

# MARKETING FOR THE „NEW RICH“

The “New Rich” and the Premium Segment in Japan:  
Marketing Strategies in the Face of Changing  
Consumer Behavior

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# The “New Rich” and the Premium Segment in Japan: Marketing Strategies in the Face of Changing Consumer Behavior

## 1. Introduction

The defining attribute of services for rich people in Japan has been the face to face interaction in exclusive shops not meant for the normal middle class consumer. Before the economic bubble in the 1980s, luxury companies were defining their customers predominantly by income level. Their numbers were therefore fixed to a small elite and business could not be expanded beyond this scope without the danger of losing exclusivity. With the commodification of luxury and rising mass affluence, a change in the perception of the term 'luxury' occurred.<sup>1</sup> In recent years the distinction between domestic and foreign brands has been blurring and there is now a greater tolerance for non-traditional lifestyle paths.<sup>2</sup> Luxury consumers are turning into unpredictable shoppers who are freely combining different brands and styles. In response to that the differences between offerings are becoming ever more subtle.<sup>3</sup> A new demand for authenticity, corporate social responsibility (CSR), and an increasing translation of culture and arts into consumer products indicate a shift away from simple conspicuous consumption towards informed consumption.<sup>4</sup>

GLOBAL INSIGHT predicts that premium brands will grow 89.3% in Japan between 2005 and 2010, while volume brands will only grow 0.9% in the same period.<sup>5</sup> How can such an expansion in the luxury market be explained? TAKAHASHI (2005) notes that if we take a look at the statistics of high taxpayers in Japan the market of rich people is expanding, but not in a way that would justify the rise in luxury sales that was experienced in the last decade. These new consumption patterns are attributed to the appearance of the 'new rich' who, as a market, hold tremendous potential for luxury companies. The transition of wealth from the traditional old rich families of entrepreneurs and real estate owners, to the newly affluent young business professionals, IT-entrepreneurs and 'retirement rich' happened over the last twenty years, during and after the economic bubble of the late 1980s.

As their major share of profit now comes from a much more diversified consumer, many premium companies that used to sell to a conservative, elitist, and upper-class group of luxury customers now face a challenge: How to satisfy the new demand for mass luxury while at the same time taking care not to devalue the brand and lose their more upscale clients. I will argue that because of these developments, premium companies have to change their relationship with their most valuable customers from a short-term relationship to one that will create the opportunity for long-term cooperation and trust. New ways to transmit an image of exclusivity are needed to keep the aspirational appeal of brands. The affluent consumers have become increasingly immune to the normal channels of mass marketing and now demand real communication and added value. The main argument of this paper is that *in order to reach them, luxury companies have to get access to the most exclusive of all marketing environments: one-on-one communication between consumers about luxury brands (word of mouth).*

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1 TAKAHASHI 2005: 10.

2 NIKKEI WEEKLY, July 16th, 2007, Debbie Howard, *Japan's evolving consumer psyche creating opportunities*: 32; HIRANO AND MILES 2006.

3 SIGMA 2005: 10; see also ISHIWATA 2006: 7; NUNES ET AL. 2004: 57.

4 CURRID 2007: 36; see also SCOTT 2000; ANTERIOR INSIGHT 2008; NIKKEI WEEKLY, October 15th, 2007, p. 26.

5 TREECE 2006.

The paper is structured as follows: Paragraph 2 introduces briefly customer groups that are of special interest within the 'new rich' market. Paragraph 3 deals with marketing issues: section 3.1 and 3.2 explain the basic approach to luxury marketing, section 3.3 introduces companies that are essential cooperation partners for a successful strategy within the Japanese premium market and outlines the importance of accessing exclusive marketing environments in order to reach wealthy consumers. In section 3.4 I will explain how to work with word of mouth marketing techniques in a high-class environment of affluent customers.

## 2. The “new rich” market

In a study by the NOMURA RESEARCH INSTITUTE, as of 2006, the wealthy class in Japan with financial assets worth 100 million yen or more consists of approximately 865,000 households.<sup>6</sup> But these HNWI (high net worth individuals) are not necessarily the most interesting customers for premium companies. Not all people who maintain luxurious consumer lifestyles have large investments or other wealth-producing assets. So while a high income or high net worth enables luxury spending, more important is a certain personal and cultural predisposition to it.<sup>7</sup> TAKAHASHI (2005) separates two different groups of 'new rich' that are of interest to luxury companies due to their customer lifetime value (CLV)<sup>8</sup> and high spending on luxury goods. **Group 1** became rich through the changes caused by the economic recovery after the lost decade in the 90s, such as the IT-bubble, the retirement of the baby boomer generation starting in 2007,<sup>9</sup> and other structural changes within the society. IT-millionaires, the silver market (the retirement rich), and super-salarymen (who became rich by performance based salaries) all belong to this group. **Group 2**, called the *consumer rich* (TSUCHIYA 2007) are not rich by definition of their assets. They often have (but are not limited to) a high income, and are the product of a change in the mind-set of consumers, leading to extensive consumption of luxury goods in selected areas. The rapid development of the luxury market in Japan can be attributed predominantly to the rising numbers in group 2.

These *consumer rich* have become the main customer base for many luxury companies.<sup>10</sup> They tend to be young, single, have a higher salary than members of the middle-class, and use their money freely for personal lifestyle consumption.<sup>11</sup> Their distinctive feature is that they do not have enough assets or income to show premium consumption in all aspects of their lives. Some members of this group with lower income are “trading-up”, spending disproportionately in areas with emotional importance to them while economizing in others.<sup>12</sup> Individually, these shoppers may spend relatively small amounts, but their large numbers form a substantial amount of luxury sales. Many of them are on career paths that will have their income rise quickly, making their CLV worthy of recognition.<sup>13</sup>

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6 MIYAMOTO ET AL. 2006: 4.

7 DAVIS 2006; NUNES ET AL. 2004: 16.

8 Customer lifetime value means the total estimated profit from a business relationship with a customer over the life of relationship.

9 The approximately 7 million baby boomers will receive 50 trillion yen (ca. 320 billion euros) in retirement allowances. See USUI 2006: 60; HAKUHODO 2004; HAKUHODO 2006A; HIGUSHI ET AL. 2004.

10 TAKAHASHI 2005: 11.

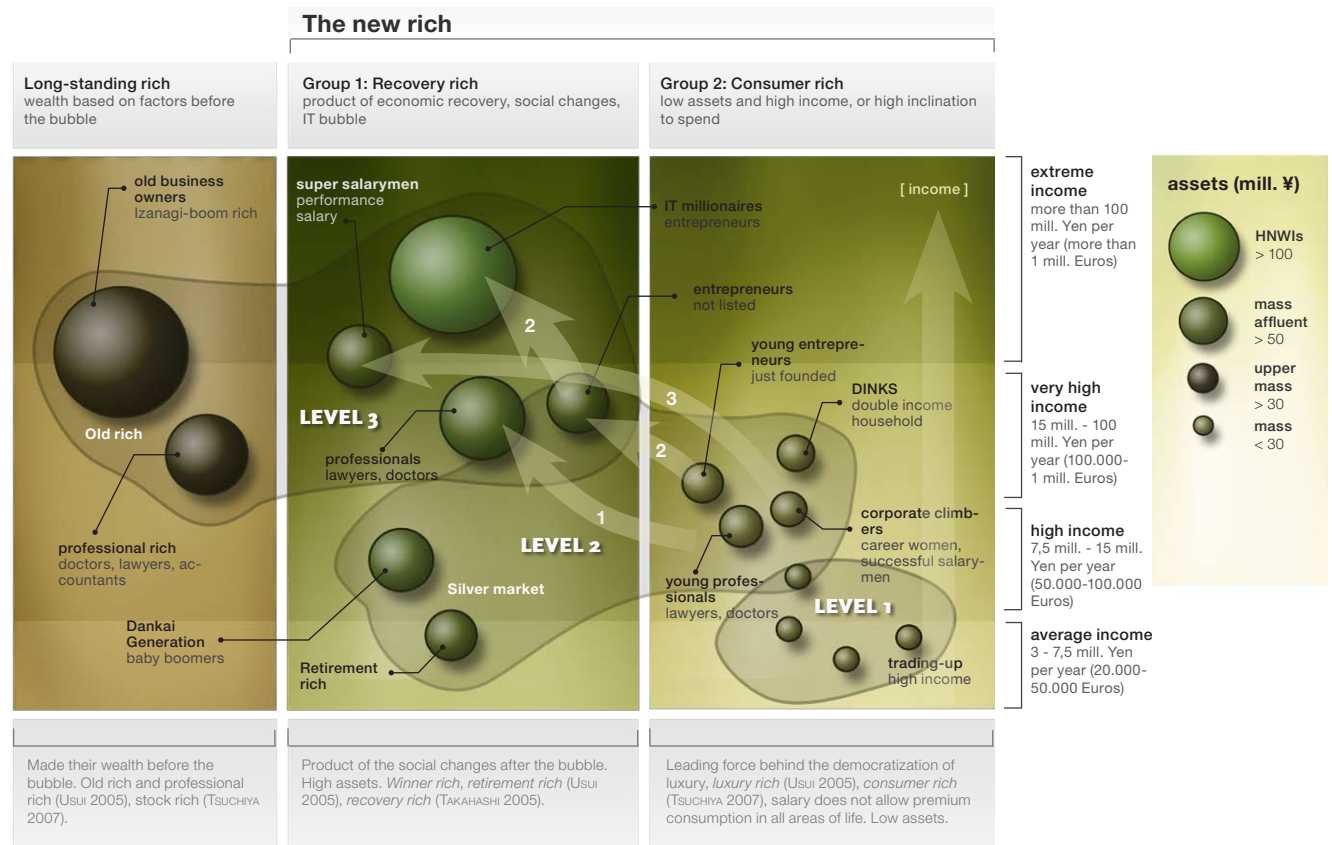
11 TAKAHASHI 2005, USUI 2005, TSUCHIYA 2007.

12 The term was coined by SILVERSTEIN AND FISKE 2005: "At the high end, consumers are trading up, paying a premium for high-quality, emotionally rich, high-margin products and services. At the low end, consumers are relentlessly trading down, spending as little as possible to buy basic, low-cost goods and services."

13 CHADHA AND HUSBAND 2006: 58.

Figure 2.1 shows *all* luxury consumers, grouped into three *consumer levels* that represent different social environments and imply different marketing approaches. The levels will be detailed in section 3.2 in the three-level *luxury marketing* model.

**Figure 2.1 | Luxury consumers in Japan**



**Notes** | The figure classifies luxury consumers in Japan into two groups depending on when they made their wealth (the *long-standing rich* and the *new rich*). The third area consists of the *consumer rich* (TSUCHIYA 2007), consumers who are not rich by their assets (less than 30 million yen in liquid assets), but exhibit luxury consumption in certain areas. This group includes normal middle-class luxury consumers that are *trading-up*. The diameter of the circles represents the assets owned, the vertical position of the circles shows the income level. In order to simplify numbers, an exchange rate of 150 yen/euro (end of 2006) has been taken.

**Consumer levels.** The areas shown as level 1, level 2, and level 3 represent *consumer levels* from the three-level *luxury marketing* model found below in table 3.1, representing different social environments and marketing approaches.

**Possible developments.** The arrows represent possible transitions over time from (1) young professionals to successful professionals with high assets, (2) young entrepreneurs to owners of successful enterprises that are not listed on the stock market, to entrepreneurs after a successful IPO, and (3) from corporate climbers to “super-salarymen”, who command high performance-based salaries. The most important feature about these transitions is a change in *consumer level* from 2 to 3 (see the three-level *luxury marketing* model in section 3.2) and with it a change in social environment.

