'green factor'
The 'society factor'
The 'personal factor'
The 'simplicity factor'

Table 5. How elements about Sustainability & Simplicity (Dimension 5) drive perception as High End (positive numbers) or detract from perception of High End (negative numbers).

				Personal Simplicity	Sensitive				
			Total	**Seg 1**	**Seg 2**	**US**	**UK**	**Italy**	**China**
Number of participants			365	196	169	100	93	90	82
Baseline perception of future High End			30	35	25	22	23	44	33
Green factor	A4	helps to save the environment in the long term	10	0	22	7	10	6	18
	A3	designed not to impact the environment	7	-3	19	5	11	6	8
	A2	eco-friendly production process	7	-4	19	7	10	3	8
	A1	not polluting	6	-3	16	3	4	5	11
Society factor	B3	helps local communities to improve	6	7	5	10	7	3	3
	B4	improves the life of people in my own community	6	7	5	11	2	4	7
	B2	benefits the people in local communities producing it	5	6	3	7	6	2	3
	B1	produced respecting the local communities	5	6	3	6	6	2	4
Personal factor	C2	customizable to my own needs	8	9	6	7	5	7	13
	C3	helps me save time	7	7	8	6	8	8	9
	C1	can be upgraded over time	7	9	5	6	5	5	12
	C4	improves the quality of the space around me	5	5	5	6	3	5	6
Simplicity factor	D4	makes complex technology friendly to me	8	15	1	9	4	3	18
	D3	simplifies my life	6	12	-1	8	2	6	7
	D1	simple to use	4	10	-1	5	4	4	5
	D2	makes sense in my life	4	12	-5	8	0	3	6

Quite unsurprisingly, given the vision of our thought leaders and experts, Sustainability & Simplicity is the only dimension of the five with a preponderance of very strong performing elements driving the perception of future High End. The baseline perception is +30, similar to that of the other four dimensions, meaning that 30% of the participants are prepared to perceive a future proposition as High End when the topic is Sustainability & Simplicity. So far we have seen the baseline hovering pretty much around the same level of (25 – 33) or so.

The participants link future High End propositions with sustainability. If we look at Table 5, we see that the sustainability elements significantly drive the future perception of High End. The phrase '*helps to save the environment in the long term'* has an impact of +10. However barebones simplicity statements such as '*simple to use'*, and '*makes sense in my life'* lack that ability. It should not surprise us. It just might be that these simplicity elements are too 'wishy-washy', and nebulous. They don't paint a word picture. Once translated into specific features and applications, this relative impotence might disappear. This is clearly where we see how the distinction between 'simplistic', and true, rich 'simplicity' will work in the future. It will take genius to be truly simple. People in search for the High End will be severe judges in terms of how well companies can truly simplify their propositions, while not reducing the quality and value.

Mind-set segments

The participants divide based on the patterns of their responses into two dramatically different segments that we named *'Personal & Simple'* (54% of the total sample) versus *'Sensitive'* (46%).

Segment 1 - *'Personal & Simple'.* This segment will be more predisposed to perceive future products as High End (baseline perception is (+35) for Personal & Simple versus (+25) respectively for *'Sensitive'*). The *'Personal & Simple'* segment reacts strongly to each of the four messages about future simplicity (from +10 to +15). Simplicity is definitely a High End driver for Segment 1. The segment also feels that messages dealing with customization and upgradability will drive towards premium. Nevertheless, the *'Personal & Simple'* segment will of course not be totally insensitive to the outside world. The messages from the 'society factor' will also strongly drive High End. At the same time, environmental and social issues will not necessarily resonate well among the *Personal & Simple* Segment. To those focusing on 'Personal and Simple', notions about plain ecology only look like they have little ability to drive a proposition towards the High End in the near future.

Segment 2 – The *'Sensitive"* Segment. What appeared to be their High End Markers? Anything we tested related to environmental and social issues is hugely positive with this group (from +16 to an exceptionally strong +22). Participants in the *'Sensitive"* segment will not necessarily care how simple a future product will be. Such statements are not really relevant as future drivers to High End. The *'Sensitive"* segment feels that the 'personal factor' will drive the future High End, but not very strongly.

From the above round of global research results and overview of general High End Markers and –most importantly- of mindsets and clusters, it is time to move on to our concluding observations. We grouped them into three different paragraphs, with the goal to render some of the cultural differences and the regional granularity that the above global synthesis, inevitably required us to sacrifice.

Ending considerations – some broad sweeps

We finish this chapter with three general views of key results.

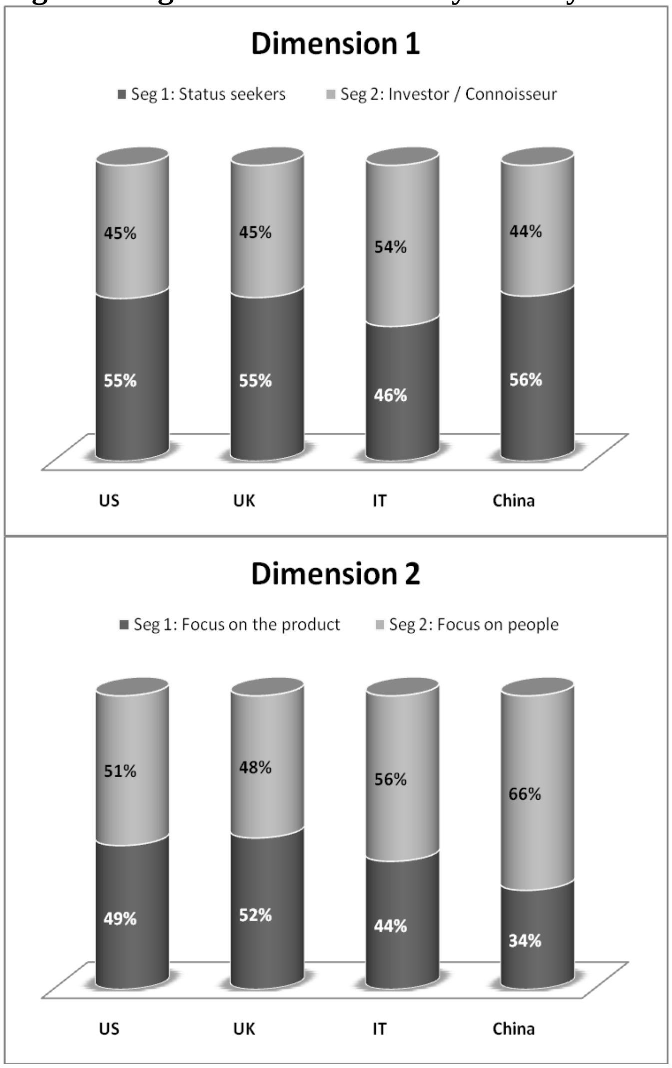
> Where & Who: How do the pairs of opposing segments in each of the five High End Proposition Charter dimensions distribute and why?
>
> Predispositions : Do we find different predispositions or predilections to label a proposition as 'High End' in the future? Can we trace these predispositions to countries and to dimensions?
>
> Regional differences: What are some noteworthy highlights from the viewpoint of regional differences?

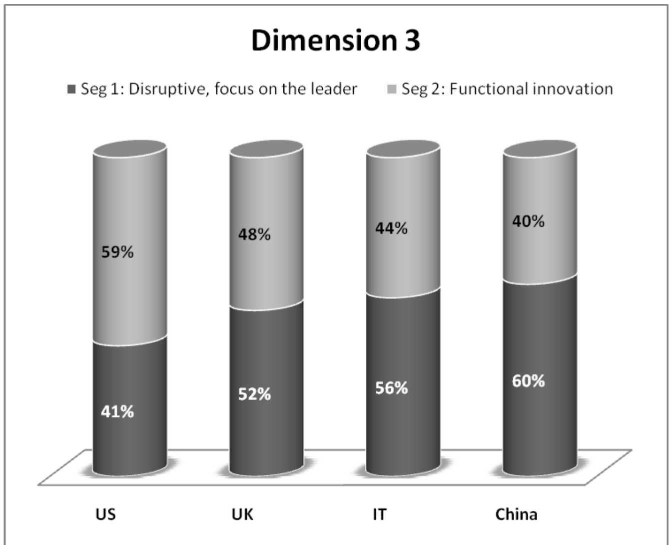
Getting to 'where and who' - How the pairs of opposing segments distribute in each country

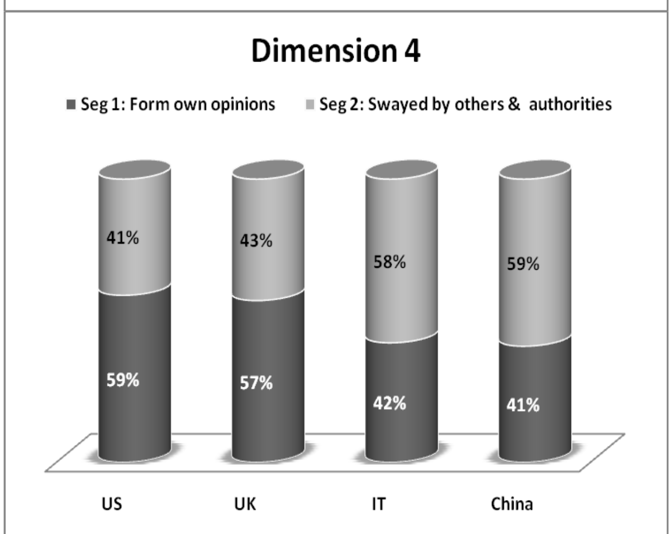
Recall that we divided each of the dimensions of the High End Proposition Charter into two 'mind-set segments', or clusters of participants' reactions. We did this segmentation separately for each of the five dimensions.

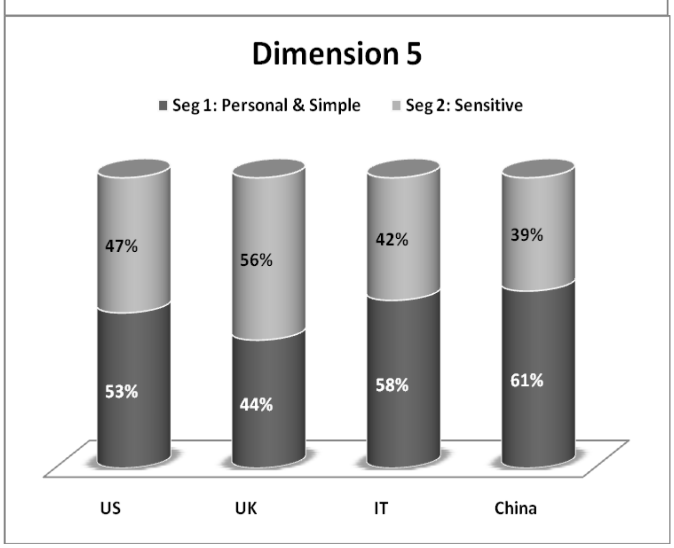
When we segmented the participants in a single dimension we did so without considering the country from where the participants came. For the most part the segments were about equal in the population, but sometimes one segment comprised as much as 55% of the participants whereas the other segment comprised only 45% of the participants. We can go further into the analysis to discover whether the distribution is similar across all four countries, for the two segments, for each of the five dimensions. Now, let's look at the distribution of these Segments in Figure 1.

Figure 1 Segment distributions by country.




Dimension 3
Seg 1: Disruptive, focus on the leader
Seg 2: Functional innovation
59%
48%
44%
40%
41%
52%
56%
60%
US
UK
IT
China


Dimension 4
Seg 1: Form own opinions
Seg 2: Swayed by others & authorities
41%
43%
58%
59%
59%
57%
42%
41%
US
UK
IT
China


Dimension 5
Seg 1: Personal & Simple
Seg 2: Sensitive
47%
56%
42%
39%
53%
44%
58%
61%
US
UK
IT
China

Dimension 1 – Authenticity & Value. The distribution of the segments is relatively similar. In all the countries (except for Italy) it is close to 55% for the 'Status Seekers' and 45% for 'Exclusivity and Collectors'. In Italy, the segments fall in the opposite proportion, with 46% of participants being 'Status Seekers' and 54% being 'Collectors'. Many participants in Italy will be less concerned with the Status and more inclined, in the future, to link the High End to exclusivity, investment and collector sentiments, respectively.

Dimension 2 – Design & Experience**.** The participants for this dimension split relatively evenly between the two segments in the US and UK. The Italians in general are more tuned to people issues (Segment 2 '*Focus on People'*, 56%) vs. product issues (Segment 1 '*Focus on the Product Segment'*, 44%). The biggest difference is in China. The majority of Chinese participants (66%) fall into Segment 1(people focus), and the remaining (33%) belong to Segment 2 (product focus).

Dimension 3 – Innovation & Leadership shows a curious 'geographic' aspect. The segment demographics systematically change when moving from West to East. In the US, about 60% belong to Segment 2 *'Functional innovation'*, and the remaining 40% belong to Segment 1 (*Disruptive innovation, focus on the leader')*. This proportion changes to an approximately even split for UK, followed by 46% to 56% (Segments 2 and 1 respectively) in Italy and finally a 40% to 60% split in China (the reverse of the US). Consumers in the USA will look mostly for functional innovation whereas in China and to a lesser extent in the UK participants are more sensitized to the idea of design leadership as a driver of High End.

Dimension 4 - Marketing, Communication & Distribution **s**hows similar segments distribution in Italy and China. In both countries about 40% of the participants respond that in the future they will form their own opinions whereas the other 60% would be influenced by the others or authorities. In the US and UK the pattern reverses. Approximately 60% in the US and UK respond that they will form their own opinion vs. an approximate 40% who will rely on others or on authorities. Thus in Italy and China consumers will rely more on the opinions of others in the form of reviews, referrals and recommendations. In contrast, in the US and UK more participants say that they tend to form their own opinions. We see here a very triggering and challenging picture of the future.

Dimension 5 – Sustainability & Simplicity divides the Chinese participants most notably, with 61% of Chinese participants belonging to '*Personal and Simple'* segment and just 39% belong to '*Sensitive'*. Pretty close to this division is Italy with 58% vs. 42%, followed by the US (53% and 47% respectively). UK has the biggest proportion of *Sensitive* segment (56%) whereas onl*y 44% of Brits fall into the Personal and Simple segment.*

General predisposition to High End perception – what the additive constant reveals

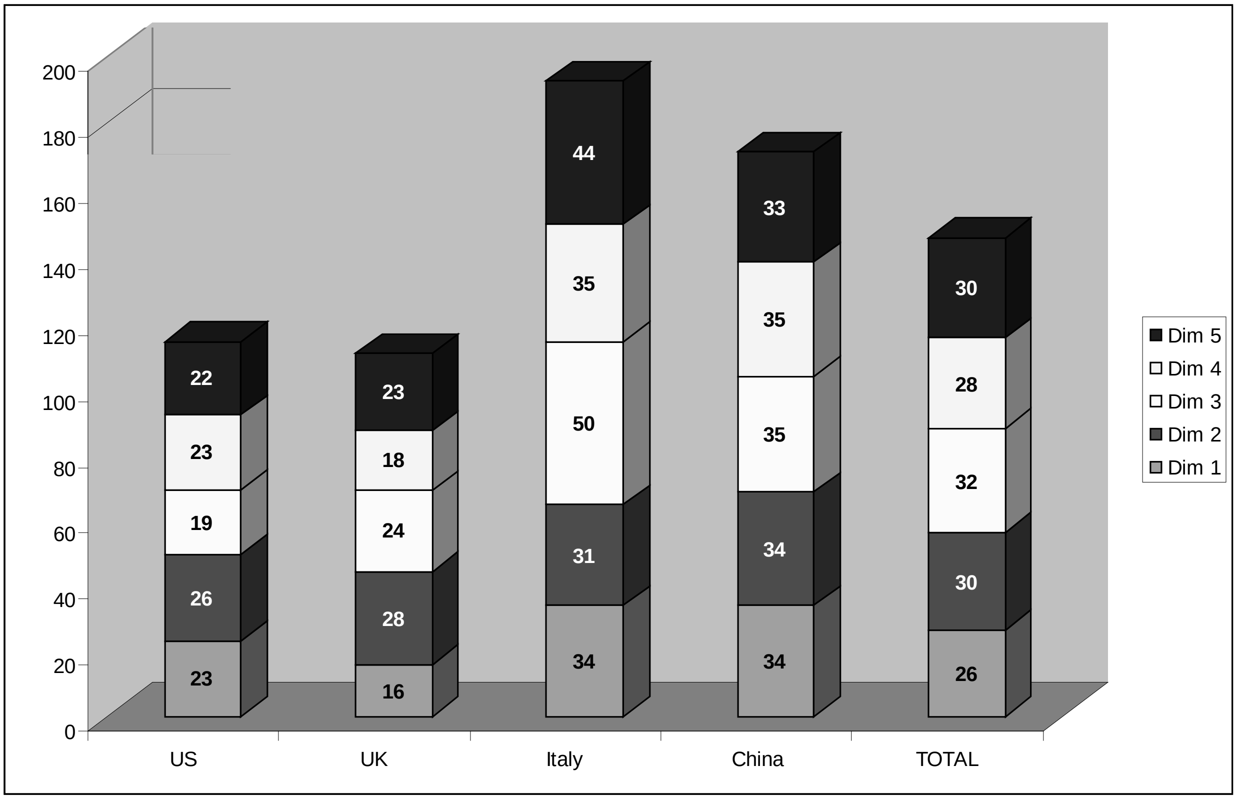
Recall that the baseline perception of High End shows the general predisposition to label a future proposition or product as High End in the context of the specific dimension. Thus the baseline is the starting point of the general attitude of participants towards High End to which the impacts of the individual elements are added.

