Text presented to the Medinge Group, August 2003 to accompany remarks entitled “America and Luxury Brands”

AMERICAN LUXURY BRAND CASE STUDIES
Criteria: must have <u>no</u> associations with brands outside the US

Arrowood

Times are not promising for boutique American wineries, with many closing, plowing under their fields, or selling out to larger interests who have the resources to survive the down market. The worldwide glut of wine grapes from a succession of bumper harvests, increased competition from bottom tier and lower cost imports (among them Chile, Australia and South Africa) has California in a tailspin. There is also a Californian producer nicknamed Two Buck Chuck selling wines at US$2-3/bottle, 10 million bottles sold in the USA so far this year alone. Another indicator is the fall in demand for organic produce. During the boom years, consumers were prepared to pay premium prices for certified organic fruits and vegetables. Only the most efficient and well-managed farms will survive the collapse of that segment of market, which also supplies grapes to the organic winemakers.

Arrowood typifies the small boutique Sonoma winery: in business 15 years, their name made on well-regarded wines in low production from a beautiful state-of-the-art facility. The brand is always fully subscribed for its yearly limited edition bottlings. The company cannot surrender its premium cachet by backing off on pricing, which begins at $35/bottle from the winery, higher at retail. Two years ago Arrowood unsuccessfully attempted to position high-end Syrah as a new trend, charging prices comparable to high-end Cabernets. The public was not so easily convinced. Demand is down for their commercial production, and today they have inventory of Syrahs, which can t be offered at less than originally asked, without devaluing the brand.

Best & Co.

Best & Co., originally a multi-storied department store on Lower Fifth Avenue, New York City, stayed in business for nearly a century before closing its doors in the 1960s. Oriented exclusively for children, Best relaunched two years ago under the new stewardship of Susie Hilfiger. The legacy brand was renowned for its fine quality merchandise and exceptional customer service, founded upon the idea that children are important. Hilfiger opened a Connecticut store, resurrecting the original logos and interior design, and subsequently added a high-end boutique in Bergdorf Goodman s Manhattan location. In addition, the company has both online and catalog channels for offering their fine line of house brands and imports.

Blackglama

This Seattle-based fur cooperative established its brand with the highly regarded What Becomes a Legend Most? campaign, almost thirty years ago. A spinoff of the parent brand named American Legend Mink, Blackglama created its brand perception by associations with personalities of international stature, among them Callas, Dietrich, Garbo, Hepburn, Loren and Pavarotti, captured in artistic black and white photography. Since 2002 the brand has reinforced its franchise with the relaunch of its classic campaign featuring an international supermodel. Throughout its brand life, Blackglama has been uncompromising in price, sophistication and quality, always holding to the top tier. A true American luxury brand.

Cadillac

Cadillac Motors, which later became a division of General Motors, dates from the early days of mass-produced automobiles. It is the oldest surviving American luxury car brand. Once a synonym for the highest quality in vehicles, by the 1950s the brand had become the favorite of

Texan oil millionaires, Arab potentates and Elvis Presley, who habitually gave them away by the dozens to his entourage. Cadillac began to lose market share in the 70s with increased competition from Ford s Lincoln division, and the introduction of other luxury vehicles —primarily of Japanese manufacture- who marketed to a younger, newly-affluent demographic. Cadillac unsuccessfully responded by attempting a downsized model, Cimarron, 1982-88, driving brand perception lower. Today, Cadillac is perceived as retiree s car, while it retains some small segment of the limousine business. A partnership with Pininfarina 1987-1993 produced a visionary prototype, Alante, intended to compete with the Mercedes SL. Cadillac launched the Escalade, a hybrid SUV in 2000. In today s hyper-competitive environment with a climate of weakened sales on all fronts, the glory days of a top-tier luxury brand seem to be history. In an attempt to recapture the magic, this summer Cadillac released a $76,000 limited-production 2-seat sportscar, the XLR.

Callaway Clubs

This manufacturer of high end golf clubs since 1982 has a reputation as the best in the business. They scored a major product success story in the 1990s with their signature top-of-the-line Big Bertha titanium driver, a technological innovation which transformed the game through its distance-enhancing features. They continue to expand their line of clubs, but low-end brand extensions such as active wear, luggage and footwear prevent Callaway from reaching the highest luxury tier.

Harley-Davidson

The iconic American motorcycle sustains a proud history, enduring product quality and a high price point. In the face of increased competition in 1987, Harley sent a management team to Japan to learn about superior production techniques. Today s median customer is 55 years old, a buyer who recognizes that the brand personifies the outlaw sensibilities, romance of the open road, and the American Dream of unbridled freedom. However, numerous brand extensions and licenses, many of them downmarket, i.e. cigarettes and clocks, have kept Harley in the middle levels of the luxury category.