### 3. Marketing Strategies

I will distinguish two different forms of premium marketing. The first is *rich marketing* which considers strategies to target individuals with high net worth (HNWIs) or a very high income, who are able to uphold a luxurious lifestyle in all aspects, including an upper class social life (*consumer level 3* in figure 2.1). The other term is *luxury marketing*, defined by TAKAHASHI (2005) as strategies to target customers of luxury companies, whether they might be rich, mass affluent, or simply middle-class consumers who are *trading-up* (levels 1-3 in figure 2.1). Thus, *rich marketing* is a part of *luxury marketing*. Due to the

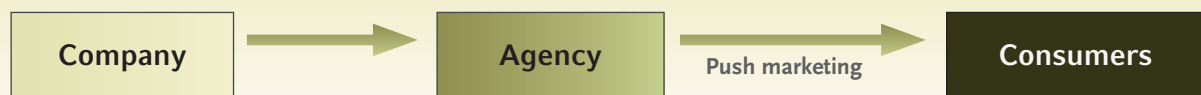
appearance of the new rich, the way *luxury marketing* has to be performed in Japan has changed. In the following sections 3.1 to 3.4 I will outline six main points that together form the base for my *luxury marketing* model:

- 1)** (in section 3.1) The basic problem of *luxury marketing* is the rising immunity of the consumer, especially among level 3, to normal marketing channels. People do not respond to marketing advances in a direct way. Instead, the messages are filtered and adjusted by opinion leaders. Customer acquisition needs to take into account the *marketing exclusivity* of the targeted customer.
- 2)** (in section 3.1) Customer retention in *luxury marketing* calls for a segmentation of a luxury companies' customers, with additional benefits made available for those who provide the major part of revenue.
- 3)** (in section 3.2) The appearance of the new rich in Japan changed the way luxury is consumed and perceived, and led to a more diversified consumer buying premium products. Companies have to develop a holistic approach by targeting more than one customer segment, and more than one *consumer level*.
- 4)** (in section 3.2) Exactly this change has altered the way *rich marketing* has to be executed. The most exclusive consumers (level 3) have to be targeted by using different channels in order to acquire them as customers, and have to be treated in special ways distinct from others for customer retention.
- 5)** (in section 3.3) Doing this in Japan requires the help of specialized companies who offer luxury companies tools for accessing level 3 consumers (through specialized media or the creation of a marketing environment), and for enhancing their service level for the top customers.
- 6)** (in section 3.4) Consumers are not only important as revenue makers but also as influencers. Word of mouth is more important in a marketing environment for rich customers. Companies have to calculate the worth of customers by CRV (customer referral value), not simply by CLV (customer lifetime value),<sup>14</sup> and have to employ event marketing strategies that accelerate and induce word of mouth as well as positive PR.

### 3.1. The basic problem in luxury marketing

One general characteristic of the way consumers are building preferences and choices was named the “law of the few,” meaning the opinions of 10% of a consumer market is influencing the buying behavior of the other 90%.<sup>15</sup> The marketing model (figure 3.1) in which a company employs the services of an advertising agency to create media that will influence the audience directly, is in truth a simplification.

**Figure 3.1** | Old marketing model



**Notes** | The figure shows the simplified model of marketing, in which the consumer is influenced in a direct way through an agency that transmits the marketing message.

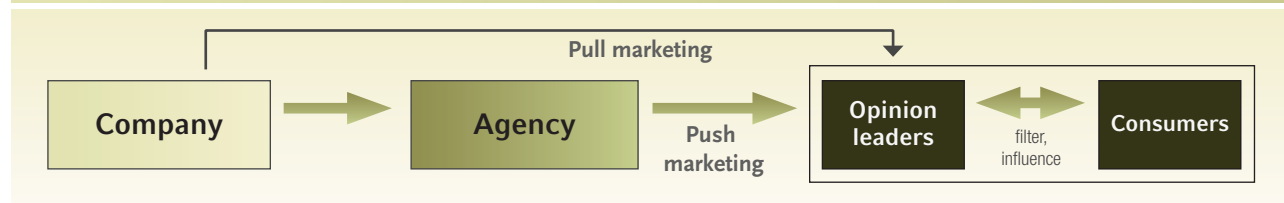
<sup>14</sup> KATZ ET AL. 2008.

<sup>15</sup> Evidence of this phenomenon was first published in LAZARSELD 1944.



The “two-step flow theory” states that instead of having a direct effect, advertising messages are channelled through opinion leaders with influence in social networks. It is through their word of mouth that communication effects can occur.<sup>16</sup> Opinion leaders process the information first, since they tend to be more frequently exposed to the mass media (figure 3.2).<sup>17</sup>

**Figure 3.2** | New simplified HNWI marketing model



**Notes** | The figure shows the two-step flow model by KATZ AND PAUL (1955). Instead of having a direct effect, advertising messages are channelled through opinion leaders with influence in social networks. In order to reach them, pull-approaches are employed.

The problem about changed consumer attitudes from a marketing perspective is the higher immunity of the discerning and highly sophisticated opinion leaders against traditional marketing channels and the mass media. Especially the HNWIs do not want to be targeted by direct push-approaches<sup>18</sup> (figure 3.2). To get access to rich customers in general, and specifically their opinion leaders, different channels have to be employed. This is done with pull-approaches.<sup>19</sup> Once a relationship based on trust is established, customers can be more receptive for direct push-approaches. A company's existing customers can therefore be targeted more directly than prospective customers, leading to two different models of *luxury marketing*: customer acquisition and customer retention.

### Customer acquisition

Acquiring customers for luxury brands must be differentiated by wealth level and *marketing exclusivity*, meaning the inclination of a consumer to be receptive for mass marketing environments and mass media. The theory is that the higher the wealth level, the less receptive the customer is to normal marketing channels.<sup>20</sup> Figure 3.3 shows marketing environments for combinations of *consumption levels*<sup>21</sup> and the *marketing exclusivity* used to transfer the message. Everything can be considered a marketing environment—the lobby of an expensive hotel, a private party, even a talk among friends can be the scene of a conversation about a product or service, or a setting for brand exposure and image building.

<sup>16</sup> KATZ AND LAZARSFELD 1955.

<sup>17</sup> RICHINS AND ROOT-SHAFFER 1988.

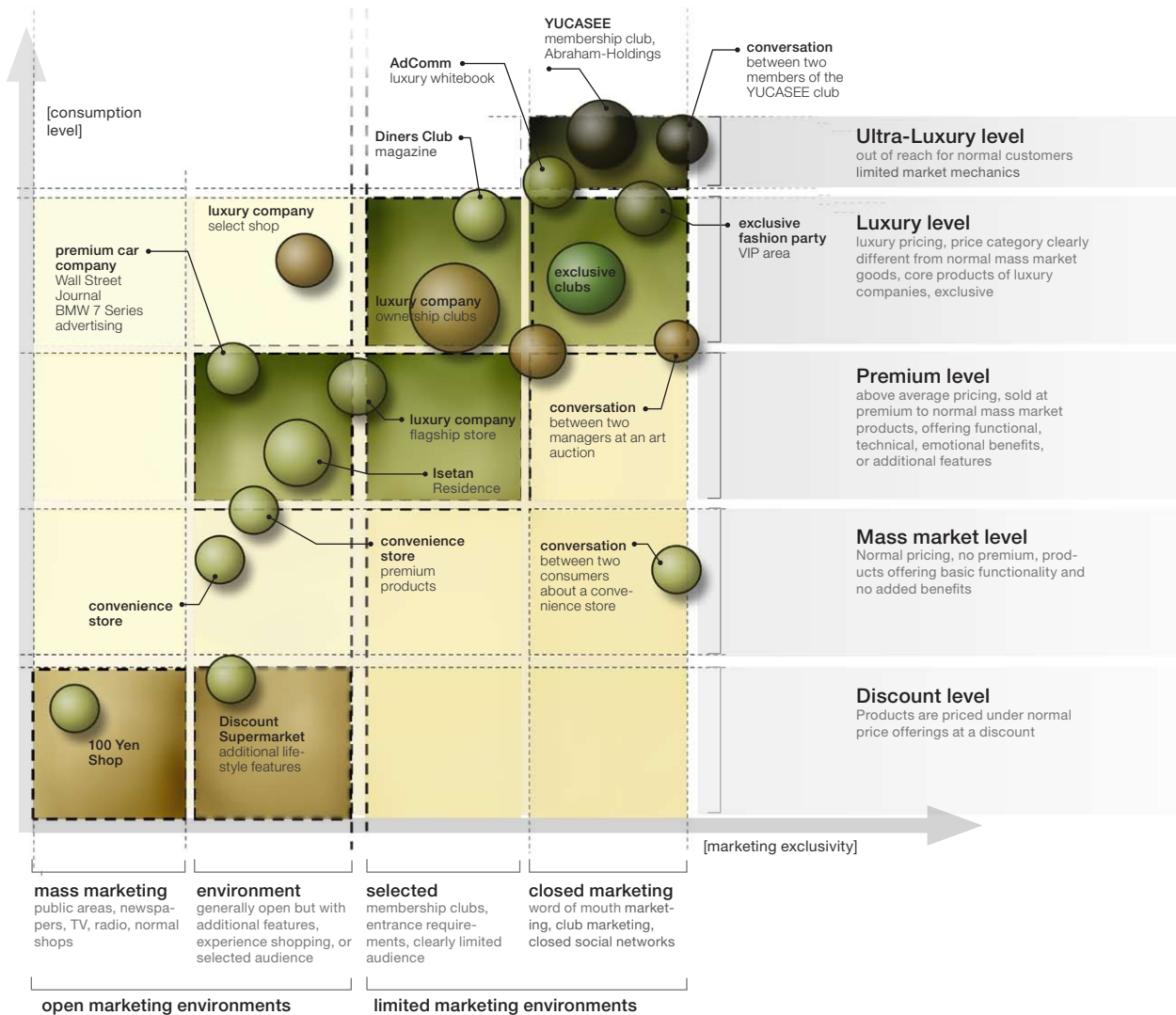
<sup>18</sup> Push marketing is the traditional direct type of marketing. It includes direct mail, advertising, cold calling, and other techniques that push your products and services.

<sup>19</sup> Pull marketing brings customers to you by their own incentive. It is a more indirect approach that includes using proactive referral systems, speaking, writing, having a visible presence within communities and social networks, and providing additional information once the potential customers have given their permission to do so.

<sup>20</sup> ABRAHAM-HOLDINGS 2008A; Tsuchiya 2007: 76-77.

<sup>21</sup> It is important not to mistake *consumption level* with *consumer level*. The *consumption level* (figure 3.3) defines the relative price level of a product sold, advertised or otherwise marketed, while the *consumer level* (from figure 2.1 and table 3.1) defines the level of a consumer's social lifestyle and connections.

Figure 3.3 | Marketing environments



**Notes** | The figure shows marketing environments as a combination of *consumption level* and *marketing exclusivity*.

**Consumption level.** An abstract concept that classifies the products sold, advertised or otherwise marketed. It can be roughly classified as: 1) discount level—products that are priced below normal price offerings; 2) mass market level—normal pricing; 3) premium market level: above average pricing, products with additional features or an emotional component; 4) luxury market level—luxury pricing with mark-ups of over 30% to normal mass-products, and products in higher price categories that include many of the most prominent articles of famous luxury brands (hand-bags, premium cars, watches); 5) ultra-HNWI level—luxury articles that can be generally considered out of reach for normal consumers, including ultra expensive sports-cars, yachts, private jets, and luxury condominiums. The higher the consumption level, the higher the tendency for a negation of market mechanisms.