Let's compare at the baselines on country by country basis. You can see the baselines listed in Table 2, and presented graphically for more dramatic comparison in Figure 2.

Table 6. Magnitude of the baselines (predispositions to call a proposition High End), obtained from the five different RDE experiments, one for each dimension of the High End Charter.

	US	**UK**	**Italy**	**China**	**TOTAL**
Dimension 1: *Authenticity & Value*	23	16	34	34	**26**
Dimension 2: *Design & Experience*	26	28	31	34	**30**
Dimension 3: *Innovation & Leadership*	19	24	50	35	**32**
Dimension 4: *Marketing, Communication & Distribution*	23	18	35	35	**28**
Dimension 5: *Sustainability & Simplicity*	22	23	44	33	**30**
Average per country	**23**	**22**	**39**	**34**	**29**

Fig. 2. Magnitude of the additive constant across the countries and dimensions. The taller stacks represent higher level of predisposition to consider a product to be High End.



Although each dimension was treated as an independent project with completely different set of participants, the baselines for the Total across the dimensions are quite consistent (between +26 and +32). This means that the nature of the individual dimension does not drive participants to pre-judge a proposition as High End.

In the absence of specific information about the proposition, the British and Americans will be the ***least likely*** to expect a product or proposition to be High End in the near future. People in China will be more predisposed expect a proposition to be High End in the near future. The Italians will be most predisposed to call a proposition 'High End'. Again, cultural and regional differences will be key to future High End success.

Regional Differences: some noticeable remarks "country by country"

Time to enjoy the texture and differences in terms of appeal and interests in the four countries we investigated: US, UK, China and Italy. We will present you with some highlights from the gold mine of data we accumulated, just to give you a flavor of the richness that High End will express in the future.

Dimension 1: Authenticity & Value. When it comes to "Price", participants do not associate future High End products with affordability or with moderate pricing. Therefore, as common sense might hint, referring to a "premium" product as "affordable" may be a losing proposition. Affordability has a negative impact for the Total (-9) and across the countries, although, almost neutral in UK and just moderately negative in the US. Surprisingly, the most negative reaction towards 'very affordable' price factor occurs in China, a very low value (-21) followed by Italy (-9). From a practical perspective, to get something perceived to be High End will mean not to under-price it, especially in China.

Moving on to “Residual Value”, we find this particular High End Marker to act differently by country, and so it presents us with an opportunity to understand different ways of looking at the High End. The typical ‘adspeak’ ‘*Not a purchase, an investment*’ works only among the Americans, whereas it is ineffective in other countries. Our hypothesis is that in the future people outside US will just want to use and enjoy a High End artifact while naturally expecting it to keep or increase its value. It might mean that adopting “scarcity marketing” techniques will be an option for differentiation now, but it might evolve into “hygiene factor” over the next years. Timing here will be everything, for High End business leaders.

<u>Dimension 2: Design & Experience.</u> The Craftsmanship factor is the most influential factor in this dimension for the majority of the participants around the world. US participants are slightly less impressed by craftsmanship than are the other participants. ‘*Exceptional hand-made craftsmanship*’ is very powerful in driving the perception of the High End (+11 to +13 for the US, UK and Italy with China at +6). ‘*Made with unmatched precision*’ hits the right button in China (+15) and in Europe (+12) whereas the Americans feel that it will be only moderately effective (+6). The strongest message seems to be ‘*made with the world's finest materials*’ which adds 10 points to the perception of High End for the Americans, +11 for Chinese, +13 for UK and +17 for Italians. Here we clearly have another confirmation of the fact that design disciplines, like those involving strategic thinking around materials and finishing, will be key in the creative mix to generate the future of High End

Switching to Design Leadership, we do not see strong country-to-country differences. For example, a universally strong element across the countries that connotes premium is ‘*created by renowned star designers*’. Italians in particular react strongly to the notion of ‘a design icon’, confirming the need to go deeper into cultural and national differences in order to understand the dynamics of the High End. Chinese participants feel that three of the four Design Leadership elements will drive High End. They strongly identify it with design, as long as the design is made by a real person, such as ‘*created by designers whose opinions you admire beyond design*’ (+11). Where Design Leadership falls down in China is when the leadership is not a person but an impersonal image, ‘*a design icon.*’ Here we find another indirect confirmation of our idea that in the future “corporate mavericks”, or strong personalities, will rise, especially in the design context.

Dimension 3: Innovation & Leadership. Looking at the baseline of calling something innovative as being High End, it should come as no surprise that countries differ in their reaction to innovation and leadership. Really strong prospects for the linkage of innovation and High End propositions lie with China, where our participants already are at a reasonable level of positivity towards calling a proposition High End, when positioned as innovative. Yet individual messaging can convince them further that the proposition is premium. When it comes to the notion of 'revolutionary innovation' as High End Marker, this will polarize the response to future propositions, but in some countries the notional of revolutionary works quite well. For example, '*Completely changes the way you live'* is a strong driver of future premium for participants in each country (+9 to +12). Yet the notion of revolutionary can go too far, and then in the wrong direction. For example, '*Just creates a new product category*' has no real effect on the future perception of premium, even for our segments above. This message appears to be quite universally irrelevant. Another irrelevant message for premium is '*somewhat provocative*', and actually moves Italian participants away from a perception of High End (-6). '*Totally revolutionary'* is quite different. This bold statement is very effective as a driver of High End in China (+13), and quite effective in the UK (+9). However, the statement is ineffective in Italy and the US. In general, phrases dealing with revolutionary could be effective as drivers of perception of High End propositions, although they ought to be evaluated while keeping a sensitive eye on cultural differences.

What about Partnerships? Partnership elements drive up the perception of the future High End very effectively in China (from +11 to +15). Yet, perhaps surprisingly, the same elements are irrelevant in Italy (-1 to +1). However, this again should be taken in the context of the baseline which is very high already for the Italians -- they are very positive and not much at all (at least among what we have tested) could change that. US and UK participants react similarly. For example, the phrase '*Offers multiple functions*' the element scores well as High End driver (+11 in the US and +8 in UK). Similarly, the phrase '*combines benefits from different industries*' performs well (+8 points to the American's perception of premium and +10 points to the Brit's perception).

Dimension Four: Marketing, Communication & Distribution. This dimension emerges as a complex set of ideas when deconstructed from the viewpoint of RDE. Unusual ways of marketing like '*Discovered through a non-conventional media*' plays well only in China (+7). Consumers in the other three countries apparently believe that they already know and have all possible channels for marketing, and so feel that there is no need for any additional 'information pollution'. Also, the High End Marker, '*With top quality communication*' is highly effective in China (+15) as a future driver of High End. The only other notable messaging is '*with the associated aesthetics that are beautiful to you*' which drives the perception of High End in the UK (+7).

From communication to transaction, the "Placement" factor is key. What are High End Markers here with regional impact? Very positive and effective in the US (+8 to +12), messages about placement are quite unexciting for Chinese (neutral for three of the four messages, with -9 effect for '*exclusive on-line offer, not available in stores*'). The Chinese are less concerned with the placement factor. Chinese participants do and will care about the product itself. Even more telling, exclusive online offers are not popular at all, at least for now and in the short term future. Here, cultural and regional difference will truly make or break High End propositions. Replicable marketing concepts from other countries simply might not work. UK participants are positively tuned to the placement messages in this factor as a driver of High End, although to a lesser extent than in the US (+9 versus +5). In Italy the participants react strongly to future High End propositions – for example '*with a superior point of sale*' (+10). This message seems to be the most promising for the total panel as well. '*Exclusive on-line offer, not available in stores*' could be used in UK and US, but apparently should be avoided in Italy and China.

Dimension Five: Sustainability & Simplicity.The dimension of Sustainability & Simplicity generates lots of elements that will offer opportunities to business leaders to drive their propositions towards the High End. However, the baseline differs dramatically across countries, meaning different predispositions for Sustainability & Simplicity. Participants in Italy are twice as likely to perceive a future proposition built on Sustainability & Simplicity to be premium versus participants in the UK and the US (+44 against +22 and +23 respectively). China is exactly in the middle between these two groups at (+33). Once again, understanding regional differences will be key to winning in the game of High End.

The 'Society factor' in the US has the greatest driving power to High End (from +11 for '*improves the life of people in my own community*' to +6 for '*produced respecting the local communities*'). Participants in the UK feel that only one message of the four drives to High End: '*helps local communities to improve*' (+7). The other three messages do not. Participants in Italy and China are generally neutral. The only moderately positive message for China is '*improves the life of people in my own community*' (+7). All-in-all, messages about 'Society' are good performers, and perhaps the Society topic itself is good to focus on when talking about the future High End. It is positive across the board.

The 'Personal factor' is a special case of future High End Marker, and this is why we are pleased to conclude this regional overview with it. This is the most positive factor across the board. Together with the social factor it presents the most reliable target for the future High End. The most receptive group to the messages in this factor is our Chinese participants. They react strongly to three of the messages as drivers towards High End: '*customizable to my own needs*' (+13); '*can be upgraded over time*' (+12) and '*helps me save time*' (+9). Italian participants feel that customization and time saving claims both drive to High End (+7 and +8). British participants feel that messages about saving time message drive to High End. US participants feel that customization drives to High End (+7), although all other messages in the factor are positive at almost the same level (+6).

After this rapid regional and cultural overview of differences, it is now time to conclude this chapter, and what more natural conclusion than the fact that people are not created the same in their appearances, perceptions and motivations. This is perhaps the reason why People Research will always exist, and always evolve over time. Our RDE efforts identified the driving factors of future High End perceptions across the countries and mind-sets. We believe that this information will be greatly valuable to designers, marketers, and decision-makers.

While happy and satisfied with the results if these massive efforts, it struck the authors that there might be an even more exciting use of the data collected. What if one could assess, almost like in a score-card, how well a current (or future) product fits into what the participant perceive as possible future High End? Even more, what if one could *compare* several products, existing or hypothetical, on this perception?

We believe that we demonstrated, in this very chapter, how the qualitative-based High End Proposition Charter could be translated into a numerical framework for future analysis. We were pleased with the outcome of our efforts. However, we want more. Specifically, we want to make our High End Proposition Charter the seed of an actionable toolbox based on the best of both worlds, of which this RDE exercise is the second element. How can we continue towards enabling you to create your own next success in the High End of tomorrow? We set ourselves to the challenge to define a scorecard for the definition of future High End. Let's move to the next chapter to discover this scorecard, the final piece in the puzzle that will help you unveil the pictures of your possible High End future success.

Chapter 9

Actionable tools to achieve Future High End success: The High End Scorecard to bridge research and business.

A story tells that a manager who had problems with a mechanical breakdown, decided to sent for the retired engineer who had been involved in installing the equipment. After just a few moments, the retiree took a hammer and hit a gadget with it. Although the manager was ecstatic that the equipment went back to working so fast, he was shocked to see a bill for $1,000 for a single hammer blow. The retiree's explanation was that the hammer blow costs only $1.00. The rest $999 is for knowing where to hit it.

In the commercial world that creates and sells the High End, people would be happy to pay much more to know ahead of time whether or not a product, a service, indeed any type of proposition has the 'makings' of the High End. Many pundits claim they can do that but only a few who are talented, gifted with insight and intuition, can answer this question, and probably not always confidently. But what about the rest of us? And what about ideas and propositions that are perhaps new-to-the-world? Or even today's propositions in different countries? How can we get a handle on this thing called the High End, especially when we want to look from today out to the near tomorrow?

Our book was born from our vision to combine two different approaches seamlessly merged together. We first listened to experts tell us about the High End, what works, what doesn't, who did it right, and in some cases who made big mistakes. And then we used RDE science to measure the mind of the ordinary participant. The previous two chapters have opened a statistically based 'window' into people's minds, as we tried to understand and quantify perceptions of the future High End. We used the statistical method to define a number of High End Markers, and to describe what appeals to and how to prospect the High End customers of tomorrow.

By now we have seen how to analyze the future of the High End through our High End Proposition Charter, with its five Dimensions and a total of 20 factors. We also discovered how participants in four countries feel about these different dimensions and factors. In fact, we have a total of 80 different statements that apply to the High End, and that could generate endless opportunities for business propositions, by means of specific research projects and *ad hoc* explorations.

Now it is time to go further, by bringing the user into the picture, or better, by giving you the opportunity to take action. We have created two tools using the insights: HESC (High End Score Card) and HETT (High End Typing Tool).

<u>Tool 1 – HESC (High End Score Card).</u>

Answering the questions: *"How "High End-fit" is a proposition or idea?"*

HESC gives you a checklist. From that checklist you can get a sense of whether a proposition is going to make the cut of High End for the future. Since we have the data, we will use the information for new propositions. We are talking here of the *'level of High End fit'* in a specific proposition. We'll show you how.

> *HESC assesses several products on the perception scale of relative future' High Endedness'. Compare several products of your choice by entering the applicable attributes (factors) of the products for each product. The HESC numbers show which product is perceived to be most High End compared to the others. The HESC numbers are available for the total panel and per country. We also plan to add some additional comparison data points on-line by the time the book is published. Of course, the products compared should be from the same category for the comparison to be meaningful.*

Tool 2 – HETT (High End Typing Tool).

Answering the questions: *What is the specific nature of the future High End proposition?*

HETT gives you a 'genetic blueprint' of the nature of the High End proposition. Recall that we divided each of the five dimensions of the High End into two different segments. These segments represent different ways of looking at a proposition. Each of the two segments emphasizes something different about the same general area (e.g., authenticity). Now we will use this mind-set segmentation to profile a product with respect to the nature of the High End. We're talking here of 'type', of 'quality', almost like the gene pattern of the High End.

> *HETT defines the nature or type (hence the name 'Typing") of the 'premium-ness' of your product. HETT answers the questions like: What is the 'signature' of your High End proposition? What is your product's profile? What is the nature of this proposition? HETT could be utilized to better understand the type of your most positively predisposed consumers for more targeted design and marketing.*

These two tools are described in the chapter, but also available to use on the book website. Of course like any tools they cannot answer all the questions you might have. We developed the tools to provide users with a blueprint of what can be done when you want to customize and localize the views about your specific product or service. Once you understand how we created our two tools, you will be able to use RDE to create new, specifically customized tools for your particular situation.

> *Both tools, HESC and HETT, use the same foundational data collected in the same set of RDE projects. If you decide to create your own database of RDE projects catered to your specific category and geography, then you are already 80% on your way to have both tools at your disposal. Later, after the data has been collected, there will be somewhat different statistical analyses. This part*

can be handled easily by a vendor servicing the tool or your internal analytical staff.

A short review of the method underlying the tool

To review for a moment, RDE is a structured process of discovery. This structure is very important, because it relieves the user from the burden of having to 'know' the correct answer. We can use RDE to discover, to plot our path through the maze of the future, and then to get down to specifics.

Getting down to specifics, for each High End Proposition Charter dimension we identified four specific silos or statistical buckets that comprise different elements or expressions. The real learning and wisdom lay in the 'specifics', meaning that for each silo we must have to have specifics, not generalities. We chose four phrases for each silo, to give us different 'snapshot' ideas of the same silo. These phrases focus on specifics, not generalities. You can see the structure in Table 2.

Finally, we created an experiment by mixing together elements (phrases) in a single dimension to create test 'vignettes' (also called test concepts) We actually ran five such experiments, a pilot in the US and then one experiment for each country. We did the same experiment in four countries (China, Italy, United Kingdom, and United States).