Hamilton

An American watchmaker, founded in 1892 in Lancaster, PA, known for innovative case design and watch technology. Hamilton today is a member of The Swatch Group, the largest watch producer and distributor in the world, thus losing some of its uniquely American imprint. Association with Hollywood movies like Men In Black , and an entry level price point of under $500 keeps the company short of luxury. But superior collectible designs and a high historical profile, including introducing Pulsar, the world s first digital watch, suggest a brand occasionally skirting the luxury franchise.

Hummer

A classic instance of brand hijacking, where consumers attach attributes to a product that its manufacturer never intended. The Humvee originated as a government contract vehicle, designed for the military. Survivalists, conservatives, and yuppies adopted it as their signature icon vehicle, with some cachet attached to its $160,000 price tag. It has since become the Rapper car of choice, and a popular status vehicle. After unexpected market demand, Hummer — an Indiana-based division of GM- recently introduced two low-cost, downsized models in the $60,000 range, thus moving the brand below its prior designation as premium luxury.

Hyatt

An interesting attempt in progress to enter the luxury lodging space in Europe. Hyatt s new five-star Park Hyatt Paris-Vend me hotel hopes to compete with properties such as the Ritz, Georges V, and Au Duc de Lorraine. They break from the tradition of Belle Epoque style, relying on ultramodern design, younger staff, while continuing to emphasize first-class service. It s a brave undertaking, what with their existing perception as a middle-level American hospitality brand. It takes several years to establish a hotel property, so the jury will be out for some time.

Kiehl s

A family-owned pharmacy, in business since 1851 at the same single NYC location, manufacturing its own vast, proprietary line of skin care products. The company has built some distribution at other retail outlets. Brand image relies on generic style packaging and no advertising, a high service and satisfaction proposition, product integrity and community involvement. Kiehl s narrow product focus, body care products, occupies a space at the mid-level price point, thus holding it, perception-wise, a tier below the luxury category, despite department store outlets in the luxury cosmetics area. In recent history the brand has gained a cult following in the entertainment industry, and stars have consequently promoted the product line. In response to improved demand, Kiehl s recently began a retail expansion in 8 cities with their own storefronts, designed to resemble a traditional pharmacy. Kiehl s also created an equine line of show-quality standard grooming products for horses and ponies. The association with the equestrian world adds some higher value perception to the brand, despite its mid-range price point and no-image packaging.

Lincoln

This ubiquitous sub-brand was created by Ford to compete with Cadillac s luxury franchise. It has since supplanted Cadillac as preferred limousine brand and is now primarily associated with the town car , on which most high-end car service fleets are built. Two years ago Lincoln attempted to create a hybrid fusion vehicle called the Blackwood, which one critic called neither practical pickup nor luxury-car stand-in , and the model was in release only one year before being discontinued. Lincoln has benefited from the launch of a successful SUV called Navigator.

NetJets

This company is the premier provider in the private jet transportation category, with the largest market share, over fifty percent worldwide. NetJets sells partial or full shares in new jet ownership to corporate clients and individuals with a high net worth of $20 million or more. The business model is a unique one, with a number of avenues for tax advantage, and with a system of buyback and plan conversion guarantees starting at the low end for about $185,000 per year. NetJets is wholly owned by Berkshire Hathaway, whose boss Warren Buffet was originally a satisfied NetJets customer. He eventually purchased the entire company, and his deep pockets back the undertaking. NetJets dominates the category, with a fleet of over 450 new, luxurious aircraft of varying capacities and distance capabilities, a sister company in Europe, in-house safety and training programs and its own team of meteorologists and dispatchers. No other jet transportation provider in the world can compare. In fact, competing firms are struggling with older aircraft and anaemic balance sheets. As a strategy to take more business from the smaller charter companies, NetJets adopted the Marquis Jet Card, a lower price point, lower minimum dollar entry-level commitment available in units as small as $110,000. The card has performed significantly better than projected. The company markets itself as the utmost in safety, comfort and security, partnering with Ritz Carlton for service staff training, and the Mayo Clinic for on-demand medical resources. Advertising and brand messaging are quite confused, delivering multiple concepts often at odds with each other. But advertising probably does not figure greatly in NetJets success. The most frequently heard challenge to their sales people concerns high cost; an inflexible and uncompromising pricing policy has stood the brand well. Plus, Buffet s ownership is enough to convey the distinction and premium luxury prestige conferred by association with the world s second richest man.

Panavision
This company has an unblemished 50 year reputation for providing the finest quality cameras and lenses for the motion picture industry. While not widely known to the general public, Panavision s reach is universal and international in the film community, regarded as the best in its category.

Ritz Carlton
The respected hotel chain was acquired in 1998 by Marriott, after a period of expansion into new locations and properties. The original Boston hotel was immortalized by F. Scott Fitzgerald in the short story The Diamond As Big As The Ritz . Upholding a standard of excellence in service, the company motto is We are Ladies and Gentlemen serving Ladies and Gentlemen. The company prides itself on its Gold Standards, a highly refined system of directives which each employee must know and understand, a proven technique developed to sustain the brand s preeminence. Ritz Carlton partners with NetJets in flight service training, an indication of the exacting standards this fine business model upholds.