**Media exclusivity.** 1) The first quadrant is open mass media, TV and radio, newspapers and widely distributed magazines. 2) The second quadrant symbolizes shopping environments that are open to the general public but distinguish themselves by experience shopping or other features (such as convenience). This would include any shop that offers its customers added value by making the shopping experience extraordinary, and magazines that target very specific audiences and limit their distribution to certain outlets. 3) The third quadrant is the beginning of closed marketing environments, being generally open to everyone who is able to meet the entrance requirements—a membership fee (membership clubs), the purchasing of a certain product (ownership clubs), or other conditions (like a certain mileage that gives access to airline lounges, or a golden credit card). The conditions have to limit the audience without making it impossible to meet the conditions. Often these environments come along with a specific customer segmentation (income, age group, interest). 4) The fourth quadrant represents closed marketing environments. Either the entry conditions can only be met by a very limited number of people (American Express Centurion Card, the YUCASEE membership club in Japan—which is only open to people with more than 100 million yen in assets—ownership clubs of ultra-HNWI products, the Roppongi Hills Club), or are not in control of the customer at all (selection under non-disclosed conditions, exclusive membership clubs, private parties, personal invitation). At this level of *marketing exclusivity* the used media is usually word of mouth, personal contact, patronage of events, or selectively distributed information material (magazines, direct-mail).



A change in marketing environment and consumer behavior has led to a gradual decline in the traditional mass market, with the so called “death in the middle” by companies who failed to differentiate themselves either by price (offering qualitative products in the discount market) or quality and emotional appeal (offering new luxury products and premium offerings, or changing the shopping environment). What has happened in the last decades is a gradual shift in *marketing exclusivity* from the left of figure 3.3 to the right. Consumers either demand more of their shopping experience or look out for the lowest price or added convenience.<sup>22</sup>

The higher the wealth level, the higher is the average *marketing exclusivity* to gain access to the individual customer. Thorough customer segmentation can reveal at which level the marketing has to be conducted. As most brands have a product range which spans some or all of the *consumption levels* from figure 3.3, a holistic approach might be necessary. The problem in *luxury marketing* is how to reach the higher levels of *marketing exclusivity*, as these tend to vary depending on cultural context, are linked to specific networks, and are not directly accessible.

### Customer Retention

The basic approach for customer retention is illustrated by TSUCHIYA (2007), who makes three propositions: **Proposition 1:** 80% of the revenue is delivered by 20% of the customers of a luxury company. **Proposition 2:** Only about 10% of the customers are opinion leaders, while the other 90% tend to be heavily influenced by them in their buying decisions. **Proposition 3:** Customer acquisition is 10 times more costly than customer retention.<sup>23</sup>

Considering propositions 1 and 3, it makes sense to treat some customers better than others and to invest more energy in retaining their loyalty.<sup>24</sup> The challenge now is how to move the 10% opinion leaders of your 20% best customers up the loyalty ladder in order to make them brand advocates, so that they can be effectively used for word of mouth marketing strategies, as indicated in figure 3.4. To do this, special services have to be created for those 20% top customers in order to move them up the loyalty ladder, giving them status and incentives to talk about their positive experiences to others. This approach is already practiced in many industries: by airlines (mileage clubs), by credit card companies (fringe benefits and concierge services), and financial services providers (private wealth management).<sup>25</sup>

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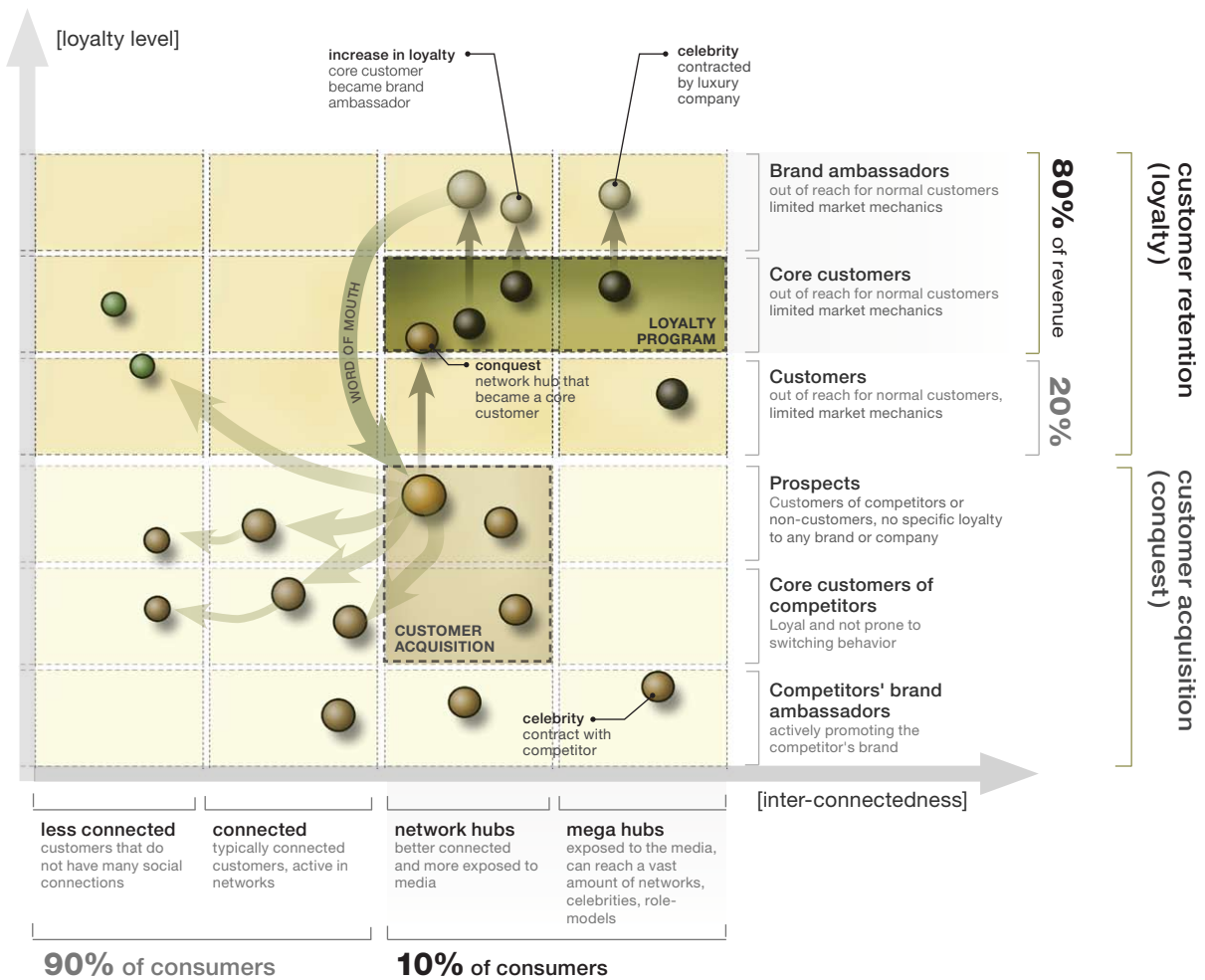
<sup>22</sup> SILVERSTEIN AND FISKE 2005; NUNES ET AL. 2004; DANZIGER 2005; ANTERIOR INSIGHT 2008.

<sup>23</sup> TSUCHIYA 2007: 40-41, 70-71.

<sup>24</sup> NUNES ET AL. 2004: 57, TSUCHIYA 2005: 40-41, 70-73.

<sup>25</sup> NUNES ET AL. 2004: 67.

Figure 3.4 | Customer loyalty and word of mouth mechanism



**Notes** | The figure shows customers segmented by loyalty level and their connectedness (level of opinion-leadership).

**Loyalty program.** Special services are executed for the top 20% of customers, selected by CRV (customer referral value). The special treatment triggers a word of mouth mechanism. Instead of targeting the majority of customers with push-approaches (advertising) the 20% opinion leaders of the core customers are treated with pull-approaches.

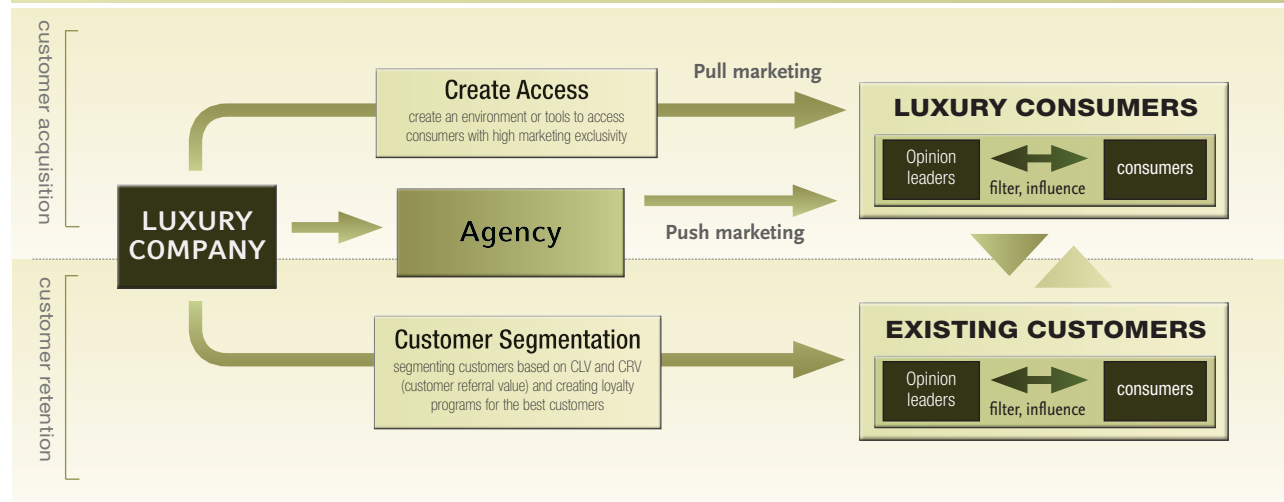
**Word of mouth mechanism.** Due to a loyalty program, core customer A's loyalty is increased to ambassador level. He now has an incentive to talk about his experiences. Network hub prospect B can not be reached by normal media channels. In a conversation with the very satisfied customer A, network hub B is convinced to try the product of the luxury company, anticipating the same preferred treatment that customer A was talking about. He now has an incentive to increase his spending in order to become a core customer. Because of his position as a network hub, he dispenses the information about his switch to many other people. Therefore, a customer retention program becomes directly connected to the customer acquisition process by turning loyal customers into brand ambassadors. Without word of mouth, network hub B would not have been receptive for a direct marketing approach.

As loyalty tends to increase only with extreme customer satisfaction, outstanding performance and services are a necessity.<sup>26</sup> At higher *consumption levels* market mechanisms are modified and eliminated. They are replaced by strong relationships, supported by switching costs which are caused by social factors like emotional attachment to products and conformity within networks. In contrast, in the highly competitive middle-class environment the idea of extreme customer satisfaction is out of place due to low switching costs.

26 HONGOARD 2002: 248.

We can see the expanded *luxury marketing* model in figure 3.5, showing the process customer acquisition—creating access to luxury consumers by the use of pull-marketing strategies with higher *marketing exclusivity*—and the process of customer retention—the segmentation of customers by both CLV and CRV and the subsequent offering of preferred treatment to the most valuable customers.

**Figure 3.5** | Expanded HNWI Marketing Model I



**Notes** | This figure is based on a combination of a modified model from TSUCHIYA (2005) and ABRAHAM-HOLDINGS (2008). The existing customers of a luxury company influence other luxury consumers and potential customers through their word of mouth. Some customers are more valuable than others. They must be segmented by their CRV (customer referral value). At the same time, access to other luxury consumers is gained through special marketing environments with high *marketing exclusivity*.

### 3.2. A three-level luxury marketing model

The following analysis will differentiate between **[consumer level 1]**, people who buy products of a luxury company and therefore qualify as luxury consumers but do not have the assets or income to qualify them for a rich lifestyle (*trading-up* consumers), **[consumer level 2]** people exhibiting a high salary that enables them luxury consumption in certain categories, but not all, and **[consumer level 3]**, encompassing both HNWI and people with an extraordinary income, qualifying them for an active luxury consumption lifestyle (table 3.1).