This strategy identified the driving or impact value of each of the elements in each silo, in each dimension, and for each country and each person. Quite a bit of data, but worth the effort because the results revealed the 'algebra' of the customer mind when it comes to the future High End. Just as importantly, we identified different mind-sets or segments, which transcended country. We started, of course, from our High End Proposition Charter.

Table 2: Structure of the database for the future High End. This database matches the High End Proposition Charter. The database comprises five dimensions, each dimension comprises four factors, and each factor comprises four specific elements.

DIMENSION ONE: authenticity & value
The "origin factor"
The "exclusivity factor"
The "price factor"
The "residual value" factor
DIMENSION TWO: design & experience
The "holistic" factor
The "craftsmanship" factor
The "design leadership" factor
The "inclusion factor"

DIMENSION THREE: innovation & leadership
The “innovation factor”
The “revolutionary factor”
The “partnership” factor
The “thought leadership” factor
DIMENSION FOUR: marketing, communication &distribution
The “grassroots” factor
The “image factor"
The “celebrity factor”
The “placement factor”
DIMENSION FIVE: sustainability and simplicity
The “green factor”
The “society factor”
The “personal factor”
The “simplicity factor”

How am I doing?
Future High End self-assessment with HESC (High End Score Card*)*

During our RDE explorations discovered the impacts for all of the elements of the High End Charter. Even within a dimension, the silos performed differently, as did the elements within the different silos. For example, announcing that that a product comes from Japan, has a different effect than announcing that that the product comes from Italy, US or UK. This difference in the impact of country of origin makes some intuitive sense regardless of statistics.

Once we realized that there were different impacts, we also recognized that we could create a scorecard. That is, if we honestly profiled any proposition, product or service, on these dimensions, silos and elements, then we could quickly get a sense of the degree to which the proposition was High End. Of course the measure we get is limited to the range of specific elements that we chose. Yet we felt that we were on to something in terms of measuring the High End potential of a proposition through a scorecard. There was nothing else out there to guide us. We felt like travelers in a new land. The English poet John Keats wonderfully expresses the feeling in his immortal sonnet, *‘On first looking into Chapman’s Homer”*. That is how we feel, perhaps because we believe that from interviews to statistics, everything that pertains the investigation of the human mind and the exploration of human futures has a flavor of poetry.

We want to make the tool easy to use, and relatively quick. Although we could have used all 80 elements from the five RDE studies, one per dimension it would be better to work with 20 of the 80. The HESC tool would be more manageable. Through statistical procedures that 'reduce the size of the dataset by factor analysis' (see our website for the details) we identified 20 elements out of the total of 80 individual elements. These 20 elements have the greatest 'driving effect' on the consumer's perception of the High End.

Once we identified the key elements that were most critical, we rebuilt the RDE model or equation. The model has the basic same structure that we saw in Chapters 7 and 8, but adjusted to accommodate 20 elements. We built the tool to be consistent with the High End Charter, using the RDE method. We embedded the statistics and modeling into a user-friendly, business-ready computer program. The computer program automatically does the 'heavy lifting' for you.

> *You can add together the numbers to estimate the level of High End. The numbers in our HESC will differ from the numbers you see in Chapters 7 and 8 because we are combining the five dimensions together, selecting 20 elements across all dimensions, and then creating a model that comprises these impacts. In contrast, when did the traditional modeling in Chapters 7 and 8 we analyzed the dimensions separately.*

We now present an example and the appropriate screenshots from the tool to give you a sense of the experience. You might want to jump directly to www.FutureHighEnd.com to test-drive the tool immediately and come back later for further explanations or do it after reading the chapter – the choice is yours.

<u>HESC and the world of watches</u>

We elaborated a lot about Tag Heuer in our earlier chapters. We now return to this Swiss master of innovation back. Let's use HESC to assess two watches - Seiko SDDA Spring Drive (top,

Figure 1) and Tag Heuer Carrera (bottom,

Figure 1). Both are excellent watches, albeit in different worlds of the High End. Seikko SDDA scores an 18 in the US, whereas Tag Heuer's Carrera scores a 22, more than 20% higher.

As we explained above, we selected 20 of total 80 elements that could apply to many different High End propositions (products and services). We then created a selection list divided between the five dimensions (Dim 1 to Dim 5 on

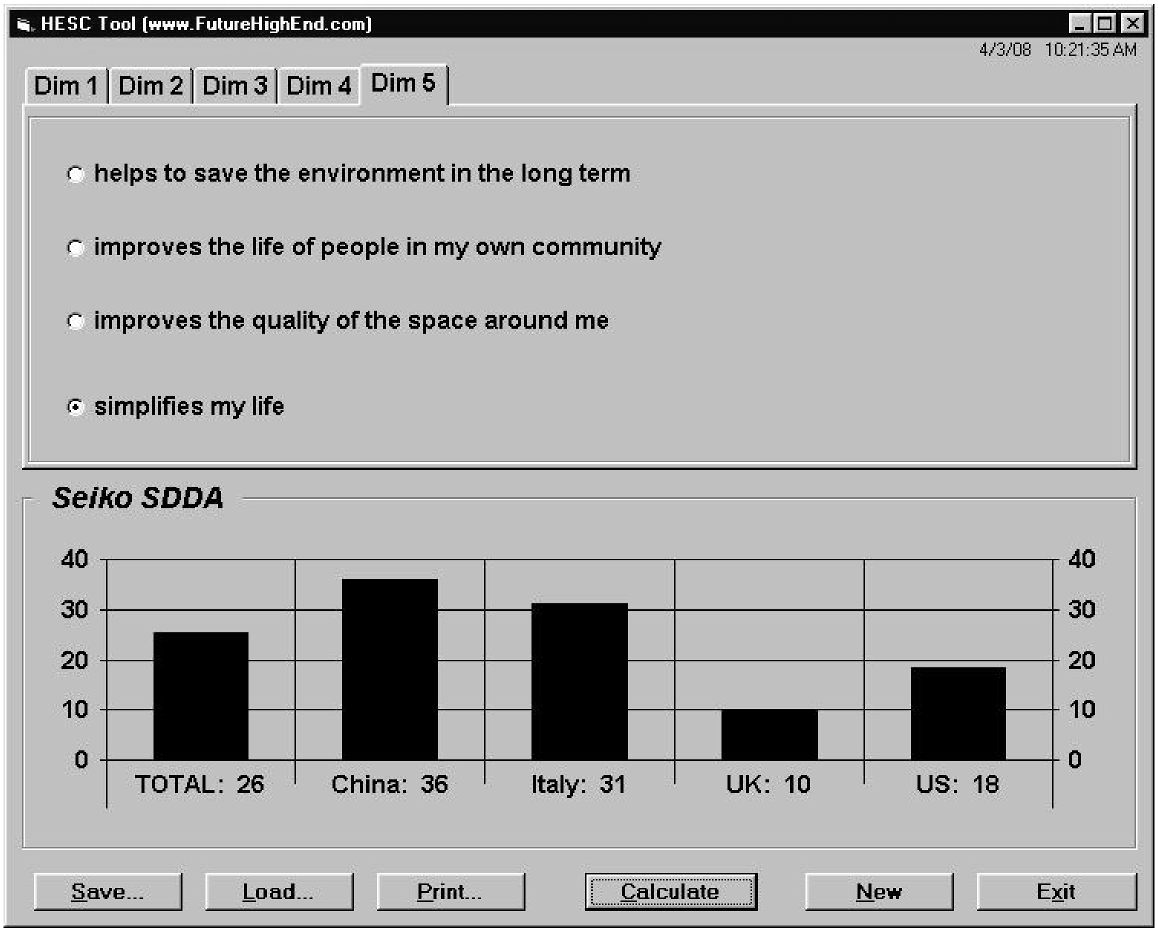
Figure 1). ***All you need to do is check which elements you feel truly apply to the proposition, following the tool. You are allowed to select one element from each dimension.***

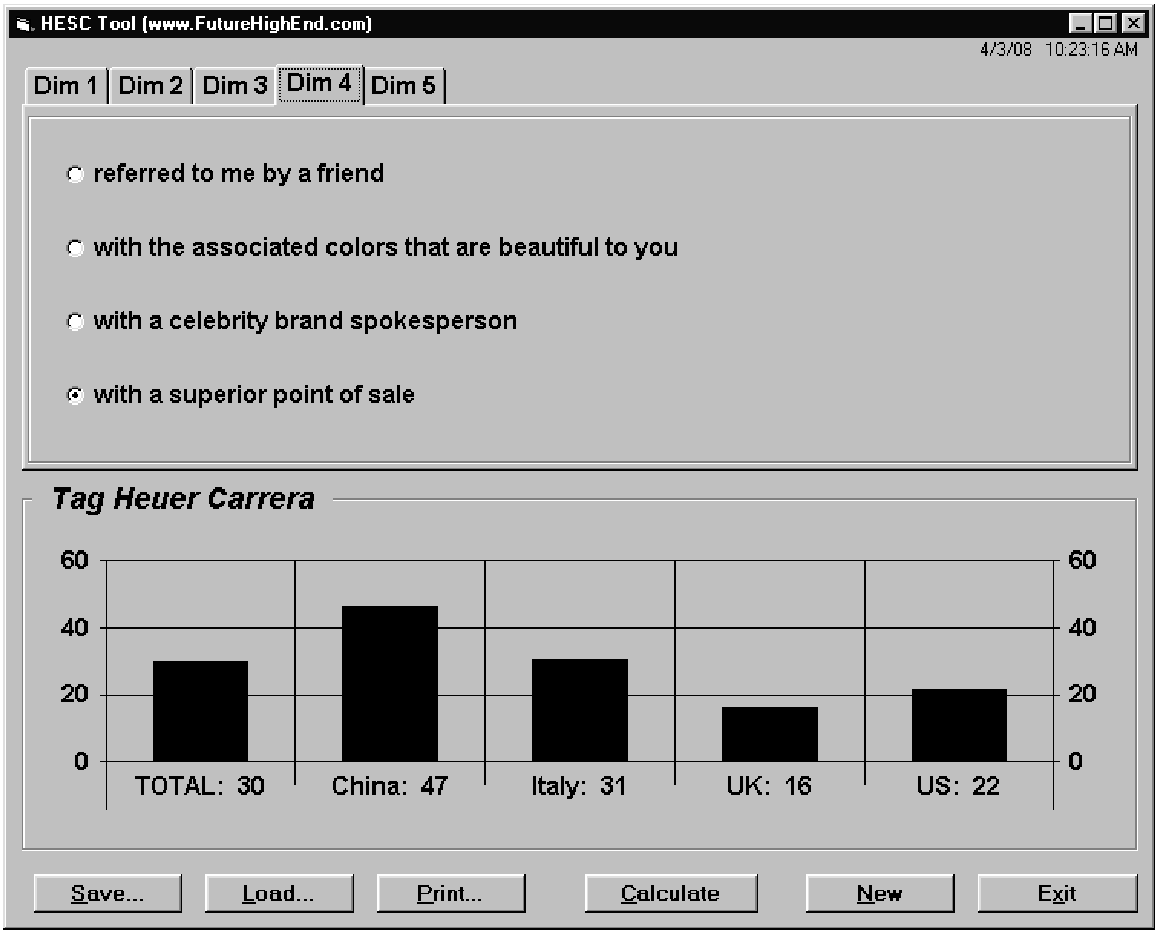
Each selection has a certain number of points that tells us the percent of people who feel very strongly that the proposition belongs to the High End. These are the individuals who would give the proposition a 9 on the 9-point scale. We see that the profiles are different by country, and the total scores are different.

Essentially, what we have done is extracted from our RDE database the key elements and used them and their RDE-generated 'weights' (importance) in the calculation. Of course, as the field of High End develops more, and as we get more RDE data, we will increasingly refine the HESC tool. For the Total, Tag Heuer Carrera has generally higher perception of High End than does the Seiko SDDA Spring Drive. The perception of High End for each product differs substantially across the four countries. What's most interesting in Figure 1 is how the two watches score in the US, because that is where the evaluation of the two watches occurred.

The HESC numbers just give values. What then becomes interesting is the underlying 'why?' What is happening here? We might surmise that Japanese products still face some resistance in China, which could be a possible explanation for the difference in impacts although there might be many other explanations. It's not just the HESC tool, then, but rather the ***HESC tool as a way to jump-start some business-relevant understanding.*** Think of HESC like blood pressure measurement – knowing that the measurement is 'off' is just the beginning, an indicator of the 'health of a brand but how important it is to medicine to have that measurement in the first place!

Figure 1. Screen captures of the HESC Tool when executed for Seiko SDDA Spring Drive (top) and Tag Heuer Carrera (bottom screen).



