

### DEFINITION OF THE LUXURY MARKET

From an economist’s perspective it is important to differentiate the demand side of the markets from the supply side of the market. If a product/service is to achieve “luxury market” status it must match the Demand-side requirements (on the left) with the Supply side capabilities on the right. The sides must match or the knowledgeable consumer will know the product is a “mass” product masquerading as a luxury product.

In order to differentiate a luxury market offering from a mass market offering made by the same organization, the organization must separate the thought process (and business model) on the top row from the thought process (and business model) on the bottom row.

	<b>Demand (consumer) side Seeks</b>	<b>Supply (manufacturer) side Provides</b>
<b>Luxury Market</b>	<ul style="list-style-type: none"> <li>• That which signifies the owner has higher social status usually through (a) the ability to fund discretionary purchases and (b) personal knowledge of superior quality.</li> <li>• That which has exclusivity, usually because it is rare or in limited supply and priced accordingly</li> <li>• That which performs (or has qualities) well above the requirements of normal use.</li> <li>• That for which the affluent consumer feels a passion.</li> </ul>	<ul style="list-style-type: none"> <li>• Products and services of the very highest quality in their category.</li> <li>• The latest product technology combined with the finest elements of human craftsmanship</li> <li>• Pricing which increases dramatically as the quality increases and thus ensures exclusivity to the consumer.</li> <li>• Limited distribution with the highest levels of service.</li> <li>• Branding and communications which captures and conveys all the above points to the smallest number of people required.</li> </ul>
<b>Mass Market</b>	<ul style="list-style-type: none"> <li>• Performs basic functions well.</li> <li>• Quality is defined in terms of durability, ease of maintenance. In some cases (when there is high turnover in the product category) initial quality is more important than durability.</li> <li>• A good value at a good price.</li> <li>• Convey an awareness of fashion (as distinguished from status)</li> <li>• Is widely available, can be easily serviced.</li> </ul>	<ul style="list-style-type: none"> <li>• Efficiently manufacture products (or provide services) in a quantity which provides competitive or superior utility at the price the largest possible number of consumers are able/willing to pay.</li> <li>• Lower the distribution costs per unit by having the widest possible distribution of the most-service-free products.</li> <li>• Stimulate consumption by communicating the price and availability to the largest number of possible consumers.</li> </ul>

Success in the luxury market (as described above ) requires that the manufacturer and its distribution system develop an organizational CULTURE focused on luxury. This usually requires the formation of a separate organization. Certainly a different set of processes and behaviors and a different style of leadership.

The Luxury market is ruled by the law of small numbers and the justification of continuous marginal price increases whereas the mass market is ruled by the law of large numbers and the achievement of continually decreasing marginal costs.