Most premium companies do not restrict their portfolio to one *consumption level* from figure 3.3, but offer products in all top three categories (premium, luxury, and ultra-luxury level).<sup>27</sup> The key is to provide “luxury for the masses as well as the classes”, delivering luxury to the top while simultaneously to the population at large.<sup>28</sup>

27 Consider as an example the product segmentation of luxury automobile companies, with entry-level products situated in the premium market (like the BMW 3 Series, Mercedes C Class and the Audi A4 as well as the Lexus IS), at luxury level (BMW 7 Series, Mercedes S-Class, Audi A8), and also at ultra-HNWI level (Rolls-Royce and Maybach).

28 DANZIGER 2005.

Table 3.1 | Three-Level Luxury Marketing Model

	Characteristics	Consumption levels (figure 3.3)	Marketing exclusivity (figure 3.3)	Social environment and opinion leaders	Consumer Groups, types of rich
<b>Level 3</b> luxury level "setting standards"	<ul style="list-style-type: none"> <li>■ Demand limited and rare products</li> <li>■ International experience in products and services</li> <li>■ sophisticated consumption</li> </ul>	<ul style="list-style-type: none"> <li>■ Ultra-luxury, luxury, premium level, refrain from discount and mass market stores and channels</li> <li>■ High income and high assets (mass affluent+) or extremely high income with low assets</li> </ul>	<ul style="list-style-type: none"> <li>■ Specialized magazines, internet, word-of-mouth</li> </ul>	<ul style="list-style-type: none"> <li>■ Regular connections to exclusive environments (closed), regular contacts with different networks, extensive networks and contacts with other rich people</li> </ul>	<ul style="list-style-type: none"> <li>■ Very successful professional rich, winner rich, IPOs, entrepreneurs, "super-salariemen" of foreign financial institutions, business owners, board members, wives and girlfriends of successful rich</li> </ul>
<b>Level 2</b> premium level "aspiring and imitating"	<ul style="list-style-type: none"> <li>■ conspicuous consumption and lifestyle consumption</li> <li>■ interested in products that exemplify their taste and personality</li> </ul>	<ul style="list-style-type: none"> <li>■ Luxury, premium, mass market, (some discount)</li> <li>■ High income, low assets (maximum mass affluent)</li> </ul>	<ul style="list-style-type: none"> <li>■ Opinion leaders of the respective social milieus</li> <li>■ Mass media to a certain extent</li> <li>■ Specialised magazines</li> </ul>	<ul style="list-style-type: none"> <li>■ Social interactions with the respective social milieu (upper professional environment, in case of retirement rich: old colleagues and friends)</li> <li>■ Friends and colleagues as main opinion leaders</li> <li>■ Upper class as role models</li> </ul>	<ul style="list-style-type: none"> <li>■ Young professional rich, corporate climbers in medium to high positions, young entrepreneurs of small companies</li> <li>■ Some retirement rich with maximum mass affluent level with low rich-consciousness</li> </ul>
<b>Level 1</b> trading-up level "substituting"	<ul style="list-style-type: none"> <li>■ Conformist consumption, "mass luxury consumer", strong presence of social leadership influence</li> <li>■ interested in being "in", buying trend-conformist luxury products that give chains of association</li> <li>■ price and location is important</li> </ul>	<ul style="list-style-type: none"> <li>■ Luxury (on brand items that do not kill their budgets), premium (style shopping), mass market and discount stores for trading-down</li> <li>■ Low or medium income, low assets, additional non-dependable luxury budget from 3rd party sources (parents, relationships)</li> </ul>	<ul style="list-style-type: none"> <li>■ Mass media, style magazines</li> <li>■ Opinion leaders of one's own social milieu</li> <li>■ Opinion leaders of the media, "celebs"</li> </ul>	<ul style="list-style-type: none"> <li>■ Social interaction within the respective social milieu (normal middle-class professional environment, school, university), individuals are checked/judged by conformity to group standards, lifestyle consumption is rare</li> <li>■ Main opinion leaders are either friends or colleagues/superiors. Influenced heavily by style magazines</li> <li>■ Upper class and celebrities as role models</li> </ul>	<ul style="list-style-type: none"> <li>■ Normal middle-class people</li> <li>■ Young hedonists</li> <li>■ Young celebrities (young fashion-conscious girls backed up by the income of their parents)</li> <li>■ Parasite singles</li> </ul>

**Notes** | The table gives an overview of the simplified consumer levels. It shows "who spends", not "who earns", therefore showing consumer spending preferences, not allocation preferences of income alone. In different levels, a change in consciousness can be seen in the way role models are present.

Table 3.1 gives an overview of the following descriptions. The *marketing exclusivity* of the consumers rises with their *consumer level*. The opinion leaders in all three levels are different.

**Level 1 - Trading-up level.** Many brands already have adapted to serve this 'mass luxury consumer'. At this level, conformist consumption is predominant, with a strong influential presence of opinion leaders. Consumers are interested in being "in", buying trend-conformist luxury products that help to transfer chains of associations to their surroundings. They are *trading-up* in order to spend on luxury brand items and to afford premium products with emotional importance to them. Reaching this kind of consumer still heavily depends on the use of mass marketing in combination with opinion leader marketing, by reaching network hubs from the respective social milieu in level 1 (friends and classmates, colleagues), level 2 consumers that have idolizing character (the superiors of level 1 consumers, members of higher social classes), and by having the right level 3 consumer using more upscale products

from the same brand. Creative lifestyle consumption is still rare at this level as individuals are checked and judged within their social environment by their conformity to group standards. In the fashion segment, the influence of style magazines and celebrities is strong.

This level's main characteristic is being accessible in price and physical location, in sharp contrast to the personalized, away from the public strategy deployed to serve HNWLs.<sup>29</sup> The danger of selling at this *consumer level* for luxury companies is the potential devaluation of their brand, so it is important for them to maintain a distinct character and meaning for the products at each *consumption level*, as well as to clearly articulate the main brand characteristics all the products share.<sup>30</sup> The peak of the mass luxury phenomenon was about 2-3 years ago. Recently, sales for companies such as Louis Vuitton and Chanel are shrinking as mass luxury consumers start to adjust their tastes to their salaries, that are not expected to rise the next years.<sup>31</sup>

**Level 2 - Premium level.** Members of this *consumer level* freely combine conspicuous consumption and individualized and creative lifestyle consumption. They are interested in products that exemplify their taste and personality, and buy luxury, premium, and mass market products. They either have a high income, but low assets (young professionals, corporate climbers in medium to high positions, young entrepreneurs of small companies), or high assets but low income (the retirement rich). Celebrity role models can still be important but do not have the same impact as on level 1. More important are role models within the respective social environment, as those lifestyles are within immediate reach (upper professional environment in the case of corporate climbers, colleagues in the case of professional doctors and lawyers, old colleagues and friends in the case of the retirement rich).

Level 2 consumers are imitating social codes of the upper class in order to belong, to be accepted by their social milieu. Level 1 consumers are buying luxury goods as a form of imitating their favorite idol or the upper class, influenced by the "very impossibility of attaining what one wishes for [an upper class lifestyle]",<sup>32</sup> the perceived lack finding expression in the fetish: the luxury product. "The fetish substitute for the thing that is desired but is impossible to obtain."<sup>33</sup> At level 2, the luxury product is not the fetish that substitutes the real want of belonging to a different social class, because the upper class lifestyle is either within reach or already attained to some extent. The obtained luxury product or service itself, considered appropriate to one's own lifestyle or level of social success, gives the consumer pleasure by transferring that message to others. Level 2 consumers either purchase luxury in accordance to the social codes of their level within the corporate or professional hierarchy, or in case of the retirement rich, consume luxury as a way to reward themselves for a lifetime of work.

Most of the new rich fall into this category. There is a lot of potential in this level by mass targeting specific consumer rich segments, such as the Japanese baby boomer generation (the silver market), corporate climbers, and affluent women in their 40s. In order to distinguish these offers from normal products, it is essential to clearly mark them as being special, for example by creating luxury spaces within

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29 CHADHA AND HUSBAND 2006: 50. It entails having a strategy of lower price points, making part of the range accessible to the *consumer rich*. This changed the segmentation policy of many premium brands, leading to entry products that are often seen in the automotive industry (with entry models such as the A3, the Mercedes A-Class or the BMW 1 Series) and luxury fashion brands (with perfumes offering the cheapest entry point into famous brands).

30 SILVERSTEIN AND FISKE 2005: 12.

31 David Marx, ... , says that consumers nowadays try to balance their taste and their budget. Brands like UNIQLO and Mujiroshi are becoming more popular than old time favorites as Louis Vuitton and Dior.

32 ALLISON 2000: 124.

33 KELSKY 2001: 26.

department stores in which the upscale consumer can feel more comfortable.<sup>34</sup> A change in product segmentation could make an exclusive brand more accessible for this level and more competitive by boosting demand with entry-level products.<sup>35</sup> The *marketing exclusivity* to reach level 2 customers has to be higher than on level 1, by making the offers and approaches more personally relevant to the respective customer segments, and by appealing to their heightened sophistication that marks them as different from level 1 consumers. Level 2 consumers want to have their more informed consumption patterns recognized. Word of mouth strategies have to target opinion leaders within their different social environments. With their lifestyles, tastes, and mind sets varying tremendously in Japan, thorough segmentation and milieu analysis is needed.

**Level 3 - Luxury level.** Level 3 consumers either have a high income and high assets or extremely high income with low assets and refrain from discount and mass market stores. In order to reach them, specialized magazines, limited-access internet sites, word of mouth, and event marketing strategies with high *marketing exclusivity* have to be implemented. Their distinguishing characteristics are their regular connections to exclusive marketing environments and extensive contacts to various networks of other rich people. This level clearly demarcates "another world", far away from the normal mass luxury consumer. Members of this group include very successful professional rich (doctors and lawyers), entrepreneurs after a successful IPO,<sup>36</sup> 'super-salariesmen' of foreign financial institutions, rich business owners, board members of big corporations, and the wives and girlfriends of the rich and powerful.

In contrast with level 2 consumers, the networks of level 3 consumers are connected by the fact that they all belong to the 'upper class'—they have access to a different kind of social environment to which level 2 consumers do not, but aspire to and want to gain access. So when targeting opinion leaders, marketers should be aware of the fact that even though there are different networks within level 3, they are interconnected through social gatherings and establishments that are frequented by level 3 consumers. Simply put, level 2 consumers do not all go to the same party but stay, more or less, within their respective social environments. Level 3 consumers on the other hand—due to their connections, higher income level and often tremendous assets—can achieve another level of social interconnectedness where it is possible for them to meet people from distant networks more easily. They have the capability to set themselves apart from the normal social gatherings of middle-class people. They think of themselves as wealthy and want to be treated accordingly. Many customers in this group are often disappointed by the service level provided to them by luxury companies, and would be willing to spend more in many categories, could they find offerings that are more tailored to their individual needs.<sup>37</sup> In interviews conducted with HNWI customers, one of the things mentioned most often was their feeling that their customer value is not recognized and not appreciated. To quote Paul Goldsmith, CEO of Esprit Corporation in Tokyo: "Today a customer buying a \$800 handbag is treated better than someone buying a \$100,000 car."<sup>38</sup>

Therefore, the essential point is to create environments that are limited, where the higher customer value of level 3 consumers is recognized. This is done by using techniques such as club-marketing, where rich people are gathered by common interests, in combination with added value conferred by

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34 DANZIGER 2005: 101.

35 "Accessible super premium" items are priced near the top of the category, but are still affordable to the middle-market, because they are relatively low-ticket items. "Old luxury brand extensions" are lower priced versions of products created by companies whose brands have traditionally been affordable only for the rich. See NUNES ET AL. 2004: 10.

36 IPO means Initial Public Offering. A company issues shares to the public for the first time in order to expand its capital.