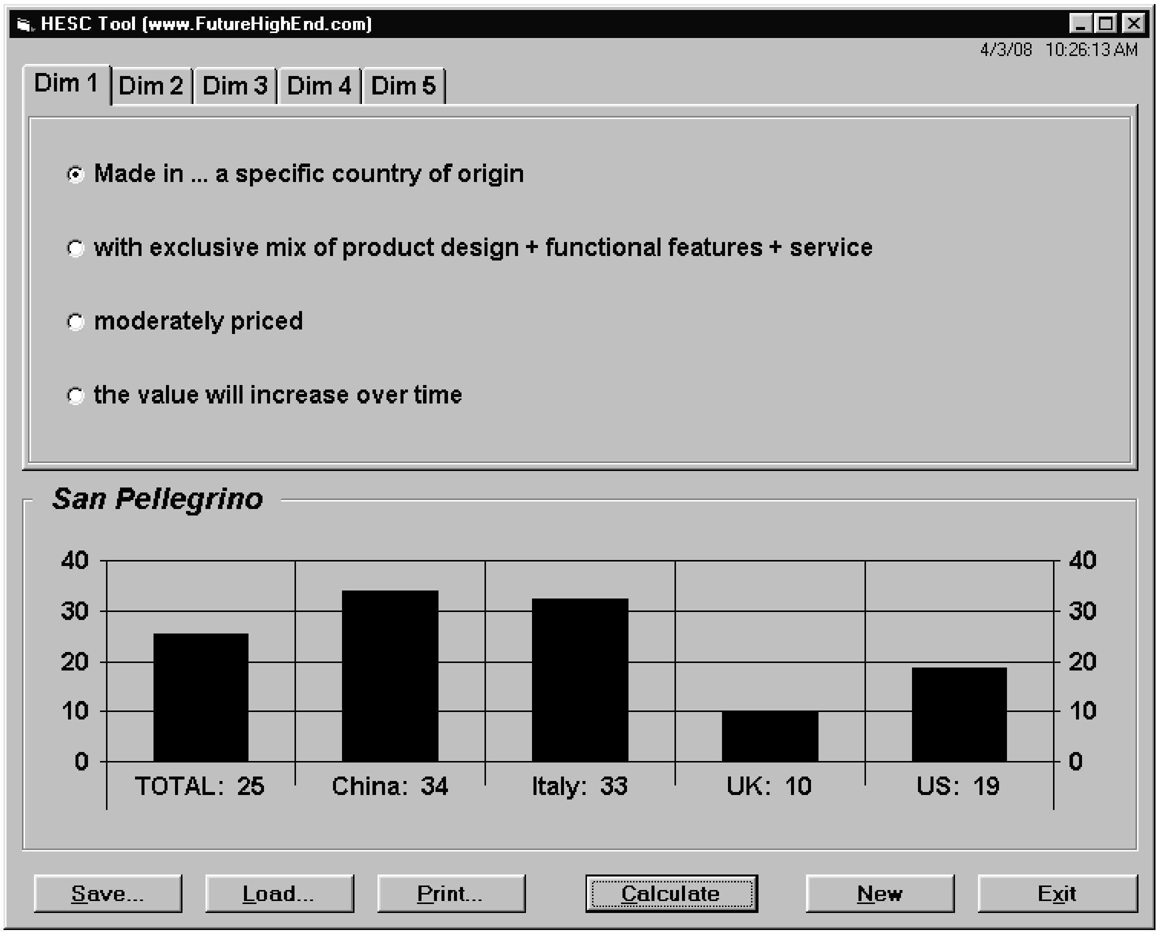


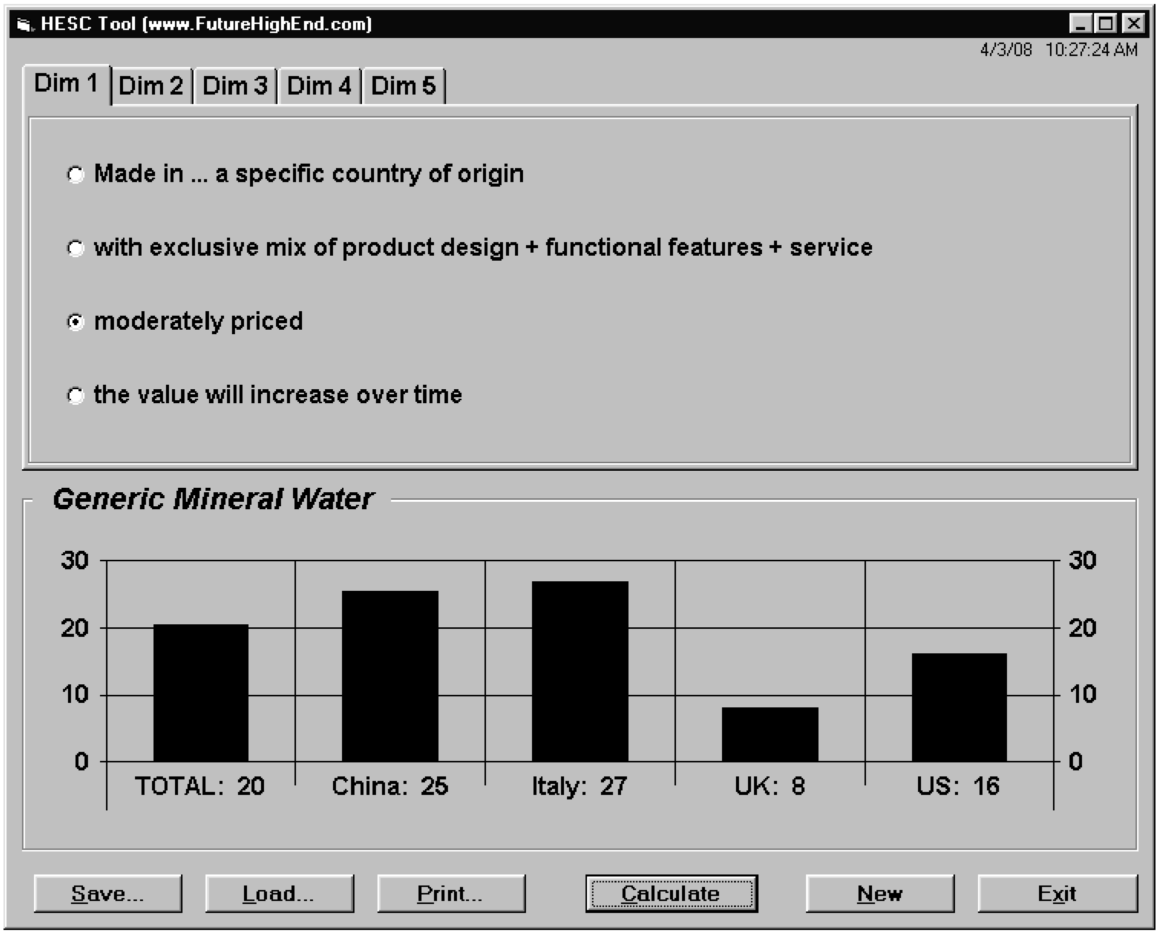
HESC and the world of bottled water

Bottled water is the world's fastest-growing commercial beverage, with a consumption that has more than doubled in the past ten years. Even more interesting is how water, traditionally a commodity, has enjoyed an explosion of High Brands. Although the content of such items is more expensive than some wines, it is usually the same quality as water marketed by competitors at lower prices. All too often the High End and the commodity bottled waters are obtained through the same process. The difference is in perceptions.

Let us compare the very well known San Pellegrino brand to a product that we can call 'Generic Mineral Water' (see Figure 2). Our goal is simple – just how High End is the branded mineral water. Does the brand mean much, or is it the fact that mineral water itself is a High End proposition?

Figure 2. Screen captures of the HESC Tool when executed for San Pellegrino mineral water (top) and Generic mineral water (bottom)





We see some quite substantial differences. Generic bottled water, as expected, has a low High End perception. Brand San Pellegrino well is 'regarded'. Let's stay in the US again, since that is where the evaluation occurred. Keep in mind that the other countries tell us how this same 'profile' will play out in China, Italy, and UK.

In the US San Pellegrino is 19, whereas generic bottled water is 16. This is a moderate difference.

However, let's see what would happen if we were doing this evaluation in China, and our participants profile the products just like they did in the US. What happens? Well, San Pellegrino goes up to 34 and generic bottled water goes to 25. Of course, we would want to do the profiling in China with Chinese consumers. The differences might be even more startling.

HESC and the world of automotive

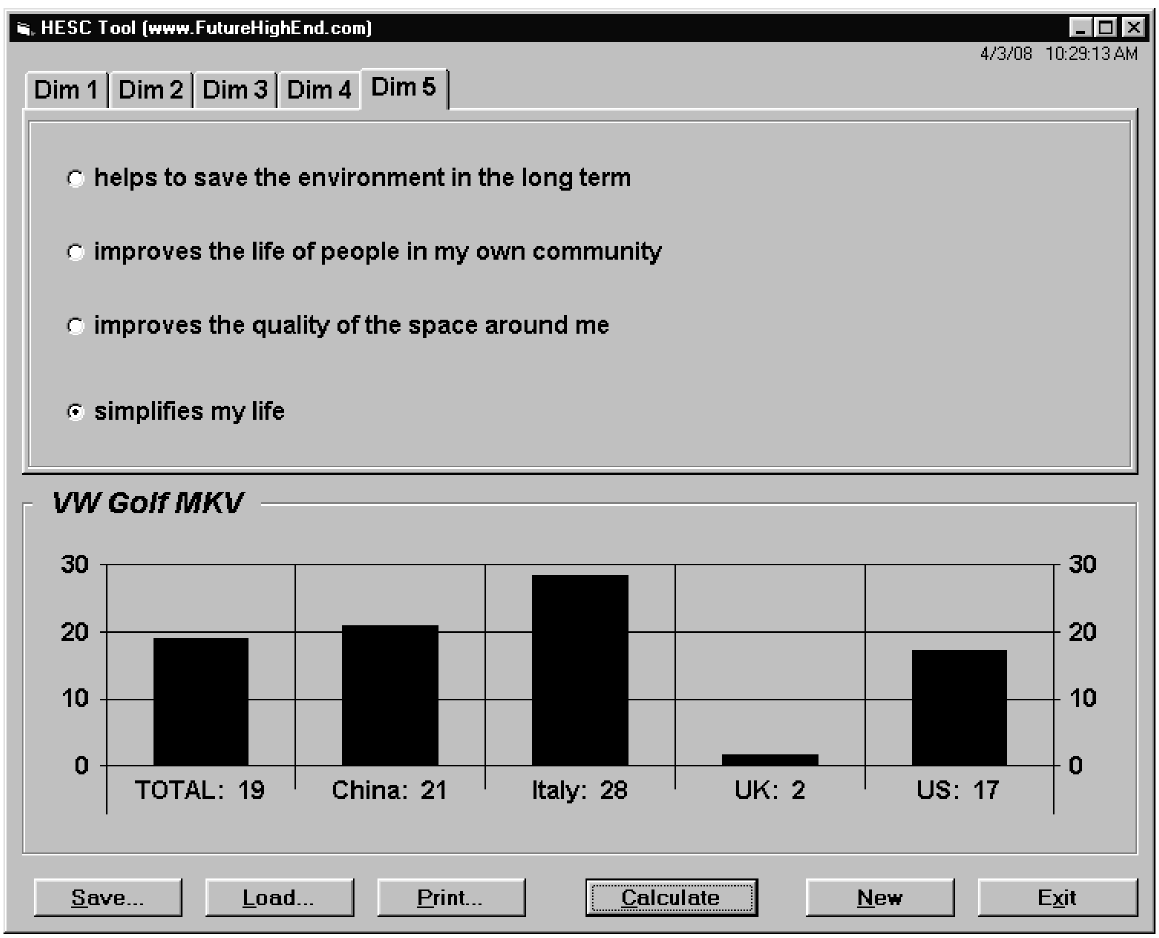
We finish our demonstration of HESC with an automotive example. Cars always fascinate, and appeal to the range of people, from those who use cars to get from place A to place B, on to those who use cards as status symbols, and on to those who collect classic cars at enormous prices.

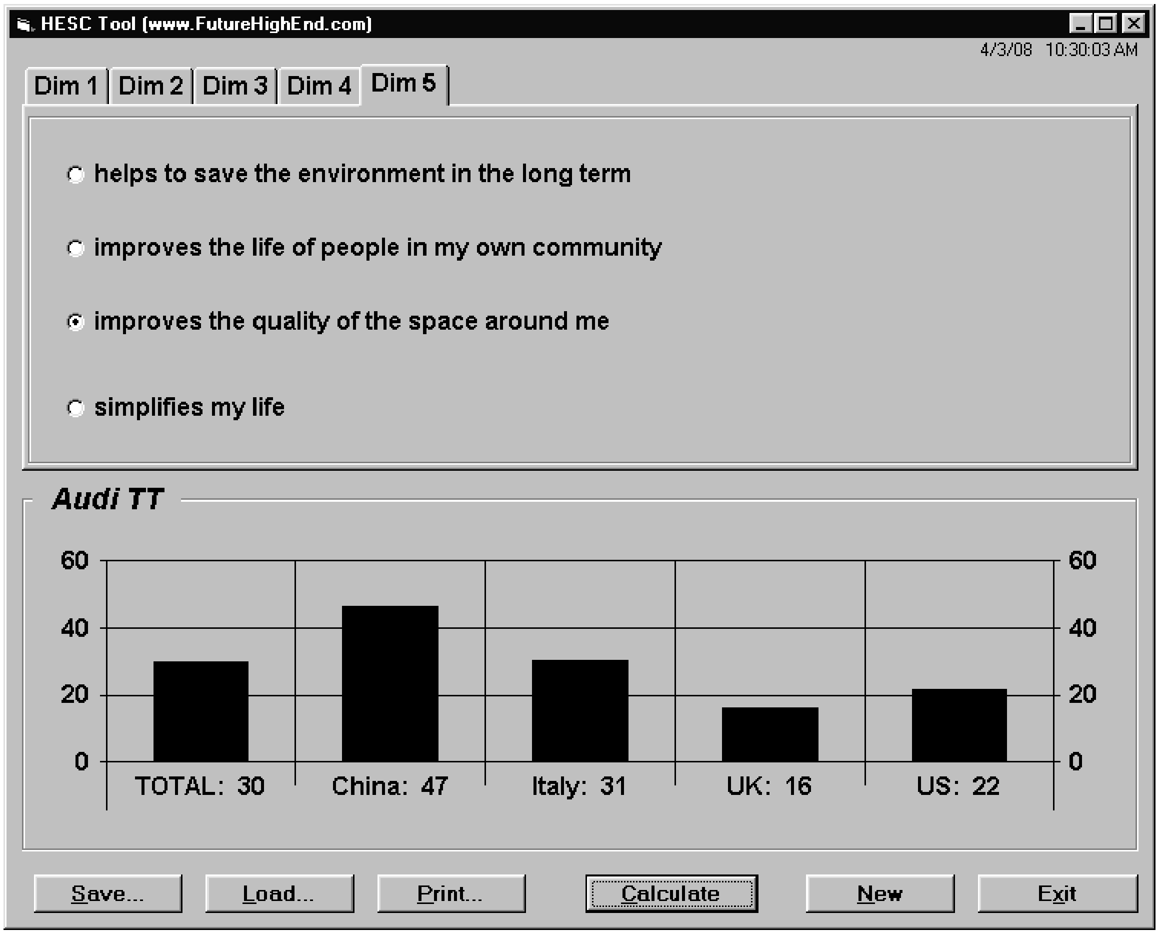
We will compare Volkswagen Golf MKV and Audi TT, the latter being a classic High End case history in terms of design, price and success. Although the results could be anticipated, they are different when compared to the case of San Pellegrino and Generic Water. Figure 3 shows screen capture of the HESC tool for both cars.

We can see in the US that Audi is moderately stronger than Volkswagen (22 versus 17), but not as much as might be the case as you will see just below, with China. The possible explanation is the general popularity of higher end models like Passat, New VW Bug which extends the High End image to Golf.

Now let's assume we had the same profiles, but this time in China. The difference between Audi and Volkswagen is enormous (47 vs 21). *What's happening here, especially in China?* What is VW **not** delivering in the mind of the Chinese customer? A possible explanation is that Chinese consumers have gotten used to VW's, because VW's have been manufactured in China for quite a while. Virtually all the taxis in Shanghai are VWs and they are not that great and project anything but the High End image.

Figure 3. Comparing VW Golf MKV (top) to Audi TT (bottom).





We could continue with several more examples here but it would be much more fun if you try it yourself on www.FutureHighEnd.com. Although today the HESC tool is limited to the scope of the data collected, it shows the way you can create your own dataset using RDE for your category and with your target consumers. With regular update to track the changes in the consumer perceptions HESC might become an 'always on' ready and reliable *litmus* test of current High End or future High End potential.

What am I really about?
Typing the Nature of High End with HETT (High End Typing Tool)

In the first part of this chapter we saw how HESC may help you to identify whether the product or brand is moving towards the High End. Yet, there isn't sufficient 'granularity' here. RDE analysis, with its High End Markers, showed us that just being *labeled* as a High End is not sufficient. There are dimensions to the High End, and beyond these dimensions are mind-sets as well. Our "qualitative chapters" and the systematic overview of the High End Proposition Charter tell us that the High End world will continue to expand into areas that we may not even have dreamed about a decade ago. Areas such as sustainability are becoming increasingly important for the High End, but not for everyone and not everywhere. How should we make sense of it all?

The problem to define future High End propositions is the same as the classic marketing challenge, and it is similar to what lawyers face with juries. The lawyer may have the facts in the case 'just right' – but it's important to convince the jurors as well. And the jurors – well they have their own mind-sets, so the lawyers should be prepared to take mind-sets into account!

In the High End Proposition Charter we see that the future High End can be articulated into five dimensions, each further divided into four specific factors, and the factors in turn divided into different facets, the elements. Perhaps the most interesting part of the RDE exercise underlying the High End Charter, are the different 'mind-sets'. When it comes to the High End, people feel differently about the same ideas. What may be High End to one mind-set does not seem like High End to another.

We might have all the right things in place to put a proposition into the High End, only to be faced with the wrong mind-set. Our analysis of the different dimensions of High End showed us that each dimension had at least two mind-sets attached to it. So we in the same situation as the lawyers who have the facts – but need to know the mind of the jury as well! What can we do?

Let's rephrase our thinking a bit, to make thing clear. First, the segments showed different patterns of what they considered to be High End. Second, if we have a proposition we can profile that proposition on some of the key elements. Third, now the question is simple – if we have a test proposition that we 'profile', then which the two segment in each dimension would give a profile of impacts that most close matches the profile which just created for our test proposition.

Finding the right "type" for your future High End propositions

We feel that the key question here is:

What if we could type a product, a brand, or even a person, to discover which mind-set fits most appropriately each of the five dimensions?

Such "Typing" will tell us the nature or quality of the High End. At the start of this chapter, we learned how to *measure* the potential level of future High End "fit" of a proposition. With the second tool, HETT (the High End Typing Tool), you can type a proposition, or a brand, or even the mind of a person as belonging to one of the two segments, in each of five dimensions (Table 3). Hence you will find the actual 'nature of the High End', or in other words its 'mind-set signature'.

Statistically, there are 2^5 or 32 unique combinations of five dimensions, each with two options, based on our two mind-sets for each dimension. Each product, brand, even person would thus generate into one of 32 different profiles, based upon the pattern of mind-sets that best fits the proposition that we are 'typing'.

. We wanted tools for the High End, but we found that we were actually developing a 'genetics scratch test' of the High End. You might consider doing that when creating a custom tool for your specific needs. However, it is quite easy to find out where a specific product, brand, company or person falls in this galaxy of 32 possible patterns. Thus we break new ground here, merging the traditional insights from interviews to the mathematics/algebra of RDE for mind-sets, and now moving to the 'genomics of the mind', i.e., the psychological nature of the High End.

Using HETT - The High End Typing Tool

We begin once again with the High End Proposition Charter, this time looking at it differently. We began our charter with dimensions. For each dimension we discovered two radically different mind-set segments, based on the patterns of impacts from RDE. Recall from the previous chapter that we divided the participants around the world into two segments for each dimension, independent of country. We see these five dimensions and two segments for each dimension in Table 2.

It's important to keep in mind that the participants in our RDE project ***never*** were asked about the segment to which they belong, just as in genetic testing to 'type' someone there is no need to ask the participant. Typing emerges out of the pattern of responses, as it does in RDE.