Rosewood Hotels & Resorts
Founded in 1987 by Caroline Rose Hunt of Dallas, Texas. The moment guests set foot in one of our hotels or resorts they enter a private world of rare and refined luxury. At the heart of each property is our dedication to uncompromising quality and exemplary personal service. The winner of numerous industry and media awards, Rosewood has trophy properties in the USA, the Caribbean, Asia and the Middle East. A solid premium luxury brand.

St. Regis
The premium luxury division of the Starwood Group, who also run the Westin and W brands, among a range of niche hospitality groups. Another division, called The Luxury Collection, falls lower in the actual luxury category, bringing together over 70 international properties, many from the Sheraton Group. St. Regis is a good example of a counterfeit brand, who bases its reputation on a single legacy property built in 1904. The actual property was acquired by Starwood in 1998, and the parent company soon added properties under the St. Regis brand name in nine other cities. The flagship NY property and its affiliates worldwide do reflect the highest standards of hospitality, and so far in their short history deserve the luxury designation.

Technicolor
The company rose to prominence providing the highest quality in celluloid film stock and processing in an 80-year franchise, as unchallenged category leader. Technicolor has high associations with the Golden Age of post WWII cinema. The company has adapted much of its business to new technologies, but it may be the end of their brand domination owing to inroads made by competitive digital imaging providers.

Tiffany
The quintessential American brand, with old world style and Beaux Arts luxury associations dating back to 1837. Tiffany s first store opened in NYC with a policy that every article be marked with a non-negotiable selling price, accompanied by a guarantee of exceptional quality and customer satisfaction. The company soon innovated the signature blue bag and sales by

catalog. Towards the turn of the century Louis Comfort Tiffany further grew the brand s prestige with breathtaking Art Nouveau experimentations in lamps and glasswork. Robber barons relied on Tiffany for everything from fine china, leaded glass windows, silver goods and engraved stationery to opulent gems. During his 30 year tenure, the legendary Jean Schlumberger added to the company s lustre with his elegant and sophisticated jewelry, which combined brilliant craftsmanship and superior taste in materials. Tiffany s democratization began in the 1950s when Truman Capote s story, Breakfast at Tiffany s turned the brand into a household word. As Schlumberger s career began to wane in the 1970s, Tiffany s classical glamour began to fade, and the firm sought renewal by releasing a signature fragrance, a puzzling and incongruous brand extension which seems at odds with the original franchise. Other attempts to create new magic for the brand include the licensing of designs by Paloma Picasso, whose family name carries the cachet of fine art; but her designs for $50 silver earrings brought brand perception downmarket, as did comparable designs by Elsa Peretti at a similar low price point. Tiffany s history barely reconciles today with its current state: a brand gone slightly south, with a faint memory of a company who once popularized the iconic myth of The Tiffany Diamond. However, Tiffany s recent financial performance is a success story. The stock price has gone from $24 to $31 in the last 12 months, validating the mass-merchandising strategy with bottom-line results.

Wolfgang Puck

A gradual downmarket slide. Puck s origins as a celebrity chef in California led to his first brand extension as author of a best-selling cookbook. Excerpted from his web site, the culinary empire he has built since the early 1980s consists of: the group of fine dining restaurants through which he first rose to prominence; his extensive catering and events business, which gains international attention through its flagship event, the annual Governors Ball following the Oscars; and Wolfgang Puck Worldwide, Inc., the corporation that controls the Wolfgang Puck¤ brand in areas as diverse as casual and quick-service dining, consumer packaged foods, cookware, book publishing, television, radio and internet programming, and other franchising, licensing, and merchandising activities. Puck s presence in packaged frozen food products, his industrial-sized Las Vegas location and 75 fast food airport franchises weigh heavily on his former luxury cachet. He is no longer luxury, simply a high-end mass-market conglomerate.

Harry Winston

Sparse, well-chosen high-ticket, high-visibility advertising and promotion has helped this premium luxury brand maintain its associations with opulence, new money, and decadence. While Winston has the biggest and most valuable stones, its designs are no longer considered the most remarkable artistically, simply extravagant, perhaps a bit vulgar. Harry Winston Ultimate Timepieces, founded in 1998 and based in Geneva, has introduced the new $69,000 Opus One Tourbillon watch, enclosed in a platinum casing, garlanded in gold and diamonds, with Swiss movement. The parent company will always be associated with the Hope Diamond, which it acquired in 1949 and later donated to the Smithsonian Institution. Could it be that the brand is tainted or dragged downmarket by associations with rappers, celebrity athletes, Texan oil millionaires and curvaceous film starlets on Oscar night?

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