37 NUNES ET AL. 2004: 13.

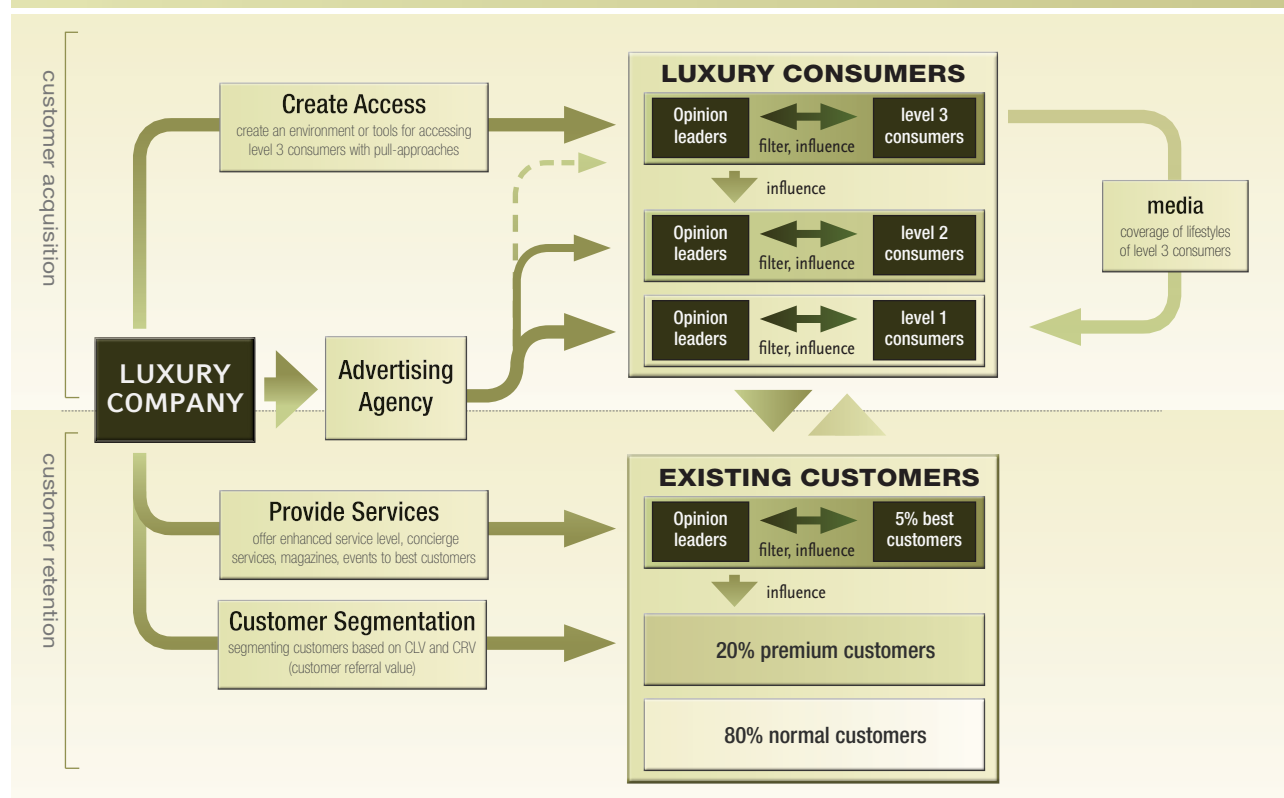
38 Interview with Paul Goldsmith, 19.08.2008, Tokyo.



privileges, concierge services, and special experiences that are neither mundane nor easily accessible.<sup>39</sup> In such an environment word of mouth strategies can be effectively executed by providing access to other level 3 consumers. This creates a setting where reaching distant networks of luxury consumers who are not yet customers of the luxury company is made easy (see section 3.4).

On all three *consumer levels*, luxury products are consumed. The amount of exclusivity needed for the marketing approach depends on the brand profile in question and the consumption style of the customers. Consumers can change their level, which is a dynamic social process, with the transition taking place predominantly between level 2 and 3. *Rich marketing* (for level 3) has a profound influence on the other levels of *luxury marketing* (level 2 and 1), in such a way that the selection of level 3 customers forms the image of a brand that is consumed by level 1 and 2, due to the media coverage of the luxury lifestyles of celebrities and other level 3 consumer.<sup>40</sup> The expanded *luxury marketing* model in figure 3.6 incorporates the three *consumer levels*.

**Figure 3.6** | Expanded HNWI Three-Level Marketing Model II



**Notes** | The figure integrates the 3 level marketing model into figure 3.5. The arrows emanating from the advertising agency show a decreasing efficiency of reaching consumers from higher consumer levels. In order to target level 3 consumers, different marketing environments have to be created, with a high marketing exclusivity. The media is influencing the buying behavior of level 1 consumers by covering the celebrity lifestyles of selected level 3 consumers. On the customer retention side, special loyalty programs are executed for the best 20% of a luxury companies customers.

<sup>39</sup> See TAKAHASHI 2005, pp. 17-19.

<sup>40</sup> CURRID 2007; CHADHA AND HUSBAND 2006.

### 3.3. HNWI marketing solutions in Japan

There are several service providers that offer luxury companies in Japan access to tools necessary for both customer retention and customer acquisition of HNWI customers. Some of them are providing creative ways for accessing level 3 consumers, by increasing the *marketing exclusivity* of magazines, by creating special media solely for HNWIs, or by the use of direct marketing in cooperation with credit card companies and mileage clubs. What the companies have in common is that they all give access to selected databases of HNWIs, and then offer some kind of service to enhance the customer loyalty programs of client companies. The basic goal of all of them is to change the way *rich marketing* is performed: to get away from *luxury marketing* via normal media channels and go to a higher level of *marketing exclusivity*. By excluding customers from accessing special services, by limiting the audience and offering preferred treatment within a specially created marketing environment, the image of mass marketing is transformed into one-to-one marketing.

The most exclusive marketing environments, as mentioned before, are the conversations between consumers, or word of mouth.<sup>41</sup> As will be outline in section 3.4, word of mouth marketing methods are especially suited to reach HNWIs. In order to make full use of this marketing approach, an environment has to be created where people with higher *marketing exclusivity* can meet and exchange information. This environment is always connected to a database of rich people—HNWIs and sometimes even ultra-HNWIs—and forms the primary asset of businesses that are presented below. The more detailed the information on their consumer habits and lifestyles and the closer the relationship of the service company to these rich consumers, the higher is the value that can be offered to luxury companies that want to do business with them. Taking care of such a database, keeping it up to date, devising creative methods to add detail to data sets, and creating new ways to increase the size of the database—all these are basic practices necessary in HNWI business that are often beyond the scope of the marketing department of even the most sophisticated luxury companies.

An important factor to consider is whether or not there are incentives for rich people to belong to that database, meaning that once the motivation on the side of a HNWI is lost, this specific data set is basically worthless. Just a list of addresses with income brackets can be useful but can't be used to generate *marketing exclusivity*. What the companies described below offer to luxury companies in Japan is the exclusivity of their contact to HNWI people. As will be seen, some offer more exclusivity and better contacts than others. To explain figure 3.3 again, high *marketing exclusivity* means the access to exclusive environments and the permission to contact people in those environments who refrain from the lower levels of *marketing exclusivity*. Furthermore, as described in section 3.1, getting contact is only one side of *luxury marketing*. For customer retention, special loyalty programs have to be executed, in order to keep the level of contact from declining, and the customers from defecting. Let us now take a look at the companies in detail.

#### Abraham-Holdings and YUCASEE

Abraham-Holdings is a small company specializing in wealth management advice for HNWIs, and consulting for companies that operate in the rich market. It describes two points as missing in the present services for the rich: they are not accessible on the internet and do not offer information sought by HNWIs. According to the company, it is a widely known fact that the internet literacy of the new rich in Japan is high, but the industry has not reacted properly to that trend. The danger for luxury companies that offer services on the web is the possibility of brand devaluation. The YUCASEE solution

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41 Word of mouth is also called buzz. I will use both terms in this paper interchangeably.

was developed with these two problems in mind. It forms a social networking service (SNS)<sup>42</sup> only for HNWIs with assets more than 100 million yen (approximately 660,000 euros). Abraham-Holdings guarantees a strict system of invitation and checking of possible new members.<sup>43</sup>

YUCASEE offers an environment for HNWIs to get access to products that are specifically keyed to their needs, meaning a mature SNS with information and advertising limited to products and offers aimed at rich clients, effectively separating the market for HNWIs from the normal mass market. The solution has some limitations. By limiting entry to only HNWIs with more than 100 million yen in assets, their clientele does not represent the customer profile of most luxury companies, but only *consumer level 3* customers. An SNS needs a high number of users in order to achieve significant network effects. The number of households with such high assets is severely limited. The main question for evaluating the service will be the number of HNWIs that are members of YUCASEE. Abraham-Holdings does not disclose this information due to confidentiality issues.<sup>44</sup>

### AdComm

The company founded by the German CEO Andreas Dannenberg offers an interesting service for the acquisition and retention of HNWI customers with its luxury “Whitebook”, a high-class magazine that is published four times a year. It is filled with articles by an assortment of 8-12 brands, all coming from different consumer segments in the luxury segment, representing one company out of their field (automotive, jewelry, travel, fashion, interior, etc.). It is not available to the general public. Rather, it is sent to top VIP customers of each of the participating brands, each copy being personalized with the logo as well as a letter from the president of the respective company that the customer has acquired a product from.<sup>45</sup>

The Whitebook is essentially a virtual database of selected, highly complementary brands and their most valued customers. It offers brands a platform to create associations and transmit images of their core values and beliefs in a less direct manner than plain advertising, and is designed to introduce current and potential customers of one brand to the products and services of others. The magazine has a unit volume (depending on the databases of participating companies) of approximately 20,000 copies. Cooperating luxury companies in the winter 2007 issue have been: Hennessy (fine wine & spirits), Porsche (automobile), Bang & Olufsen (audio & visual), Casina (interior), Steinway & Sons (musical instruments), Lufthansa (airlines), De Beers (jewelry), and Ralph Lauren (fashion).

The magazine not only features brand stories, but original content created by a specialized editorial team with a different theme in each issue. Topics include the world’s finest chefs and cuisines, arts and music, as well as philanthropy, clearly taking up the trend in luxury for “informed consumption.” The magazine has also published articles introducing people who engage in humanitarian and CSR activities, and stories on the work of distinguished Japanese artists from a number of fields, including sculpture and calligraphy. It further features a password protected, closed-user group website with expanded features, as well as a series of special co-partnered events among the participating brands.<sup>46</sup>

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42 SNSs are web-based services that allow individuals to construct a public or semi-public profile within a bounded system, and to articulate a list of other users with whom they share a connection. Prominent examples include Facebook and Mixi in Japan.

43 ABRAHAM-HOLDINGS 2007B.

44 Interview with Takaoka Souichiro, CEO of ABRAHAM-HOLDINGS, Tokyo, Kamiyacho, 01.04.2008.

45 AdComm website, <<http://www.ad-comm.com/EN/whatsnew/index.cfm?news=8>>.

46 Events include Christmas parties for readers of the magazine, trips to the French winery of Dom Perignon where readers can meet the chief vintner and another to visit the head office of Harry Winston on Fifth Avenue, in New York, to let partici-

Companies profit from the association with other strong brands and can reach the shared customer bases of all participating brands. By not directly advocating specific products but providing information on the brand values, the advertisement becomes a pull-approach that allows to “access the living rooms” of selected HNWI who come from different networks.

### Ypsilon Group

The club-marketing strategy by Ypsilon Group aims to provide high-quality “concierge services” to client companies that want to execute premium treatment for special customers. Ypsilon Group is creating its own “amusement menu” of art, travel experiences, exclusive restaurants, music events, and concerts. It then offers the created “amusement” to members of its own membership club or the customers of the tie-up companies.<sup>47</sup>

Research conducted for over five years gives Ypsilon Group a database on services for the rich and a network of shops, restaurants, and businesses that is probably the most extensive of its kind in Japan. Up-to-date, Ypsilon Group is the only company that is able to offer concierge services on such a high level to companies in the premium market.<sup>48</sup> Furthermore, taking up the trend of art and culture within HNWI business, the “art produce” mechanism was created for the sponsoring of young artists. At present Ypsilon Group has monthly exhibitions at its headquarters, together with a social gathering event with many prominent guests. Companies who use these services are Diners Club, ANA (All Nippon Airways), Mitsukoshi Department Store, and the exclusive Japanese credit card JCB “The Class”.