Table 3. The five dimensions and the two identified segments per dimension

Dimension 1: Authenticity & Value	
Status seekers (or it's about me)	***Investor / connoisseur (it's about product/service)***
Dimension 2: Design & Experience	
Focus on the product	***Focus on people***
Dimension 3: Innovation & Leadership	
Disruptive, focus on the leader	***Functional innovation***

Dimension 4: Marketing, Communication & Distribution	
Form own opinions	***Swayed by others & authorities***
Dimension 5: Sustainability & Simplicity	
Personal & simple	***Sensitive segment.***

Now put yourself into the following scene. The manufacturer wants to identify the High End 'profile' of a new offering. Or a customer interacts with the proposition in retail placement in an on-line shop and it is important to identify the mind-set profile of this customer in order to offer the appropriate High End product. How can the offering or even the person be profiled with respect to the High End, so that you know what or who you are dealing with? In the case of the product you know what you are selling. In the case of the person you know how to deal with the person, what is important to that person, what type of shopping experience to create.

The best way is to perform a fast (<1-2 minute) 'scratch test', with a potential or actual customer who is involved with the product or category. The scratch test is practical, feasible and ultimately simple. The scratch test comprises a set of questions that locate a product, brand, even a person as 'belonging' to one of the two segments for each of the five dimension. The person who is profiling a proposition (or even brand, or company) is doing the typing. The full 1-2 minute 'scratch test' generates a profile of the product, or company on all five dimensions, and in turn the instant analysis of that profile determines which segment is most appropriate for each dimension.

An example of HETT for Dimension 1 (Authenticity & Value)

We'll illustrate the approach in general with an example of the first dimension of the High End Proposition Charter (Table 3). Let's imagine a person being shown a proposition, reading it, and then profiling it on four relevant phrases for a specific dimension. Now let's move forward through the process.

First, what do we know about this first dimension, Authenticity & Value? Statistical analysis suggests four key 'differentiating' phrases for authenticity and value. These four phrases appear on the left side of Table 3. Just a little to the right are two columns labeled Seg1 and Seg2, respectively. These are the impacts of these four elements for Segment 1 and Segment 2, respectively.

The first question that you might ask is why these four phrases, and no others for the typing exercise? The answer is simple. ***At the time of performing this research, we selected the phrases that best differentiate the two segments for a dimension, so that one segment would score high and the other segment would score low. These four elements from Dimension 1, Authenticity & Value, spread apart the segments***. It doesn't do any good in a 'typing exercise' to pick elements that perform similarly for both segments. That would be like cutting with a blunt knife. By the way, it's likely that the blunt knife would never cut.

We selected our elements from the RDE project, so we know these elements differentiate between the two segments. Our knife is sharp, not blunt. We also know what to expect for each segment because we have already done the RDE study.

Table 4. Example of four phrases from Dimension 1 Authenticity & Value, how the two segments would react to these four elements (from our US database), and how a person might profile a test proposition on these same four phrases using a 1-9 scale.

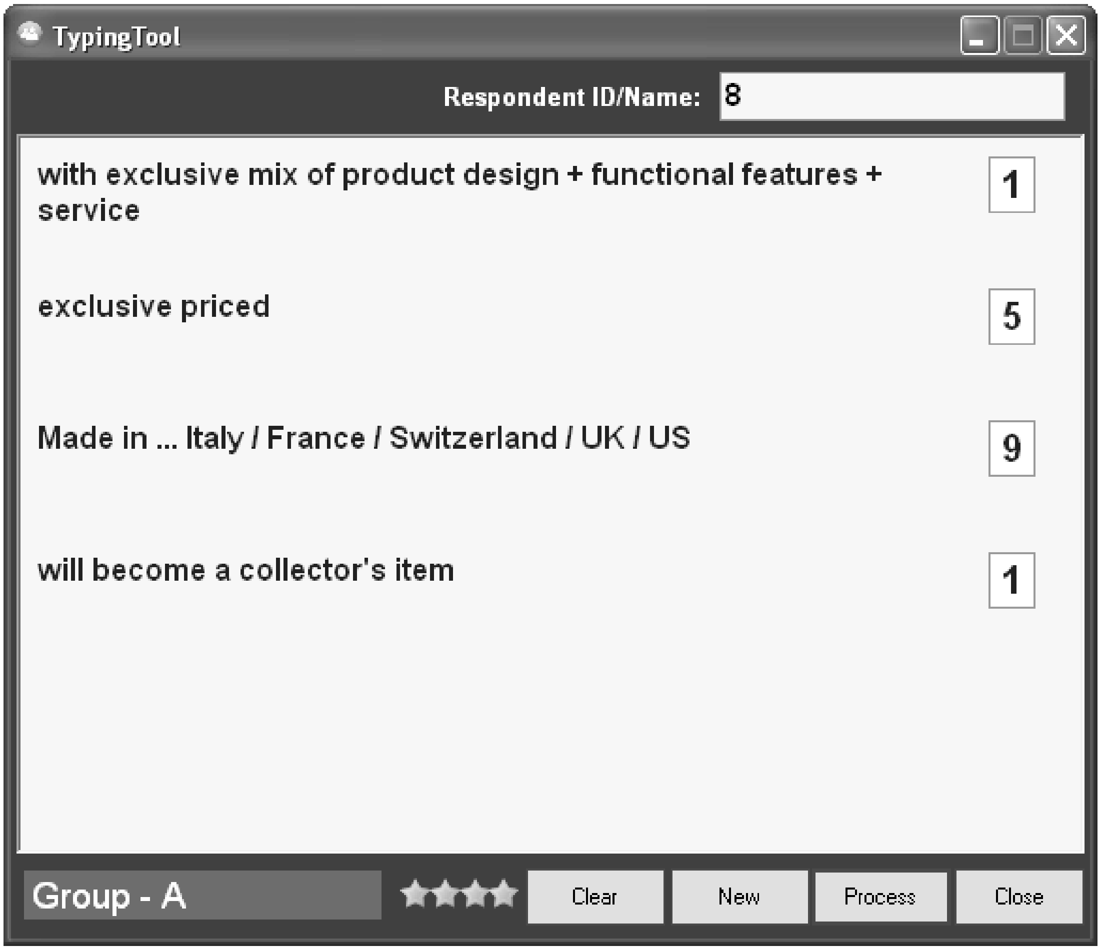
	What the person 'sees' (i.e., phrase)during the typing exercise	What we know ahead of time in terms of the way the two Dimension segments react		How the person profiles a proposition on each statement
	Phrase or element from dimension 1 – Authenticity	**Segment impacts**		
		Seg 1 (Group A)	**Seg 2 (Group B)**	
A2	**Made in ... Italy / France / Switzerland / UK / US**	13	1	9
C2	**Exclusive priced**	5	0	5
D2	**Will become a collector's item**	-2	9	1
B4	**With exclusive mix of product design + functional features + service**	-1	7	1

*Seg 1 = 'status seekers', Seg 2 = 'investors/connoisseurs'

Enter a potential High End proposition. Our goal -- 'type' that proposition. Just do the 'scratch test' with the appropriate participant, i.e., with someone involved with the proposition. You have to engage the person somehow in a short discussion, and ask the participant to rate the proposition on four elements using a very simple 9-point scale. Or, perhaps you yourself might wish to profile the proposition, e.g., a product or a service, on these four phrases.

The process of 'typing' is quite easy. As you can see from Figure 4, you or anybody else just profiles the proposition on the four phrases from Dimension 1. The four phrases appear in a random order to avoid bias. The order of the same four elements is changed for each new customer who will profile the proposition.

Figure 4. Example of a screen of the HETT that the person sees in the typing exercise. The person simply fills in the four randomized questions, rating a specific proposition in terms of 'How well does each phrase fit the proposition'



The person who does the typing is simply **describing** the proposition. The pattern of the ratings on the 9-point scale is going to match one of the two segments or groups more closely than it matches the other. Depending on the 'match', we are going to define the proposition as belonging to Segment 1 or to Segment 2, respectively. And, since we know how strong the match of our customer's rating to the two patterns, we can determine whether the match to the segment (Segment 1, or Group A) is weak (no stars), modest (1-2 stars) or strong (3-4 stars).

After the typing exercise is finished, we look at which profile, that of Segment 1 or that of Segment 2, most clearly matches the typing profile that the customer gave to the proposition. We also know that there is the distinct possibility that the profile doesn't match that of Segment 1 or that of Segment 2, and so the profile doesn't fit either segment.

Depending on the purpose for the typing exercise, you probably will need to adjust the rating question a bit, so that the question itself makes sense:

*If we're typing the **proposition** (product or service) to discover the type of High End, then the rating scale is <u>'how would you rate the product on this scale?'</u>(1=does not apply at all… 9=definitely applies).*

*If we're typing a **brand**, then the rating scale would be 'how would you rate BRAND X on this attribute? (1= does not fit at all…9=definitely fits)*

*If we're typing the **person** (e.g., yourself), then, the rating scale would be 'how strongly do you feel that this description fits you? (1= does not fit at all…9=definitely fits)*

As we mentioned above, HETT discovers which pattern of impacts fits the four ratings of proposition made by a person. Is the pattern for the proposition closer to the profile of impacts from Segment 1 *(Status Seeker),* or is the pattern closer to the profile of impacts from Segment 2 *(Investor/Connoisseur)?* One of the two patterns will fit our data better than the other. This is the pattern that HETT will select, unless the 'fit' of both segment patterns is so poor that we conclude that the pattern we work with from a customer fits no segment at all. Depending on how well the pattern fits, we will be more or less certain that we made the right fit. We are talking about a proposition that would be appropriate for a Status Seeker, or appropriate for an Investor/Connoisseur. Remember that we are focusing on the proposition, and now are trying to discover the 'tonality' of the proposition.

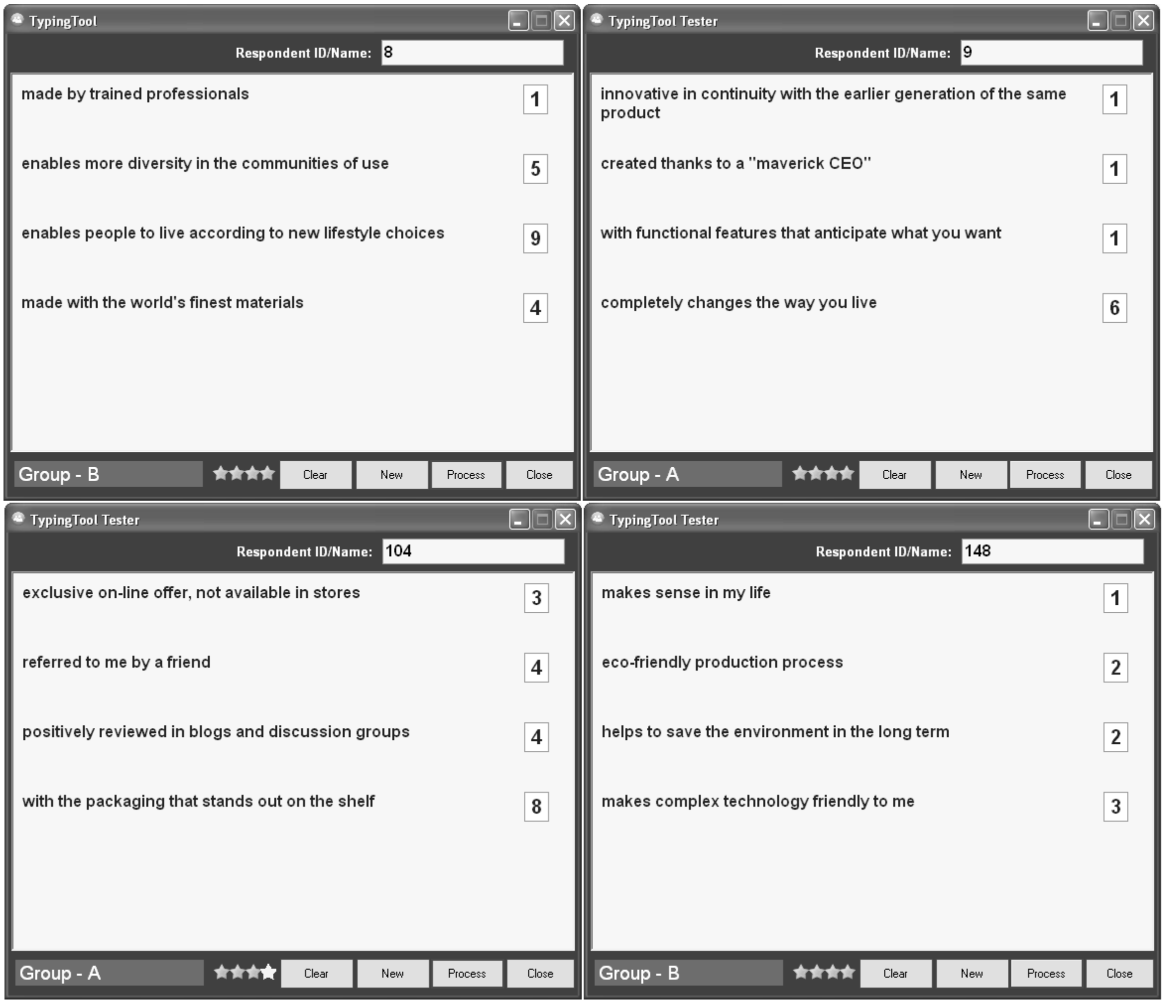
Let's see what happens to the classification, for the first dimension. Let's return to Figure 4 and look at the profile. We see the elements, the ratings assigned by the customer, and at the bottom of Figure 4 we see the 'typing result'. The customer has profiled the proposition, and the profile most closely resembles the profile that would have been given by Segment 1, the Status Seeker (Group A). Furthermore, the similarity of the pattern of these profile ratings to the pattern of impacts for Group A is very high, <u>*hence four stars*</u>, to denote a high level of confidence in classifying the proposition as similar to Segment A.

<u>The full tonality - Using HETT to profile the proposition on all five dimensions</u>

What if we need to profile a proposition, using the approach we just explicated? We will take the same High End proposition we dealt with in Table 4, this time to discover its signature on the five dimensions of the High End Charter. You can see the results as we move along (Table 5).

We begin with a single person doing the full set of ratings (see Figure 5 for an example). There are five dimensions and four typing questions for each dimension. Thus we have 20 questions to be answered in order to generate the full HETT profile for a specific proposition. The task is about 2-3 minutes. Our participant rated the proposition on the five sets of four elements each, scoring the proposition on a total of 20 elements. The rating scale was '*How would you rate the product on this scale?'(1=does not apply* *at all… 9=definitely applies).* Keep in mind that you probably want to have at least a dozen people to participate, average their ratings, and then do the analysis

Figure 5. Examples of screens of the HETT for Dimensions 2, 3, 4 and 5.



Recall that each dimension had two different segments. Now HETT will uncover which segment on each dimension best fits the proposition. At the end of the profiling HETT will generate a report showing us the nature of the High End ‘tonality’ of the proposition for the five dimensions. Table 5 shows the ratings of 20 elements as well as the impacts from Segment 1 and from Segment 2, for each specific dimension. We have already typed Dimension 1 dealing with Authenticity & Value. Table 4 will thus show the remaining four dimensions and their segments.

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Table 5. Results from a single person profiling the same proposition on four elements each from Dimensions 2, 3, 4 and 5, as well as how the two segments for each dimension respond.

What the person 'sees' (i.e., phrase)during the typing exercise		What we know ahead of time in terms of the way the two Dimension segments react — Segment impacts		How the person profiles a proposition on each statement
Phrase or element from dimension 2 – Design & Experience		Seg 3 (Gr. A)	Seg 4 (Gr. B)	
B4	made with the world's finest materials	10	5	4
B3	made by trained professionals	5	1	1
D1	enables people to live according to new lifestyle choices	-5	10	9
D4	enables more diversity in the communities of use	-14	5	5
	Phrase or element from dimension 3 – Innovation & Leadership	Seg 5 (Gr. A)	Seg 6 (Gr. B)	
B2	completely changes the way you live	6	4	6
C4	created thanks to a "maverick CEO"	0	0	1
A1	with functional features that anticipate what you want	-1	11	1
A3	innovative in continuity with the earlier generation of the same product	-4	9	1
	Phrase or element from dimension 4 – Marketing, Communication & Distribution	Seg 7 (Gr. A)	Seg 8 (Gr. B)	
D2	with the packaging that stands out on the shelf	5	4	8
D3	exclusive on-line offer, not available in stores	3	-1	3
A1	referred to me by a friend	4	5	4
A2	positively reviewed in blogs and discussion groups	0	-2	4
	Phrase or element from dimension 5 – Sustainability & Simplicity	Seg 9 (Gr. A)	Seg 10 (Gr. B)	
D4	makes complex technology friendly to me	9	3	3
D2	makes sense in my life	6	1	1
A4	helps to save the environment in the long term	7	2	2
A2	eco-friendly production process	7	2	2

Moving to Table 5 we see and the segments whose impacts fit most closely to what our participant profiles. The result is the unique High End 'signature' for our proposition by our participant.