The goal of these services is to bring customers from client companies together with level 3 consumers from distant networks, therefore increasing social inter-connectedness and creating added value for the consumers who are participating. By providing events linked to their interests in the arts, culture, and music, an atmosphere is created that does not give the image of a direct marketing attempt. The networking among the participating level 3 consumers is now conducted within a neutral environment, as opposed to, for example, a trade show or a brand event for obvious deliberate marketing. This atmosphere accelerates word of mouth and, by bringing together people from different business fields, makes the passage of information from one network to another possible.<sup>49</sup>

Ypsilon Group's goal is for the existing customers of luxury companies to associate art exhibitions and other events with the brands of client companies, and also to enhance their CSR activities. The manufactured image is regarded as being cosmopolitan and sophisticated—it is not only for status. From December 2008 on, Ypsilon Group plans to expand its services to offer client companies customized events that can be used to invite both existing customers and level 3 consumers from its own database. By inviting people from its own membership club, Ypsilon Group provides client companies with access to approximately 7,000 HNWI. This will offer an opportunity for both customer acquisition and retention, as can be seen in figure 3.7.

As the people in the database are themselves customers of the personal concierge service offered by the Ypsilon Group since 2004, not only customers of luxury companies, the database is not tied to any specific brand or company. This point is important, for they expect to be contacted for spe-

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pants see how jewelry is made.

47 YPSILON GROUP website, <[http://www.ypsilon-group.com/service/business\\_service.html](http://www.ypsilon-group.com/service/business_service.html)>.

48 This database is used by Diners Club Japan to give its elite members concierge services. AMERICAN EXPRESS executes its own concierge services, attaining a quality level comparable with the one from YPSILON GROUP. QUINTESSENTIALLY, a company offering concierge services, based in Great Britain, opened a subsidiary in Japan in October 2007, but is not yet able to support an infrastructure like this.

49 STROPER 1997: The Regional World: Territorial Development in a Global Economy,

cial services and events as they are members by their own initiative to get exactly this kind of attention. So the database of rich people offered has three important characteristics: 1) it includes many famous and connected opinion leaders that joined the database in order to get special privileges and services, 2) it is brought into connection with arts and culture considered to be sophisticated, and 3) any approach made to these people is not considered *push* but *pull*-marketing. No direct marketing effort is made but companies get access to a network of connected rich people, and get them to mingle with their own customers. This marketing environment can now be used to start word of mouth strategies (detailed in section 3.4) in order to enter the highest *marketing exclusivity*: one-on-one communication among the rich and influential about luxury products.

For companies in the development phase of creating membership services for their customers, the Ypsilon Group offers its own marketing experts and furthermore works together with KT Marketing (detailed below) and employs independent experts that have extensive know-how and connections in the HNWI business.

### KT Marketing

KT Marketing is a highly-specialized consulting company with specific know-how on the HNWI market in Japan. Prominent client companies include Lexus, Jaguar, Audi, Hummer, Mitsubishi Real Estate, Nomura Real Estate, Mitsukoshi Department Store, Diners Club International, Citigroup, Lexus and the extremely successful Isetan department store. It offers consulting on rich marketing and club-marketing strategies, as well as help for the execution of respective services. It proposes that companies who wish to expand their rich customer group should concentrate on the *consumer rich* and engage in collaborations with successful luxury companies and brands that have customers with similar consumption patterns.<sup>50</sup>

KT Marketing offers several approaches for the customer retention of luxury consumers. The “VIP project” aims at increasing the loyalty of premium customers of client companies. After selecting premium customers who have to be cultivated, the loyalty of this group is increased through special services and personal contact. The “blackcard project” maximizes the lifestyle experience of selected premium credit card owners, analyzing their consumer behavior and then constructing a membership service with exceptionally high conditions for admission in order to create status.

By accessing customer databases of credit card companies and mileage clubs, client companies can access HNWIs with an indirect push-approach. Cooperating with Ypsilon Group for the execution of concierge services further adds to the assets of this company.

### Root and Partners

Several introduced companies have HNWI databases. The question is now what kind of relationship does the service company have with them? It can range from anonymous address lists (credit card companies), over customer databases that give legitimation to establishing contact (AdComm), to HNWIs that are themselves customers of the service company (as in the case of the private concierge services of the Ypsilon Group). But what about personal contact? What better legitimizing value for inviting someone could there be than to know them directly, having met several times, maybe even done business with them? Following the argumentation by STANLEY (1997) direct contact and acquiring up to date information on HNWIs demands exactly this kind of personal involvement. There is simply no other way to get reliable data. Asking affluent for their incomes does not produce accurate results,

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<sup>50</sup> Information on the services were taken from the company's website (KT MARKETING 2008) and from an interview conducted with Kôchi Tsuchiya, 26.03.2008 in Tokyo.

doing business with them over several years does. As HNWIs tend to value their privacy and only trust sources that are not directly motivated by business alone, what is needed is an intermediary, an agent, someone who can convincingly claim independence and objectivity. Such a person (or an agency) could invite HNWIs, preselect them and act in the interest of both the affluent and the companies who want to do business with them.

Exactly this is what Tatsuya Masubuchi from Roots and Partners is doing. He has worked more than five years as the head of Seven Seas Magazine. During this time he was involved in the execution of up to 100 events per year for a selected audience of rich people, all of them subscribers to the magazine, roughly 18,000 individuals. He used that time to gather personal data and to network with those people and to select a core of approximately 6,500 individuals for a HNWI database. His main agenda is to keep the contact level to those affluent people high, and to engage them in conversations and business that will further deepen his understanding of their needs and business matters.

In January 2007, Roots and Partners started its own membership service and opened the “Root Galleries” salon—a high-class hideaway overlooking the Shiodome shopping district—catering exclusively to its members. Further, Eldorado is planning to hold various events in the salon specially for its members, including seminars and talk shows featuring special guests, as well as vintage wine-tasting parties. The “Root Galleries” aims to provide information and services for the benefit of an exclusive circle of selected HNWIs, and will have the goal to act as a media function for client companies, increasing their accessibility to networks and to buzz-marketing.<sup>51</sup> In December 2008, the “High Net Worth Magazine” will be launched. It concentrates on qualitative contents and editorials, and advertising space is used predominantly by companies owned by HNWIs personally known to Masubuchi. The goal is to keep a two-way flow of information.

Roots and Partners is currently giving management consulting and marketing consulting to companies catering to HNWIs. It further plans to expand its Business to Customer and Customer to Customer services by introducing companies to individuals in need of their offerings and by also introducing rich clients to each other. Roots and Partner's function in this process is as a mediator, as a filter function, to ensure that the privacy of the rich clients is honored and that they do not get the feeling of being marketed to, in short: to keep a high *marketing exclusivity*. In all this, Roots and Partners wants to refrain from any clear affiliation with any company, keeping its independence and therefore its credibility.

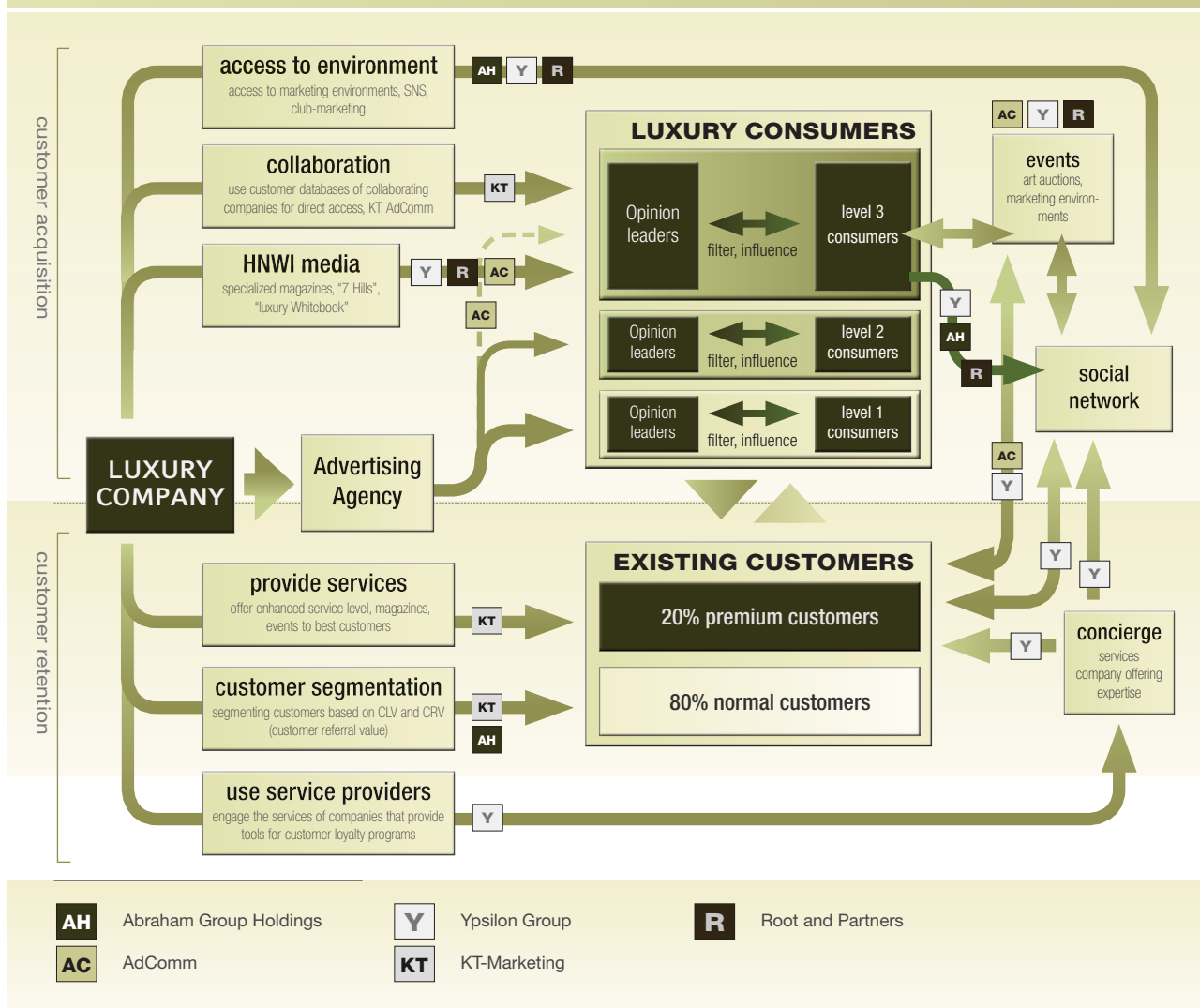
Figure 3.7 completes the luxury marketing model by adding social networks and concierge services. The small boxes represent the four companies that have been detailed and show which kind of services they provide. Other companies predominantly offer media channels for accessing HNWIs in Japan. These include E-marketing, which offers Seven Hills Magazine.<sup>52</sup> Whatever tactic is chosen to interact with level 3 customers, push-approaches are only allowed after continuous pull-approaches. After word of mouth about the brand has set in, normal marketing barriers are broken and potential customers are ready to be targeted directly. The focus of the next paragraph is how this word of mouth mechanism is executed, and how the flow of information seen in figure 3.7 can be controlled and accelerated.

51 Root and Partners, company web site, <http://www.rpartners.jp/business/galleries.php>.

52 See the company website, E-MARKETING 2007.



Figure 3.7 | Expanded HNWI Three-Level Marketing Model III



**Source** | The figure completes the luxury marketing model by integrating social networks, events and concierge services. The small boxes represent the companies described in 3.3.

### 3.4. Using word of mouth marketing

Well before the consumer reaches the store there's a whole army of images that causes a customer to have already a definitive perception about a brand,<sup>53</sup> which is no longer simply a logo or an icon. Brands are conversations, the totality of perceptions about a product, service, or business.<sup>54</sup> Simplifying a brand to the more tangible marketing communication elements that are building and supporting it, like advertising, can mean losing control and influence over brand perceptions. Word of mouth is happening anyway. People are talking about luxury products and the service level of premium compa-

<sup>53</sup> CHADHA AND HUSBAND 2006: 32.

<sup>54</sup> KIRBY 2006: 92; KOTLER AND PFOERTSCH 2006, pp. 298, 302.

nies. All activities of a company must therefore be aligned and integrated in order to gain a competitive advantage and to get positive word of mouth.<sup>55</sup> Companies are finally realizing that “the most powerful selling of products and ideas takes place not marketer to consumer but consumer to consumer.”<sup>56</sup>

Word of mouth marketing is defined by NYILASY (2006) as interpersonal communication about a commercial topic with the communicators not perceived to be commercially motivated.<sup>57</sup> Researchers found support for the hypothesis that word of mouth is stronger than advertising or other marketing communication forms.<sup>58</sup> It has a positive influence on brand awareness, brand evaluations,<sup>59</sup> and purchase intentions.<sup>60</sup> Further, it is a naturally occurring behavior of consumers that can be monitored, influenced, and accelerated. Among consumers from level 3, word of mouth plays an especially strong role due to the following reasons:

**1) Risk of transaction.** Consumers tend to seek out and listen to word of mouth more when the transaction is perceived as risky, as in “high involvement” segments, meaning the product or service is higher priced, more complex, or more personally relevant.<sup>61</sup> Among consumer level 3, this leads to a heavier reliance on information from sources one knows—colleagues, business partners, friends and family—when it comes to purchasing decisions. Higher levels of perceived risk are also one of the main characteristics of services as opposed to products. Among rich people the usage of services is proportionally higher.<sup>62</sup>

**2) Normative influence.** The conformity to opinion leaders and group norms is a strong factor in the luxury segment. Taking the “trickle-down theory” by GEORG SIMMEL (1904), styles and status symbols are emerging from the upper classes (consumer level 3) and then trickling down to the masses (levels 2 and 1), who are imitating the former in an attempt to climb up the social ladder. At the same time, the economic and social elite is aware of the adaptation of the lower classes, and therefore are trying to move on to newer styles and more exclusive consumption patterns.<sup>63</sup> Luxury therefore serves as a code of social interaction. It enables and simplifies communication by making shortcuts using bits of knowledge, chains of associations known to the customers, giving them the opportunity to distinguish themselves socially by their own decisions and to signal their affiliation with different social groups and *consumer levels*. The more you go to the exclusive edge of the product portfolio, the more the economy is taste-driven, not performance-driven, with people relying more on word of mouth to form opinions prior to purchase. Consumers decide to buy products they like best for personal reasons, a judgement that is always subjective and influenced by their social setting.<sup>64</sup> Especially in the fashion and apparel business, word of mouth is not only a marketing tool but the main channel where the

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55 STERN AND WAKABAYASHI 2006; KOFLER AND PFIERTSCH 2006: 5.; DUNN AND DAVIS 2004.

56 GLADWELL 2001: The tipping point.

57 For a more detailed definition of word-of-mouth marketing see the literature review of NYILASY 2006, pp. 161-184. Buzz is word of mouth.

58 NYILASY 2006: 170.

59 UDELL 1966; REYNOLDS AND DARDEN 1971; LACZNIK ET AL. 2001.

60 CHARLETT AND GARLAND 1995.

61 NYILASY 2006: 175; HUGSTAD ET AL. 1987; ROGERS 1995.

62 The “services marketing theory” states that rules for marketing theory concerning the service sector are fundamentally different from the product sector, see MURRAY 1991.

63 See CHADHA AND HUSBAND 2006: 251-254.

64 CHADHA AND HUSBAND 2006: 254; NYILASY 2006: 170; KLOSTERMAN 2006.

brand is discussed and evaluated. Advertising creates awareness and defines the brand's image, but in the end the consumer pays a lot of attention to the media and opinions from friends or persons they are socially interacting with.<sup>65</sup>

In order to counter the risk of transaction (point 1) and because of the normative influence (point 2), word of mouth has a built-in, socially executed quality control (point 3):

**3) Social filter function.** The higher the *consumption level*, the more you need the social network filter function. It is an efficient way of evaluating risky transactions in an economy of insecurities (risk of transaction and normative influence). As the vividness of information gathered in close interaction is more accessible than impersonal messages, receivers are more likely to use it for product judgements,<sup>66</sup> perceiving it as being filtered by the social milieu in which the transaction is taking place. Every node in the network ultimately performs his or her own quality-control test, and, based on the results, decides whether to pass the word further. So the quality of word of mouth in a *consumer level 3* environment is especially valuable, because it is perceived as being filtered by a social quality check that gives it higher *marketing exclusivity*. In order to get access to level 3 customers' conversations, luxury companies have to become part of their networks. Again, the goal is to reach the most exclusive of marketing environments: one-on-one, uncoerced communication in an exclusive environment.

These three factors do not suggest shying away from traditional forms of marketing. Keeping normal advertising is important, as it induces word of mouth. It provides the background for buzz-creating activity, builds awareness and a predefined image. But finally it is the buzz that consumers trust more and act on.<sup>67</sup> Managing it should be a part of and not a replacement for traditional marketing methods, by integrating it into a campaign that includes the profiling and recruitment of influential consumers.<sup>68</sup>

This "screening" of word of mouth is especially important considering the recent explosion in the use of blogs, SNS and other consumer generated media in line with the popularization of the internet.<sup>69</sup> Further, due to the introduction of new media channels, it is now possible to screen it. As HAKUHODO puts it: "Now that word of mouth and other consumer-initiated information appearing on the Internet can have an impact on corporate brand reputation as well as product sales, advertisers are keen to acquire up-to-the-minute pictures of the CGM [consumer generated media] buzz surrounding their products and services, and to use this information in advertising promotions and product plan marketing."<sup>70</sup> As the brand value of companies is now under the scrutiny of online communities and therefore connected to a long-term investment in authenticity, brand principles like consistency, continuity, and visibility will become much more important in the future.<sup>71</sup>

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65 CHADHA AND HUSBAND 2006: 34.

66 PAUL ET AL. 1991.

67 CHADHA AND HUSBAND 2006: 254.

68 Nyilasy 2006: 175.

69 NOMURA RESEARCH INSTITUTE 2006. Ministry of Internal Affairs and Communications data indicates that as of March 31, 2006, around 8.68 million Japanese had used a blog and 7.16 million a SNS.

70 HAKUHODO 2007: 1. Tokyo—August 31, 2007—Hakuhodo has launched Topic Finder, an analysis service that traces and reports changes in corporate and brand buzz and reputation in postings on blogs and other consumer generated media (CGM), incorporating sophisticated Japanese language analysis functions.

71 ROSEN 2003: 93; CLEGG 2005; KOTLER AND PFOERTSCH 2006, pp. 147, 165, BEDBURY 2002: 183.

## Network Hubs and opinion leaders

The identification of opinion leaders is a key element in the management of word of mouth. Affluent tend to be better connected than normal customers. But also within those better connected networks, influencers and opinion leaders are to be found, a task that is easier if you are part of the respective social environment.<sup>72</sup> ROSEN (2003) defines “network hubs” as active opinion leaders who are more connected and cosmopolitan, more information hungry, and more exposed to the media than other people. Identifying them can be tricky due to different priorities of social hierarchies which are dependent on the respective culture and social setting. *This is especially important in Japan.* To find them, an environment that enhances two-way communication and personal contact is necessary, *without giving potential customers the feeling that they are being marketed.* In Japan, the problem is that networks are difficult to access without inside connections, and are usually not open to foreigners.<sup>73</sup> The language barrier and missing social ties create the need for support by local partner companies, like the ones described in the previous section, who can provide guidance and expertise in the HNWI segment.<sup>74</sup>

## Accelerating word of mouth

In order to accelerate buzz, approaching network-hubs that are central in social networks can be necessary. This approach is called “leapfrogging.” This is possible by providing conditions that make these kind of shortcuts more likely to happen. Creating an environment where customers can meet other people from remote networks can help buzz to leap from cluster to cluster. These “new combinations”<sup>75</sup> often happen by chance, with a higher probability in dense areas of networks—trade shows, industry events, social parties—with a critical mass of influential and connected people.<sup>76</sup> If successfully implemented, people who benefit from this constellation will associate the network with brands participating in the environment.<sup>77</sup> Network-hubs can then serve as a bridge between cliques and clusters in the local community, bypassing the selective filter-effect of clusters, and countering the “busy network paradox” of being exclusively flooded by messages from existing networks.<sup>78</sup> The art in *rich marketing* is about reaching these opinion leaders and creating these shortcuts.

In figure 3.8 the marketing model from figure 3.7 is limited to level 3 consumers. In the model, level 2 and level 1 consumers are not included in the cycle of networking. This can be disadvantageous, as the CRV (customer referral value) of a normal customer might be high enough to qualify him or her for an inclusion in the network cycle. Companies should keep a close eye on the “real” value of customers, that is their CRV. Exactly this is why event marketing and keeping in touch with customers is so important. Participating in networks is a feedback instrument for companies that allows them to judge individuals on a more personal level, and is often the only way to get information on HNWIs or network-hubs.

<sup>72</sup> ROSEN 2003: 138; NYILASY 2006: 172.

<sup>73</sup> See HALL 1998.

<sup>74</sup> USUI 2005; TSUCHIYA 2007; TAKAOKA 2008.

<sup>75</sup> JACOBS 1929.

<sup>76</sup> ROSEN 2003: 127. Sometimes creating a critical mass can mean inviting less people, as in the case of the Roots Galleries of Roots and Partners. As Tatsuya Masubuchi explains, ultra-HNWIs enjoy the selected company of few individuals. It gives them a feeling of security and ease. They feel uneasy to talk about important business matters at big social gatherings. In that case, the careful selection and the relevance of the selection to their personal and business matters is important (Interview with Tatsuya Masubuchi, Tokyo, 26.08.2008).