Table 5. Example 'signature' for a particular High End proposition. At the end of the typing exercise we identify which segment pattern best fits the profile of ratings assigned to the position. These are italicized, bold, and underlined. This proposition has the profile of Status Seeker, Focus on People, Functional Leadership, Forms own Opinion, Green.

Dimension	**Possible Segment**		**Confidence in Typing the Proposition**
Dimension 1 - Authenticity and value	***<u>Status seeker</u>***	Investor / connoisseur	Very high
Dimension 2 - Design and Experience	Focus on product	***<u>Focus on people</u>***	Very high
Dimension 3 - Innovation and leadership	Disruptive, focus on leader	***<u>Functional innovation</u>***	Very High
Dimension 4 - Marketing, communication, distribution	***<u>Forms own opinions</u>***	Swayed by others and authorities	High
Dimension 5 - Sustainability	Personal & simple	***<u>Sensitive segment</u>***	Very High

Let's reiterate how we arrived at the results.

Step 1: A High End respondent ead a single proposition.

Step 2: Afterwards the respondent profiled that proposition on four questions for Dimension 1. The profile matched either Segment 1 or Segment 2 (abbreviated here as Group A or Group B), and did so very well (very high confidence) or poor helps less well (low confidence).

Step 3: The respondent continued this exercise to generate five profiles, one profile each for Dimension 1, 2, 3, 4, and 5, respectively. Each profile for each dimension required rating four statements. The pattern of the four ratings for a specific dimension matched more closely either Group A (one segment) or Group B (the other segment). The outcome is the 'typing' of this proposition by this customer.

Step 4 (optional): If we wanted to, we could have 5-10 customers do the profiling exercise, average their ratings, and get a tighter profile for typing.

By doing this exercise for each of the five dimensions, you quickly discover the nature of premium for any product or service proposition, person, or even company.

Moving forward

We believe that these two tools, HESC and HETT, may well reveal a whole new territory for you: the landscape where future High End stops being an object of research and investigation, and starts being a concrete, actionable opportunity to create and then to enjoy success.

There are many things that you can do with the HESC and HETT. Of course, the tools described in this chapter and provided on the website are limited to the scope (our dimensions) and geography (four countries). It is not difficult to build custom tools to address more specific questions with more targeted results. Ideally, you should update the data on a regular basis and maintain a database of the foundational RDE projects to see the changes over time. Certainly the High End is evolving and your database should as well. The wealth of insights and the rewards from being able to properly to create/advertise/merchandise ought to recoup the cost of the process many times over.

SECTION 5: OPEN CONCLUSIONS

A final round of discussions and opinions to end our book, towards the start of your next High End business journey.

The end of our journey approaches. We hope that you are beginning to feel that you are one step closer to the start of a journey towards success in the future high time of the High End. We have explored together what works in contemporary luxury and High End. We have built tools and shared with you the 'algebra of the consumer's mind'. Together we have examined the High End through the eyes of our 'heavyweight' thinkers and business leaders, and then gone back to the people to identify just 'what works' using RDE (rule developing experimentation). We ended our journey with a quantitative tool, the High End Scorecard, which integrates the wisdom of experts with the science of statistics, to understand the heart of the customer. We believe that we offered you both content and toolbox. **Content** because we have given you visions of the future High End filtered through the words of thinkers and through the statistics of people's opinions. **Toolbox** because we have given you tools that you can use yourself. The toolbox starts from the High End Proposition Charter, a systematic framework for analysis and direction extracted from qualitative research, and moves to the High End Scorecard, a fully actionable typing system, based on RDE, yet grounded in the DNA of our qualitative work as well.

Now we close the loop. We return to the point from where we started, the opinions of our thought leaders. In this case we have selected for you a treasury of their words, their own ideas and language, to serve as a resource for your efforts going forward. These will be the people who have, are, and no doubt will make the worlds of luxury and High End happen.

You already met them through their ideas and visions, cross-pollinating earlier sections and chapters of this book. For each interviewee we created a balanced questionnaire, comprising two general questions about the status and the future of the high end, and then several of *ad hoc*, highly personalized questions about their own direct experiences and practices in crucial aspects of the High End Charter. The questions were designed to trigger their reactions in an almost one-to-one, intensive conversation.

For the final interviews we decided to just leave them the floor, and be inspired once again by their visions. What better way to conclude our journey than by actually re-starting it with the fresh and authoritative ideas of some among the best thinkers and leaders in the today's and tomorrow's High End? Now, let's leave the floor to them, the "ones in the know", and enjoy their wisdom.

Chapter 10
Famous Last Words from the famous

<u>Rattan Chadha, Entrepreneur, Founder of Mexx, Voorschoten, The Netherlands</u>

On BRIC countries and the future of concepts, ideas and brands.

1. You started your business –and created the first stepping stone towards your fortune- by importing clothes from India and the Far East into the Dutch and European markets in the early 1970's. You are a prominent contributor to the Netherlands – India Chamber of Commerce. In 2007, India was indicated as a potential "country of origin" for future high end propositions by participants in our research. Do you believe that in a decade from now the "Made in India" label will be a trademark of high end quality, and why?

> *India has plenty of advantages deriving from the fact that it started its economic cycles of growth late. Nowadays, Indian enterprises are not burdened by older machinery or existing infrastructure. They can instead start whatever they do from the best technology available now, and now they can also get the best talent from a pool of academic talents that has often been nurtured in international universities abroad. This is why the quality of Indian high tech is at the top. In India, the mobile network is five years old only, no wonder it is built according to the state of the art IT. When Tata builds new automotive factories, they design the lines and build the tooling as we speak, so they are not burdened by the need to reconvert existing infrastructures that are not functional anymore. If I look at other BRIC countries, I see Brazil as a regional power, but lacking the immediate capability to jump to the role of global leader, although its demographic curve is very promising, while China has a very ambitious government and can move fast thanks to top down decision making. India, however, can rely on very ambitious individuals and has the resources indeed to be one of the drivers of quality propositions for the future.*

2. A few years ago, the Mexx American launch was marked as a major event for the brand. Mexx adopted a very strong distribution model, with own shops and important corners in major department stores. In the future, how do you see the evolution of distribution leading to the success of high end brands?

> *Let's start from the back end of distribution. From the supply chain viewpoint of distribution, all "middle men" must be simply eliminated. From factory floor to shop selling floor, everything should be connected and as digitalized as possible. On the front end, we simply see too much of everything: goods, shops, environmental designs. The problem then becomes -- how can you differentiate in order to connect with your customers, and in order to connect your customers among them through "ideas". Examples thereof abound in the world of luxury:*

LVMH's Bernard Arnault or Gucci's Mr. Pinault with their art connection, very functional to their clientele, or Prada and their connection to architecture. The most effective part of the marketing function, to attract people to your brand and its distribution channels, is by now already outside of "classic marketing". It is all about connecting people in communities, and inspiring people through ideas. Muji is another great example with their "bamboo textile" and organic approach connecting to people with an eco-driven mind. This "idea" will surely pay off, and Muji will greatly benefit from it.

Rita Clifton, Chairman, Intebrand, London

On value that will last over time and on sustainability as a portfolio of opportunities.

1. Interbrand has a very complete and quantitative based approach to brand valuation. In our earlier research for this book, we came across the notion of "residual value" as one of the fundamentals discriminating between luxury and commodity. In essence, the price retained by an artifact in time, and its consequent potential value as collectible emerged as an important factor in our analysis of future high end. Do you have any thoughts that you might want to share about this specific value creation factor for high end?

We need to distinguish here between two distinct notions, the first being "residual value", the second being "sustainable value", the latter to be defined in strictly economic terms. There will always be a market for collectibles, for sure. By "sustainable value", however, we differently define the notion of what "sustainable value" is. This has more to do with the intangible side of branding and brands. For example, BMW is very strong with their sex appeal, but also with their engineering reputation. We could say that reputation meets reality and it crucially contributes to the creation and with maintaining brand value over time. The ambition here should be to build and manage brand properties and assets that are long lasting over time. On the other hand, the success of auctions is a strong proofpoint of the need of collectibles, to the point that I would see these transactions as the expression of the branding power of artists over time, with the uniqueness of their signature maintaining value over centuries. "Vintage" is an important mechanism here, one that will indeed become more and more common over time.

2. You have been a member of the UK Government's Sustainable Development Commission and the Sustainable Consumption Roundtable. What is your vision of a possible "sustainability-driven high end" in the future? Will the "green factor" become just hygiene factor, like it is in Japan already, for example? Or will sustainability, s in its wider sense, from social responsibility to enabling personal well-being, offer opportunities for differentiation, resulting in High End propositions? And if yes, how, in your opinion?

I see sustainability as a pyramid ranging from required compliances to potential opportunities for companies and brands. At the bottom level, you have the need to ensure legal compliance to the law in the countries where you operate. This is pure risk management, a basic necessity and a hygiene factor indeed. At a higher level, I see sustainability issues as an opportunity to ensure reputation management. Here, companies and brands need to focus not only on the basic legal requirements but to look further to the cultural norms and emerging values of the societies where they operate. For example, child labor might be accepted by the law of emerging countries and therefore legal when outsourcing production. However, the cultural norm of advanced economies sees child labor as an unfair practice, and this therefore requires leading enterprises to outperform local legislators in terms of social sustainability. Thirdly, the most appealing level of sustainability is "leadership", and leadership is always excellent to build strong brands, and maintain their equity. Here we can quote examples like The Body Shop, totally reinventing a notion of retail based on sustainable values, or M&S with their determined efforts to reduce their carbon footprint, and their ability to leverage this facet of their business for brand leadership. Also BP tried, although not with optimal results, to act differently in this arena.

I see these three levels of sustainability as a portfolio of options for companies and brands, and I think such portfolio needs to be managed pragmatically and contextually. "Sustainability for leadership" is always good and it generates premium perceptions for sure, especially if expressed by the creation and management of long term sustainable branding value. However, it must also be said that every market and every industry there is a specific share of potential customers who will respond to the "sustainability-led proposition. American Apparel is a perfect example thereof, as it managed an excellent level of cultural alignment between brand and audience. Price, quality and effectiveness, however, remain irreplaceable in the decision-making criteria of people, and in the conversion rate from messaging to transaction. One might definitely say that "eco is good". However, in first place, "eco must perform" should be the mantra when it comes to the specific product functionality, otherwise the entire proposition will fall apart. The best sustainability is sustainability to create a world where a sustainable approach will not be needed anymore. Here, I like to refer to Oxfam, and their vision of a world where, by solving the underlying problems, Oxfam itself will one day become redundant.

<u>Graziano De Boni, CEO and President, Valentino US, New York</u>

On innovation in fashion, and on the future of packaging for high end and luxury.

1. The view held by luxury brands on innovation might be their challenge in the next decade. One of the possibilities explored in our research is the opportunity for high end brands to innovate at a faster pace than actual luxury brands, and leapfrog the latter in terms of appeal to consumers. How do you see luxury brands innovating themselves in the next digital decade?

> *Of all consumers targeted manufacturing industries, fashion does not have R&D as one of its core competences for sure, and this is a fact. One can safely say that in luxury, technological innovation is indeed not so relevant. On the other hand, within the luxury industry domain the designer is the leader of innovation, and this has always been the case. I can see a couple of "innovation waves" hitting the luxury industry as a necessity in the future. They will be related to materials first, and to production processes as well, in second place. Within these two domains the luxury industry has been the same for the last centuries, and now innovation is about to make a difference here, with a strong "green" and social responsibility aspect in its spirit.*

2. Valentino recently launched its "Rock'n'Rose Couture" perfume. According to Sumit Bhasin, Global Head of Fragrances at P&G Beauty, as quoted in Vogue Italia, this was created as a mix of innocence, elegance and provocation. The packaging is particularly refined, with black textile adopted as greatly captivating decoration. High end brands might not have the opportunity to express such level of sophistication in their marketing communication for the point of sale and packaging, because their cost dynamics might demand a different approach. What role do you think packaging, and below the line communication in general, will play for the successful positioning of high end brands in the future?

> *When it comes to packaging and point of sale, content will be more and more "king" in the creation of those sensorial experiences crucial to reach the consumer but "sensorial marketing" will drive the development. This is where not only packaging, but the environment and atmosphere will play a big role. Luxury players might have the space for "vertical sophistication" as you describe. However, High End companies and retail channels do have and will have the "size of business" necessary to truly master and ultimately leverage the potential role of packaging and Point of Sales design in general. This context will be crucial, crucial, crucial in the creation of the stage where "sensorial behaviors" of people will take place, and result in new branding and marketing opportunities for companies.*

<u>Luca De Meo, CEO Alfa Romeo and CMO FIAT Automotive Group, Turin</u>

On the role of aesthetic strategies, and on future creativity management for business.

1. During your MD tenure at Lancia, the "high end" positioned automotive brand in Italy, you created a whole new approach to the product color strategy by firstly using solutions like the dual color scheme for the Ypsilon (e.g., body in cream, roof in red), then using very innovative colors for the launch of new models (eg, Cioccolato Peyrano brown for the Musa). What role do you see for aesthetic strategies in the next future of high end product design?

> *Pending any potential next wave of disruptive innovation in the automotive domain, the difference will increasingly be on the "software" side of the proposition, much more than on the 'hardware" side thereof. From an industry viewpoint, it has become relatively "easy" for a number of players to press steel, produce an engine, assembly an automobile. This is because the technology is actually owned by a restricted number of 1st tier suppliers. What is then left in the portfolio of the makers and brands to truly make a difference? The brand is what is left, its strategy, its aesthetics, with the ability to integrate technologies, communications and knowledge. Now that the challenge of quality is met, the new era of "design" has begun, and the next era of digital technology is beginning, an era when electronics will prevail over mechanics in terms of determining product and application roadmaps of the automotive industry. From the viewpoint of people and customers, simplicity –namely, everything that is simple- will emerge from the confusion in the marketplace. Aesthetic value works on the instincts and does not require intellectualization to be appreciated, and this is why it plays a key role in this specific time.*

2. Looking at marketing communication: you developed a particular approach to managing the relationship with the communication agencies, namely by keeping your advertising media budget with the selected partner agency, and every time, from campaign to campaign, tendering the creative direction to a portfolio of agencies, both major blue chips and relatively unknown, emerging boutique shops. Can you elaborate on your ways of working, and indicate how see the future directions of evolution for the future of high brands from this specific managerial perspective?

> *Our approach is a transition model from the "old paradigm world" to a new context. We aimed to achieve the "supremacy of ideas" over any other process or formula, and we therefore integrated in our ways of working the notion that nobody can excel in everything. We do believe this is true for any sector or activity and I do not see why this should be different for the communication industry. I do believe that this will actually develop into a much more specialized and technical sector, where the high end and luxury brands will take the lead in defining new standards. As an outcome, the development of superior communication will not be individually owned and managed by the visionary*

"push" and drive of just one single "creative guru", as done in the past within the fashion sector.

<u>**Markus Langes-Swarovski, Member of the Board, Swarovski, Wattens (Austria)**</u>

On the value of cultural roots and the future role of partnerships.

1. Swarovki's Kristallwelten in Wattens is the second most visited tourist attraction in Austria. It is surely correct to state that Swarovski is a global brand with ubiquitous presence on every continent, yet its origins are deeply rooted at the heart of Europe. What do you think it will mean to Swarovski, for the next decade, being a company with its Austrian origin and a deeply European brand?

The roots and origin of our company vastly influence our behaviour. Swarovski is not made in Paris or Milan. It comes from Mitteleuropa – literally "central Europe," formerly known as the "Austro-Hungarian Empire," a part of the world that was dominated by the reign of the Hapsburgs for centuries. In turn-of-the-20th century Vienna, the rebellion against convention that characterized the "Joyful apocalypse" transformed the city into an extraordinary laboratory for new ideas and visions. It became the European capital for the avant-garde in architecture, culture, and the arts. Led by the painter Gustav Klimt, an artists' movement called the Viennese Secession proclaimed that "life is art." The Wunderkammer is an intrinsic part of the culture of central Europe as a whole, which welcomed the construction of the first of its kind in Innsbruck. Perfectly compatible with the Wiener Werkstätte's love of and preoccupation with the strange, the marvelous and the eccentric, these collections of oddities metaphorically mirror Sigmund Freud's work on the unconscious mind and the interpretation of dreams. The world wars definitely silenced central Europe's cultural voice. Swarovski is probably its last living monument. We strive to remain true to our roots and pledge – as did the Viennese Secession – to constantly resist the tyranny of good taste and to adopt perspectives beyond the parameters of the present.