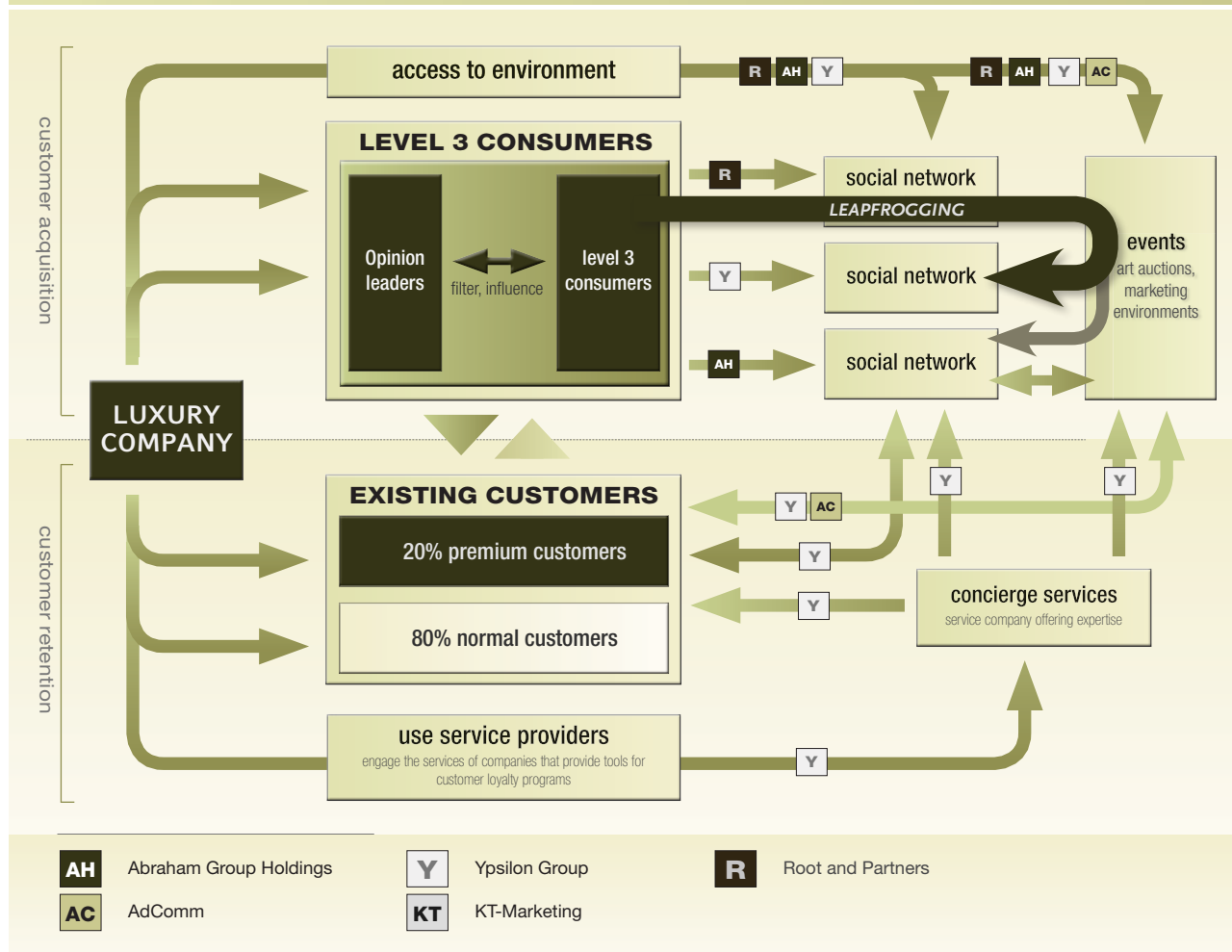
<sup>77</sup> GRANOVETTER 1973 found evidence that the ties farther away, not closer, were most influential. Those “weak ties” play intricately influential roles in success and business.

<sup>78</sup> ROSEN 2003, pp. 48-51, 69-70, 79.

## HNWI Event Marketing

Advertising is good for maintaining and reinforcing the image, but Public Relations should replace it “as the major communications vehicle for launching or repositioning a brand.”<sup>79</sup> Event marketing can create buzz topics, cause coverage in public media, and deliver a brand message that network hubs will tailor to the language of their social networks, offering a more indirect way of delivering information to consumers. Relating stories about experiences has greater social value than merely talking about acquired possessions.<sup>80</sup>

**Figure 3.8** | Leapfrogging in the luxury marketing model (consumer level 3 only)



**Notes** | The figure shows a leapfrogging process within the luxury marketing model, limited to level 3 customers. Level 3 consumers from one social network meet other level 3 consumers from other networks. In this way, information can jump from one network to the other. At the same time, concierge services can enhance both the lives of existing premium customers of luxury companies, and increase the service level at events. Access to selected events and social gatherings is provided to level 3 consumers who are not yet customers of the luxury company. Then a word of mouth mechanism as explained in figure 3.4 can set in, with highly satisfied existing customers sharing their experiences with prospects in a high-class environment with limited access.

Making customers feel that they are part of an insider club about something that is personally important to them, taking people behind the scenes and letting them feel engaged—all this motivates them to share their knowledge and excitement with others. The important factor is to limit the availability

<sup>79</sup> CALLAHAN AND RIES 2002; see also GODDKIND 2006; ROSEN 2003: 145.

<sup>80</sup> DANZIGER 2005: 36.

of the information, and releasing it gradually over time—like giving sneak previews to mega-hubs and combining it with event marketing,<sup>81</sup> or nurturing close relationships with the best customers and giving them access to limited versions of products, information, privileges, and concierge services such as Ypsilon Group offers.<sup>82</sup>

Such events are a place of social interaction, with an “unspoken understanding” that business is being conducted without formally constructed events with the ostensible goal of doing business.<sup>83</sup> Events have to be professionally managed experiences with individuals on the luxury company's payroll who are able to connect with the elite on a one-on-one basis, their key qualification being the extent of their social networks and their ability to move in the same circles as the social elite.<sup>84</sup>

The art events provided by Ypsilon Group offer a good example for creating an event with social value that is considered sophisticated and attracts the right kind of HNWI. People want to share the information that they are taking part in such a setting. During the event, brand names of client companies appear and are being consumed as part of the whole experience, helping to associate the brand with the event and the recent trend in participating in art and culture. The interactions taking place at these events operate on two distinct levels: in a formal transfusion of information (the artwork, the movie premiere, the fashion show), and as a place of economic exchange for the individuals that come to the formalized event.<sup>85</sup>

## 4. Concluding Remarks

The commodification of luxury has left the upper class frustrated, realizing that their former status markers have lost part of their appeal. Therefore marketing to this social elite has to take into account their desire to feel special, to feel exclusive, and to be separated from the crowd of mass luxury consumers. This kind of “super-elitization” will make brands target the upper classes with exquisite hand-crafted pieces and individually customized editions made in limited numbers—“hand-made artisanal value” for the “genuinely affluent and genuinely educated”<sup>86</sup>—that once again allow the social elite to distance themselves from the *consumer rich* who are buying the lower segment versions of their favorite brands and products. Furthermore, a selection of sophisticated shoppers who are bored by the standardized offerings of mass luxury are now looking for the excitement of discovering something out of the ordinary. “A lot of people want to go to places where there are nicer little finds. Now it [existing retail] is so predictable ... it has lost the spark, it's anaesthetized.”<sup>87</sup>

Luxury companies have to bring back its “spark”, the aesthetic component of shopping. They need to realize that channels are different in the premium market, more exclusive, and often blocked from direct access. The higher the *consumer level*, the more sophisticated the approach has to be. The market intelligence needed can often be provided only by third-party companies who have made extensive connections within social networks and offer databases of HNWI, as well as creative solutions to reach

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81 ROSEN 2003: 172.

82 CHADHA AND HUSBAND 2006: 265.

83 CURRID 2007: 99.

84 CHADHA AND HUSBAND 2006: 256. This was done recently by Audi Japan hiring a PR specialist for their marketing division, who was formerly working at Valentino Japan.

85 CURRID 2007.

86 Joanne Ooim, creative director of SHANGHAI TANG, printed in CHADHA AND HUSBAND 2006: 284.

87 CHADHA AND HUSBAND 2006: 284.



them *indirectly*. The services introduced in section 3.3 do not necessarily exclude each other. All of the solutions offered points to gaining access to HNWI customers, but by using different channels and reaching different customer segments.

Interviews conducted with each of the companies' CEOs revealed one common fact upon which all of them could agree: *there is still a huge potential in the market for HNWIs in Japan, that can be tapped by both foreign and Japanese luxury companies.*<sup>88</sup> The key lies in entering the social networks of HNWIs. By accessing opinion leaders specific to their own product category luxury companies can become more sensitive to future trends and faster than their competitors to react to social changes. Communication with the most important customers can prove to be an invaluable tool for customer segmentation, profiling, networking, and for "influencing the patronage behavior of dozens, hundreds, even thousands of affluent prospects."<sup>89</sup>

For luxury companies the advice should be: See the connection between your own customers and possible prospects and understand the complexity of word of mouth as it is spreading through networks. The 'satisfied customer' and the 'influential professional' who experienced an innovative event *today*, could turn into your brand advocates at the dinner party *tomorrow*, even if they are not your customers yet. Go where your customer target groups are, make your presence known, become part of their lives, and create 'conversations' about your products. Accept the fact that brand equity builds up over time through the authenticity of your communication, which is constantly evaluated within social networks. And most importantly: Communicate with luxury consumers. Try to listen to their conversations—about your brand, your competitors, and your product category.

Added value is the key, but it does not necessarily have to come from inside the company. Instead, it can be achieved by collaborations with service partners, and the association with people from other fields such as within arts and culture, within nightlife, and other social networks—in short: influential people who produce the cultural setting of today's complex scene of professional and private interactions.<sup>90</sup> Studies about these "cultural creatives" or the "creative class" and the socioeconomics of metropolises are the subject of many recent studies, including CURRID (2007), SCOTT (2008), and CHADHA AND HUSBAND (2006), the latter describing how to create "the spin" (buzz) and "the cult" of a luxury brand. Marketers are starting to realize that culture is more than a mere by-product of economic activity, but is strongly inter-connected with market forces in the premium segment, and that understanding these dynamics can prove invaluable. This and the recent emergence of CSR and SRC (socially responsible consumption) are not only current trends that will pass within a few years. They are a peek into the future of marketing where "relevance, simplicity, and humanity—not technology" are the distinguishing elements of brands.<sup>91</sup>

Luxury companies who just use HNWI media and then leave it to the rich consumers to talk about these media channels miss the chance to use close contact within networks to actually gather information of real value. As several HNWIs I have interviewed have told me, what was missing to them was a certain relevance of the marketing efforts of luxury companies, an active interest in their lifestyles. The most interesting pieces of information came up during long conversations that were not commercially moti-

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88 Interview were conducted with Andreas Dannenberg, CEO of AdComm (28.03.2008), Takaoka Soichiro, CEO of Abraham-Holdings (01.04.2008), Yamada Yu, CEO of Ypsilon Group (16.10.2006, 12.11.2006, 14.02.2007, 27.04.2007, 18.03.2008, 08.08.2008, 22.08.2008), Kôji Tsuchiya from KT Marketing (25.03.2008), and Tatsuya Masubuchi (28.08.2008 and 06.09.2008).

89 STANLEY 1993: 1.

90 CURRID 2007.

91 BEDBURY 2002: 183.

vated but looking for qualitative insights into the lifestyle and preferences of rich individuals. It is necessary to make that effort, to actually meet the persons in an exclusive and relaxed environment, without showing any obvious brand affiliation. Most marketing departments of luxury companies still fail to see the importance of creating relevant communication involving direct contact without selling their products. So it is left to individuals who worked within the HNWI business field to talk to opinion leaders, to collect the data, to understand its relevance and finally to sell that know-how to luxury companies. As Mr. Masubuchi from Root and Partners explained in one interview, in order to gain the trust and commitment of HNWIs, you have to become their partner. "A salesman is sitting opposite to his client, a partner or friend sits at his side. In order to sell to the affluent, becoming that person sitting next to the rich customer is essential."<sup>92</sup> I leave it to STANLEY (1993: ix) to give a good summary:

*"[...] where do you and your offerings rank in the eyes of important patronage opinion leaders? Encourage these leaders to rank you high. Cultivate their endorsements. Become a vital part of their influence networks. Without their support, you may be assigned a small piece of the affluent market."*

Being a young market, there are no empirical studies available on the effectiveness of HNWI marketing strategies, probably due to the difficulty in acquiring exact data on HNWI customers. Research should continue in these areas to produce relevant and reliable knowledge for marketers involved in the field of HNWI research.<sup>93</sup> Topics could include: How is the information transferred within HNWI networks, and who are their opinion leaders? It would also be interesting to find out which networks have the most influence in specific industries, how the flow of information is transferred, and what relation exists between event marketing and the spread of product information. Investing into research for creative solutions on how this flow of information can be influenced and controlled should become a central issue for luxury companies.

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<sup>92</sup> Interview with Tatsuya Masubuchi, Tokyo, 06.09.2008.

<sup>93</sup> Latest information on my research concerning the HNWI market can be accessed under [www.HNWImarketing.com](http://www.HNWImarketing.com)

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