2. In terms of design leadership, Swarovski enacted a major re-launch in the last years thanks to collaborations with the most cutting edge protagonists of the creative industry. Your strategy here is possibly one of the best blueprints for success as a High End brand. What do you think is the future of the design industry in general, and how do you expect that the dialogue between high-end companies like yours and the creative industry will evolve in the next decade?

As a material, crystal has an enormous "upload" capacity. In other words, it benefits from its context. This places us in an extremely delicate position, because contexts can be manifold. Crystal emerges as a master of all creative disciplines,

> *inspiring and evolving a cosmos of magic and fantasy whenever and wherever it is present. This helps us remain awake and alert at all times. It keeps us proactive and prompts us to continually reinvent. In this way, it constantly brings us into new creative settings, quite nonchalantly cross-linking many different disciplines. By carving out new channels and fostering interdisciplinary ties, crystal offers each and every creator something in return. Vitality ensues, giving rise to innovation, advances in intelligence, and holistic solutions.*

Concetta Lanciaux, formerly advisor to Mr. Bernard Arnault, Groupe Arnault, Paris

On the future role of exclusivity for luxury and on "Human Resources Nurturing".

1. Recent comments by the likes of Vanessa Friedman in the FT and Mark Tungate in his book, "Fashion Brands", pointed out the visual clutter and inflation by overexposure of luxury fashion brands. Yet, players like the LVMH brands maintain an aura of exclusivity. One of the preliminary conclusions from our research was that the correct balance between wider access and perceived exclusivity is indeed a raison d'etre for High End propositions, and one of the critical factors of success. Of course, exclusivity is a cultural concept, and like all cultural factors its meaning evolves in time. How do you see the notion of "exclusivity" mutate in the next decade, and what are in your opinion the brands and companies that will leverage it at best?

> *Exclusivity is the result of the DNA of a product, of its very essence, and it is therefore not to be plainly engineered by marketers. Exclusivity is always recreated and regenerated, from one industry to the other, from one category to the other, across industries and categories. This is a general reality of anthropological nature, and it is valid for any area of human activity. To think that evolutions like the deployment of digital roadmaps will result in a radical redefinition of what exclusivity is seems to me just a great banality. It seems to actually be an idea that belongs more to a "mechanical" way of thinking, and it therefore does not apply to our contemporary framework of reference, which is "organic" thinking-driven. Luxury is an anthropological reality, and therefore it is here to stay.*

3. Sustainability is a key driver of social trends at the moment, and one that is expected to stay in the longer term future. We identified one particular aspect of sustainability, the "personal sustainability" factor. Specifically this means enabling a more people-focused, human-scaled way of living by means of digital technologies. We expect this way of living to be demanded from the emerging cultures of the post-modern age. You are one of the top experts in Human Resources Management in the luxury industry, and beyond. Your approach to HRM of creative directors and leaders has surely been one of the "secret weapons" of the success of LVMH. How do you think personal sustainability can

be articulated and included, by design, within the HRM policies of High End orientated companies willing to find and retain the best talent by motivation?

I would like to specify first that HRM is only one side of the equation of what I do. My skills comprise indeed a HRM component, but I am ultimately deeply involved in brand revitalization by design and through design. So, I have often thought about people as I would think about brands. In luxury, brands must be represented by people in their formal capacity of creative directors or top manage. People can also be managed as brands are managed, with a careful calibration of their portfolios of activities and with a clear approach to maintain equity in terms of overall positioning. I believe that a business group or even a simple company has to indeed prove, in the contemporary and especially in the future HRM context that it excels at people management. Talent selection and talent retention is and will increasingly be "the" key enabler of business success, and in time it will grow into a hygiene factor, a plain necessity.

Bessie Lee, CEO, GroupM, Shanghai

On future High End Chinese media strategies and advertising techniques.

1. When it comes to media in the specific Chinese market, how do you think High End brands of the future, between nowadays and 2015, should express their leadership in their innovation and planning strategies?

This question is partly answered in question 2. China is a fast growing market. According to a Dec 2004 Goldman Sach report, China is the world's third largest consumer of luxury goods, accounting for 12% of global sales. If this trend continues, China could surpass the US to become, along with Japan, the world's largest purchaser of luxury items by 2015 (Time Magazine, Style & Design Fall 2007). According to the Hunrun Rich List, the wealth of the richest 50 Chinese is almost 6 times higher in 2007 than it was in 2005. Those that have been enjoying high end goods will soon be looking for the luxury market while the newly rich will start to buy higher end products.

Consumers' reaction to communication techniques is more akin to Western consumers of 10 years ago than of today. This means that a lot of the planning strategies which found success in the West in the 1990s, once adapted to the China market, can be rolled out effectively now in China.

The content, however, will depend much on region. Tier 1 cities have been overrun with celebrity endorsements but lower tier cities may still benefit from a well chosen endorsement. High end brands, in particular, must be careful who they choose, as many celebrities have been vastly overused. The celebrity must also fit the image of the brand and display integrity in their personal life.

One option could be to identify an up-and-coming star in a rare but appropriate category such as motor racing or tennis, cultivate them and build up the relationship - and it must be a meaningful relationship. You must first get to know the person and their background. If they hit the spotlight the brand that backed him from the beginning could reap the benefits. Nike did this successfully with Liu Xiang. One danger, though, is that the brand gets lost among the celebrities fame - communications must be structured to bring through the brand's vision.

Other strategies are controlling the distribution and enhancing the user's experience with the brand. Consumers must feel their purchase is sufficiently rare and the experience consequently elite to justify their purchase. If the product spreads itself too widely or the shopping and purchasing experience does not hit the right tone, the brand may lose its authenticity. As mentioned before, buying a product in Hong Kong seems more exotic and indulgent than buying the same product in China - even if the price is cheaper.

Finally, brands can play on their heritage. Chinese brands don't yet have the same high end authenticity as their long running Western counterparts. These foreign imports can use the history and origin of their brands to appeal to the aspirations of the Chinese newly rich. Interestingly, Chinese brands may have a trump card in appealing to the strong nationalistic instincts of the Chinese. For the majority of Chinese brands, innovation, design and build is not up to Western standards and the short term drive for profits can prevent the building of a strong brand. However, those that have got it right may be able to appeal to the nationalist temperaments of the Chinese to good effect over the next few years.

2.With the launch of its "clean city" campaign, the City of Sao Paulo in Brazil declared world to the urban clutter of outdoor advertising by simply banning all billboards and advertising signage for commercial purposes from its urban territory. Popular response by the Paulista's appeared to be positive. Do you believe that in the future people will indeed appreciate the simplification of the complex media environments and spaces around them? And how do you think High End brands could turn this cultural-change challenge, demanding a less invasive brand presence, into an opportunity for business success?

In China, unlike elsewhere, the push for the cleaning up of billboards comes from the government rather than from the people. In preparation for the Olympics, the government has called for the tearing down of illegal bill boards in Beijing. This has not always been effectively carried out in other cities. In smaller cities advertising can offer new revenue streams for the local government and associated business people. It causes other problems as the properties deemed legal in Beijing have shot up in price.

Chinese consumers are not pushing too hard to the cleaning up of their advertising environment. Advertising is still a relatively novel thing for many consumers in China. Having said that the advert must still capture the attention of the viewer.

According to statistics from the CSM and AGB, channel hopping during commercial breaks is increasing on television. Brands must be more thoughtful about their content. With good creative and intelligent positioning, brands can still make themselves stand out from the crowd.

Brands feeling as if they are being limited in their advertising opportunities can learn from the tobacco and alcohol industries. These categories already feel strong restrictions on their ability to reach the end consumer. They have reacted by extending their product lines into other areas, such as clothes and accessories as well as sponsoring cultural and sports events.

Richard Lee, Executive Chairman & CEO, Wo Kee Hong Group, Hong Kong

On the role of innovation and retail futures in tomorrow's China.

1.You work with a number of companies that base the entirety of, or at least a part of their proposition on some form of high tech competence. I am thinking about Ferrari in the automotive sector, with their Formula One uniquely advanced solutions, or of sectors like audio-visual systems and car audio, where your company represents the likes of Rogers and Alpine. Innovation is, in such industries, a credible factor for the "justification" of high end price ranges. In the digital age, however, innovation is, more and more, accessible and available to newcomers in each industry. One might think of recently established automotive brands like Pagani. At the same, the exploitation cycles for technological advantage are, in some industries, rapidly shortening. Here, one might refer to the rapid devaluation and depreciation of consumer electronics, with a natural price erosion of 1% per week.

With your eyes on the people who will populate the Chinese markets in the next half decade? What do you think will be the role of innovation in the creation and maintenance of competitive premium value for high end brands aspiring to significant margins over longer cycles?

Innovation in China "high end" market in next 5 years will be increasing important, with the unique perception & insight into Chinese way of internationalization. Lifestyle trend is changing very quickly, life cycle is shortened for products, so speed of introducing innovations with the brand, is important to sustain the growth & consumer interest in high end or also luxury brands. With my experience in promoting Ferrari in China, not only we need innovation in products & their designs, but we also need innovation in event & organizing activities for customers in pursuit of certain innovative luxury lifestyles.

2. Your enterprise, Wo Kee Hong Group, is one of the leading elite distributors of a diverse range of high-quality brand-name products for Mainland China, Macau and Hong

Kong. From this viewpoint, one might say that your mission-critical core expertise assets lies in the capability to "place", as in position and promote, such luxury and high end products in the right retail points, dealer networks or distribution channels. Chinese retail is quite peculiar in terms of its current situation. For example, unlike the Western business model standards, major brands directly employ the sales staff on the floors of shopping malls and department stores. One of the core challenges is actually identifying appropriate talent for retail jobs and retaining the best among them. My impression after a few trips to China is that Western companies might need to go deeper into the heart of Chinese culture, and identify those almost anthropological patterns that might need to be then translate in truly regionally focused retail experiences.

With an eye on the mid term future, what would be your advice to high end company CEO's, VP's and Retail Managers faced with the challenge to ensure appropriate distribution, placement and promotion of their products in Chinese retail and distribution channels, with the goal to "seduce" the affluent and mass affluent Chinese potential customers?

> *The key is 'Respect". This value deeply embedded in the Chinese culture for thousands of years. The drive of the present luxury market development in China is the desired gaining of "Respect" from the brand and people in the society. The building of "Respects" around a brand & its products is crucial, e.g. 'respectable' shop location, respectable endorsing celebrities, respectable sales consultants, respectable social commitment, respectable distribution company, all interplay to achieve respectable brand development in China. To repair a brand that's lost its respect (bilateral in most cases) would be costly in time & money. Unique CRM program tailored for to the Chinese market is helpful.*

Karen Moersch, Simon Wilson, Directors, The Hasley Group, United Kingdom

On the role of pricing and on media consumption trends.

1. I would like to start with the notion of "price". The connection between luxury artifacts and services and their price levels is an important one from many viewpoints, as it establishes the enabling background for quality and it automatically implies the necessary status of exclusivity. On the other hand, from our earlier editorial research, we tend to see luxury as a culturally determined notion. It is within the culture of a given time and a given region that specific items will be considered "luxury", or not be so considered. In the middle ages, hot water was luxury, but clean water was relatively easy to have. Nowadays, hot water is a commodity, while clean water, e.g., a beach in the purity of the Sardinian coast, is rapidly becoming "luxury". In the light of this kind of dynamics, the general context of luxury seems not to be so easy to describe anymore. For high end propositions, the situation is actually even more complex. Their price levels have to

remain low enough to be accessible to a wider audience, while still communicating a feeling of exclusivity and enabling premium margins at the same time. How do you see the "pricing" factor evolving in the future of High End propositions in terms of both "marker of exclusivity" and "enabler of quality?

> *Our Research shows that only a third of Luxury consumers believe that a products price is a good indicator of its level of luxury or exclusivity. From an economics point of view the mass-market product's maximum price tag is restricted by the limited amount of money that the mass-market consumer has. On the other hand, the Luxury Goods and Service sector is not limited by the availability of money. Here, the determining factor for the acceptance of a price is the value that the Luxury consumer can see in the products quality, design and attention to detail and the way the product is delivered.*
>
> *In overall terms, we believe the premium market functions most like the mass market in that there is limited elasticity to a premium product's price. However, within those parameters, the price elasticity is relative to the product's quality, design and feature level.*
>
> *The important point is that these three product dimensions come first, and the related price increase comes second. In terms of 'enabler of quality' we think that a quality improvement – as well as design and features – should be seen as an investment, not as a cost. Increasing those dimensions leads to a better opinion of the brand that will subsequently lead to the acceptance of a higher price tag.*
>
> *So, better quality may enable higher pricing but the price rise cannot precede a perceptible quality improvement as this will significantly erode the likelihood of it being bought. In this case you gamble with the brand reputation.*

2.You developed the Hasley Group "Luxury Decoded Panel™", a unique method to analyze the "real" luxury consumer by means of regular on-line trend tracking in various countries. Based on your research, what is the media consumption of true luxury consumers today, and do you think there is any lesson there to be learned for High End brands that want to be successful in the future?

> *While it is evident that Luxury consumers, as a whole, keep themselves better informed about current affairs and the economic situation, there is no one representative Media consumption for the Luxury consumer. This is because it is as fragmented as any other market. However, there are significant differences between age cohorts within the Luxury market that would lead you to treat each group differently. Consequently, it would not be appropriate to draw any parallels between the Premium and Luxury market.*
>
> *Although media sources are important the most trusted information sources and therefore the cornerstone of buying decisions are 'recommendation from a friend'*

followed by ‘independent sources’. One could see that two couples discussing a brand at a Saturday evening dinner could win or lose four customers with only one chance of the brand influencing the situation; that is having delivered the brand promise to their complete satisfaction. The case of non-delivery is even worse. It is commonly accepted that bad news travels 8 times faster than good news! Can you imagine the snowball effect of an unsatisfied customer at a cocktail reception?

We think the appropriate way is to first define the target customer and than analyze the individual channels to maximize the return.

Paul Nunes, Ex. Research Fellow, Accenture Institute for High Growth Business, US

On developments of High End pricing –and beyond, and on the role of innovation.

1.In your book, “Mass Affluence”, and the related presentations that you give around the world, you highlight a new business opportunity in “seizing the new middle ground”, namely by creating upper propositions in the territory where higher quality is appreciated, and valued by committing to a purchase at a higher price. Could you share with us your thoughts about the “price” dimension of high end, and how it can be truly leveraged to combine maximum access (and margins), with the necessary feeling of “exclusivity” that high end requires?

Fundamentally, the new middle ground is where people can find affordable solutions to what were once unaffordable luxuries. For example, teeth whitening used to be “for the stars,” done at a dentist’s office and at great expense. Today, the masses can whiten their teeth for less than $30 with Crest Whitestrips®. The same principle applies to a great many products, from disposable spinning toothbrushes to home espresso makers. This transformation of luxuries into affordable solutions offers an enormous innovation opportunity for most companies.

At the same time, traditional luxuries will come to seem more pedestrian, as an increasing number of consumers gain access to them by virtue of their growing incomes. This commoditization of luxury is likely to come sooner for a broad array of goods than most people think, driven by the easy access companies have to low-cost, high-quality manufacturing. I’ve recently been researching the problem of counterfeit goods. There has been an explosion in counterfeiting in every product category, from pharmaceuticals to apparel and even to industrial products such as truck brake pads, precisely because most every thing made today can be made cheaply. So creating inimitable products of any kind is getting harder, and even high-fashion, high-value, well-made things will be see rapid deflation in market prices (otherwise there will be no stopping high-quality *counterfeiting). This will force entire industries to rethink luxury, and this rethinking has already begun.*

Take air travel. The really rich have always used private jets. But today this luxury has become more accessible and more affordable through fractional ownership and timesharing plans, so that the "really rich" now need bigger planes, designer interiors in them, and even trips to outer space to achieve a differentiated level of status. At the first-class level, innovation is occurring as well. People flying the Airbus 380 can buy one of 12 private cabins, complete with a double bed. This will add a new level of exclusivity and prestige to first class and will make "regular" first class both less of a treat and more of an expectation for many.

2. You defined in your book a three staged approach as the new rules to leverage the "new luxury", or high end, as we would define it, opportunities: rules of positioning, rules of designing offerings and rules of customer reach. Innovation seems a must across the entire value creation chain you identified. The specialized literature about innovation divides innovation opportunities into those in continuity with the context or paradigm of their, e.g. the next generation of artifacts by a maker, and those paradigm-chancing opportunities that see the redefinition of the category, or the creation of a whole new category from scratch, e.g. the leap from CD to MP3 downloading. Could you share your thoughts about how this second paradigm-changing "revolutionary" innovation design will, in the next decade, support the journey of companies and brands towards High End?

My belief is that "discontinuous or disruptive innovation," i.e., paradigm-changing innovation, is absolutely critical for the reinvention of consumption that will be required if marketers are to capture the opportunity in mass affluence. Luxury offerings must be rethought and reengineered to make some version of them affordable to the mass affluent. For example, black car service, used by many busy executives to get to airports, for example, is a creative invention that is a cross between taxi service and a car driven by one's personal chauffeur. The reality is we have such a large population of über-wealthy that new offerings need to be invented for them. So marketers and product developers need to begin with a clean sheet of paper and imagine solutions to problems affecting only the very wealthy today, and then these solutions can trickle down to the mass affluent.

What is particularly interesting is how long some of these solutions can take to trickle down, and how critical a mass of affluent consumers can accelerate the flow of innovation in consumer products. For example, going back to air travel, private planes have been around since the Wright brothers. But the fairly recent (1970s) trend to mass affluence enabled private jets to be sold fractionally, and then by the hour, creating new markets and relatively huge numbers of new consumers who have now flown on a private jet. Today, minijets are set to take to the skies as developers have created small jet craft for the emerging "air taxi" market. The point is, for innovation to move from the very rich to the masses, there needs to be a mass of affluent early adopters in the middle for marketers to *want to create lower cost versions of those innovations. It is from this mass affluent class that additional cost savings can be found and innovation driven to the lowest income levels of the market. This trickle down of innovation is how DVDs players can go from $300 to $30 in a few short years, and big screen televisions can become a "mass market" product.*

Peter Sosknowski, Professor, ESSEC, Paris (Draft comments)

On nurturing talent for luxury business and on the changing landscape of MarCom (marketing communication).

1. I would like to start from the "creation" of talent, possibly one of the most critical assets in the luxury industry. Some believe that luxury requires innate talent, almost a DNA with the right spiritual, intellectual and sensual disposition. You have been engaged for several years with ESSEC, the Paris based blueprint of Luxury MBA schools. How can a school form professionals by "teaching exclusivity", and how will this be achieved in the future to feed the growing demand of skilled and trained executives by both luxury and high end companies?

The answer is both "yes" and "no". Some people have innate talent and feel for luxury, but this is a very rare case. At ESSEC, we teach a range of skills, both "hard" and "soft", both "vertical" and "horizontal". The "hard" skills, strictly related to business, are crucial indeed because they establish the economic and managerial fundamentals. The "soft skills", however, are as crucial, and they entail a range of capabilities from team management to plain "savoir faire". Of course, the required mix of "hard" and "soft" skills, and even more of "vertical" (sector-specific) and "horizontal" skills (human and professional general knowledge and individual talents) varies widely from sector to sector, from fashion to wines & spirits, from cosmetics to automotive, from tableware to watches, and so on. With the concentration of the industries into large multi-sector groups, like LVMH, PPR and Richemont, hard skills training and management processes are being standardized. At the same time, the soft and "vertical skills" are developed mostly by means of "training on the job" and direct experience in the company context. A crucial factor, here, is the size of teams, and the leadership style within companies. It is also crucial in finding the right balance within this equation. Let me now move on to a couple of concrete examples. Industry observers were skeptical of Robert –Mr.-Ice-Cream-at-Unilever- Polet's competence to manage and improve performance at Gucci after the De Sole / Ford age of glory. Four years later, he is elected European business leader of the year by the Fortune magazine ad hoc panel selecting the best performer in the continent. Also, to mention a different case, we have to remember that the specific reality of the brand is key. Guerlain, for example, did not seem to have benefited much from the recruiting of P&G-style marketing management, and the application of their marketing process. Indeed, it lost much of its special "nose+juice+packaging+image" creative flair in terms of leadership, before somewhat recovering. On the other hand, LVMH wine and *spirits companies greatly benefited from the rigorous application of such package goods marketing discipline, and today are one of the LVMH's group principal profit sources.*

I would say that there is a main divide between industries, a fine line that establishes whether the process-based approach, again P&G-style, to maintain my earlier concrete reference, will work. Additionally, there is the dimension of "evolution over time" to be taken into account. Talent is not eternal, and the management process needs to be managed itself over time. Ultimately, when it comes to people and talent management in the luxury industry, the question is: do you need to hire a seasoned Harvard MBA with P&G-like process competence and "teach them luxury", or is it more suitable to hire creatively oriented professionals with the flair and the natural talent for luxury, and teach them business process and process integration? It depends. In any case, whatever your choice, you need to create an environment that nurtures and cherishes commitment and talent, promoting innovation from the heart of people's talent. Google is a benchmark here. After hiring the best talent available on the market, they let 20% of people's time available for personal projects. On this important issue, I again use a formula to drive the point home for my students: Einstein's world famous Relativity Formula, $E=MC^2$*, becomes* $P=MC^2$*, where we will have:*

P=Profit
M=Management skills
C=Creativity / design skills, that are valued as "square" in the equation.

2.During the Eventica Global Luxury in London, you shared with the audience some grassroots marketing case histories from your past CEO experience at Remy Martin. What do you think will be the role classic, image building, advertising in the changing media context of the next decade, when it comes to the positioning and exposure of high end brands?

P&G is investing massively in consumer and market research to help adapt their marketing strategy and budget investments to the ever shifting media and promotion mix. This includes working closely with pioneering retail giants like Tesco and Wal-Mart to better mine their huge online consumer buying behavior databases. So, an ever growing percentage of total marketing expenditure is going into point-of-sale promotion and on-line/internet media. On the other hand, the "classical" TV/print/radio media still account for the bulk of advertising spend.

And as noted earlier in our conversation, even in the new Nespresso marketing mix, the superbly cast and executed George Clooney celebrity endorsement TV campaign is still a key driver of their success.

For fashion and accessory brands, the traditional system of fashion shows, event marketing, PR support and controlled retail distribution, all backed by heavy print advertising still moves the goods.

Luxury wines and spirits still have to rely on important media ad budgets and heavy on-premise merchandising spend, plus PR, to gain competitive / image advantage.

The internet for sales development and sales promotion is growing by leaps and bounds, but no one has yet figured out how to make it a key vector of image building.

After all the above considerations, my conclusion, to ultimately answer your question, is that the marketing communication mix is changing and it will change in the future indeed. However, there is what we might call a "hard core" related to classic advertising that will remain almost as a necessity for the creation and maintenance of brand image.

And to conclude: a few general directions, in their own words

Before we close our book with a rich bibliography, a closing that we regard as yet another tool offered to you for your knowledge accumulation to jump into future High End success, let's enjoy a final round of selected feedback to our two general questions about directions of development for the high end, starting from:

QUESTION: "The topic of this interview is the "High End", intended here as the "white space" between mass market and luxury. How would you define, in your own vision and words, such area of business opportunities?"

First, a simple, synthetic and reassuring answer by Concetta Lanciaux, formerly advisor to Mr. Bernard Arnault, and one of the "master architects" of the LVMH group:

I simply believe that this is the most promising market in terms of growth and future.

From such a generous, general and globally-attuned opening statement, let's now go deeper, looking at some regional differences, namely starting from the US, as described by Paul Nunes, Executive Research Fellow at the Accenture Institute for High Growth Business in Boston:

I think the "high end" between the mass market and the luxury market is best defined by the $70,000 to $300,000 household income range in the US, and in similar upper middle class portions of the income distribution in other countries. This "mass affluent" class has been growing dramatically in developed countries such as the U.K., Australia and Japan, but also in developing countries like China and India. The rise of this class has come about in part because of the increase in

> *two-income households, often made up of two professionals, but also because of rapidly growing value of experience in knowledge work.*
>
> *This development presents an enormous opportunity. In 1970, only one out of 27 households made the equivalent of $100,000 a year today. Today one out of seven households earn that or more. And even more have crossed the $65,000 line, going from 13 percent above it in 1970 to over 30 percent today. The larger number of households combines with the higher incomes to dramatically shift "where the money is" in terms of earnings today. In 1970, for example, the 87 percent of U.S. households that earned less than $65,000 and were taking home 68 percent of all income paid. But in 2000, the nearly 70 percent of all households still earning less than $65,000 were taking home only 38 percent of total income. That means that companies which do not target and service the slightly less than one third of households earning over $65,000 today are leaving almost two thirds of total U.S. paid income on the table.*
>
> *Also important to consider is the constant pace of progress and the price deflation on so many things we buy. Clothing is cheaper than ever in terms of real dollars, as is food and entertainment and electronics. Even gasoline is cheaper in real dollar terms post WWII. So even if a household's income didn't improve much in real terms, its discretionary income probably increased. In 1920 in the U.S., over 40 percent of the average household budget was spent on food. Today it is closer to 9 percent, and that includes money spent eating out.*
>
> *What's even more surprising—and this is contrary to popular belief—top earners (those in the top quartile of household income) are not spending as much as they used to, relatively speaking. They have been spending a steadily lower percentage of their total income consumption since 1980. By my calculation, this relative decline in spending has cost the U.S. economy over a $100 billion a year.*

If the US is one of the great regions for the adoption of the High End in the future, what about China, the Great Promise of prosperity for the world? Here we learn about it, in the words, once again, of Bessie Lee, CEO of GroupM in Shanghai:

> *To me, the high end space is the business class between economy and first. Pricing, exclusivity and style are all part of this. For me, this is not only figurative. When I first arrived in China five years ago, plane travel was reserved for business people and they, most frequently, travelled in economy class. The tiny business class area was most often empty. Nowadays, plane travel has become available to a wider less wealthy audience and business class has filled up.*
>
> *The evolution of a new group of wealthy middle class has created a strong audience for High End brands. This group is keen to show off their achievements in the lifestyle they lead. The High End market is, however, a no man's land waiting to be grabbed. Many of the newly rich Chinese consumers lack the education and knowledge on what constitutes a High End brand. Lacoste, seen elsewhere as being*

mass market, frequently comes near the top of the nation's favorite luxury brands. Oil of Olay enjoys a distinctly up-market image in China which it doesn't elsewhere. In short, there is a lot of wealth but very little discerning taste.

Pricing is important to create the perception of being high end but it is not everything. However, broad advertising isn't enough to change impressions. Brands must educate consumers on what is high end and why. There is a music-based radio station here which invites style leaders to come and talk about anything from red wine to clothing to give guidance to listeners on good taste.

High end differs from luxury in its exclusivity. Location of purchase may dictate this but luxury brands also offer a personal service that High End brands may not. The Nokia VERTU phone, a truly luxury product, comes with its own personal concierge service. Higher End brands are accessible to a wider audience. However, High End brands must be careful not to spread themselves too wide or they risk losing their mystique

Location of purchase can impact the view of a brand. Whereas the super-rich often buy in Paris, those wanting to create the impression of a High End purchase will shop in Hong Kong - even if the product may in fact be cheaper there.

Ultimately, how can we achieve a synthesis of what will be the key drivers of future High End customers in our global futures? Here we can rely on the vision by Rattan Chadha, the self made "richest foreigner in the Netherlands" who, after immigrating from India, conquered the world with Mexx and his new business ventures, has clear ideas about this "customer of tomorrow":

> *The contemporary consumer is very "hybrid". There are no real classes anymore when it comes to consumption. People are connected to the same knowledge baskets, be it international magazines or web-based sources. Because of this, consumption is rather unified at global level. Children in India who are connected know as much as we do in terms of information, and they can apply this knowledge to their context and to fuel their ambitions. And then, people make extreme choices when it comes to consuming. For example, you might have low income people saving on the electricity but then drinking expensive champagne, or saving all year round to then buy a 5 stars holidays in Bali for two weeks of vacation. This is the world we experience today, and it is a world where everything is possible. In this world, the ideas of "luxury" and "mass" are old ideas, what is key is instead to differentiate, no matter what you do. Differentiate clearly, and have your consumers love you for what you do because you do it differently, while everything else is blurring and cluttering.*

From such encompassing "vision of the world" and where High End will go in the next years, to our conclusive investigation, in search of the categories, niches, industries, markets and consumer universes where the High End will proliferate, in answer to the question:

QUESTION: “In our research about the future of “high end”, we did explore a variety of different categories and industries, from fashion to automotive, from electronics to hospitality, and a lot more. We would like to now get your vision about where the business opportunities and people’s desires will be in the next decade: where do you see “high end” propositions flourish in the future?”

A first line of distinction is clearly and almost drastically drawn by Rita Clifton, Chairman of Interbrand:

> *I believe very strongly that anything having to do with health and well being, including biotech industries and solutions for an aging human population will be a pool of opportunities for the high end. On the other hand, explicitly health-wise negative practices like smoking will be increasingly challenged, and here I therefore see a trend over time towards the progressive elimination of opportunities in non-ethic industries, like the tobacco industry.*

Let’s try to detail our projections by shifting the focus from High End up to luxury, and by giving, once again, the floor to Karen Moersch and Simon Wilson, both Directors and Founders of the Hasley Group, the UK based specialist consultancy in luxury decoding:

> *Over time, the generational cohorts have changed from looking at Luxury as inner directed - a self-indulgence, to a feeling that it boosts their confidence and positions them to the outside world. That different way of looking at Luxury often leads to them interpreting the delivery of the brand promise in a different way. The market opportunities lie in taking advantage of this change.*
>
> *The top five categories of Luxury spend are Holidays, Electronic Goods, Food & Drink, Hotels and Cars and there is no evidence that this will change in the immediate future. However, change will occur within the categories as different materials, technologies and service channels are developed.*

As a last question, then, the following one should be asked. What will be the shared High End qualities across categories and industries? Here we benefit from the ideas and inspirations of Markus Langes Swarovski, member of the board at Swarovski in Wattens, Austria:

> *As always, it is necessary to win over not just the minds, but above all, the hearts of one’s audience. The successful products will be those that represent a particular mindset, a moral value. I am speaking here of the connection between the world of the products and the people. This animistic bond is invaluable. As mentioned previously, holistic intelligence will most definitely grow in importance. Products that enhance quality of life will presumably always number among the successful – whether in the form of an environmentally friendly automobile or a wellness-focused product that promotes human vitality.*

We would like to conclude this book with such reference to the “animistic bond” between people and artifacts. This statement is an excellent description of a future that is less driven by technology-push. It is a future where people will be reconnected to their ancestral self. It is a future beyond the simple product proposition or brand positioning. It is a world that is replete with what could be called anthropological humanism, one where the high tide of the High End will hopefully mark the simple beginning.

Guided by the voices of our experts and by the visions of our thought leaders, supported by the insights structured across the 10 constituencies of luxury and High End, then armed with the tools you acquired along this journey, from the qualitative High End Proposition Charter to the quantitative High End Scorecard, you have now the opportunity to be part of the next wave of High End business successes. The tools will let you make it happen, for your companies and brands, for your customers and the people you love.

We wish you a great start of your own new journey. We hope use all or even just the relevant parts of this book as the platform from which to take off to the world of the High End. We wish to reach gold, and then reach higher and beyond -- to reach “platinum”, and not by chance, but by vision, knowledge and design.

APPENDIX

Bibliography: adopted, selected and recommended sources

The purpose of this bibliography is not to reference what we wrote in all the chapters before. Rather, the purpose of this bibliography is to be yet another informative, inspirational and triggering chapter of this book. The only difference is that the bibliography it is not made of words but of titles. We chose our approach to the bibliography to keep our promise to the very end of this book. Recall that at the very start of the book we did not offer you a chair in a polished and posh lounge. Instead, we invited you to have a look into our research kitchen, the very place of the mind where our ideas are formed, and our analyses were performed.

We extend, now, such invite to our library, or better said, to the very shelves and the archive files. Here is not just the sources of our final version of this book, the one you just finished reading or browsing in a bookstore, but the totality of what we ourselves examined in the course of our 18 month research process.

You should therefore not be surprised if you fail sometimes to find an immediate, direct connection between the content of each single chapter and some of the titles indicated in this bibliography. That 1:1 correspondence was the case in the beginning, but as we wrote, polished, experimented, and revised, connections between ideas grew, so that in the end many ideas blended into the complex flavored book that you have in front of you.

You will find here, therefore, a number of books, articles, and references that will open to you new landscapes. More than a sterile list of titles, look at the bibliography as yet another tool to help you understand luxury and High End, today and tomorrow. This knowledge-base and library will ultimately become an important asset for your very own efforts to explore the High End of the future.

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