

A model for managing service encounters for neo-luxury consumers

By: [Bonnie Canziani](#), [Kittichai Watchravesringkan](#), Jennifer Yuchisin

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Abstract:

Purpose This paper aims to explore a theoretical relationship among perceptions of consumer social class, the perceived legitimacy of customer requests for service and the delivery of intangible services. It focuses the discussion on service firm encounters with non-traditional consumers seeking to purchase from luxury brands.

Design/methodology/approach The paper reviews the literature for current trends in strategies of luxury brands and characteristics of evolving global and Asian consumer markets for luxury and neo-luxury goods and draws a theoretic model with propositions.

Findings Evidence suggests that service providers can improve efforts to expand services to the newly rich and trading-up neo-luxury consumer markets by focusing on the intangible elements of the service delivery system. Particular emphasis is placed on enhancing employee treatment of neo-luxury customers during service encounters by understanding the influence of employee perceptions of consumer social class and evaluations of the perceived legitimacy of customer requests for service.

Originality/value The paper contributes to the theoretical discussion in luxury brand management by suggesting that employees are influenced by impressions of customer worth and other attributes when determining responses to customers during service encounters. Implications for practitioners and future research directions for academics based on the framework are presented.

Keywords: customer service | marketing | consumers | fashion designers | brands | brand image

Article:

Introduction

This paper explores the concepts of consumer social class and worth in the context of luxury services, in view of the emerging group of neo-luxury consumers that is expanding worldwide and especially in Asia (Deloitte, 2014). A neo-luxury consumer is a non-traditional luxury consumer who is requesting goods and services from luxury brands, either in the form of their traditional luxury lines or newly designed second-tier neo-luxury lines. In the USA, an estimated 15 per cent of luxury consumers earns less than \$60,000 annually (Ben-Shebat, 2015) and many of them are Generation Xers who want to experience luxury (Park and Reisinger, 2009). In addition, Generation Xers are likely to spend about one-third of their disposal income on luxury products and services (Lee, 2006). Tourism services, e.g. hotel stays and restaurant meals, are comparatively lower cost luxury items and thus particularly desirable.

In Asia, Chinese consumers have increased from 25 per cent to occupy nearly 30 per cent of the luxury market, counting local luxury consumption and purchases made by tourists abroad (D'Arpizio, 2014). Across Southeast Asia:

[...] consumers are abandoning their thrifty habits and, with the encouragement of consumer credit by Asia's banks, are starting to spend at levels amounting to what some are calling a "seismic shift" in consumer patterns (Croll, 2006, p. 7).

Luxury purchases among Asian consumers are on the rise in services-related industries such as tourism (Bakker, 2005; Park and Reisinger, 2009; Silverstein et al., 2012).

For luxury firms, the neo-luxury consumer segment is a lucrative one both for traditional luxury goods and second-tier luxury lines. Consumers who buy luxury products receive heightened emotional satisfaction from their consumption. Consumers have a much stronger emotional engagement with New Luxury goods than with other goods (Silverstein et al., 2005, pp. 34-51). In turn, providers offering neo-luxury goods are achieving greater profitability. Across all market categories, companies that are successful at meeting the needs of these neo-luxury consumers are revitalizing their brands and extending their product lifecycles (Truong et al., 2009).

With the influx of newly rich and trading-up consumers, the topic of designing appropriate service experiences emerges as a potential avenue of opportunity for luxury tourism firms. However, the difficulty this presents is that there is insufficient direction from either the luxury goods industries or the services literature as to how exactly service providers should meet the needs of the *nouveau riche* or "trading up" consumer who is not considered an "old guard" luxury clientele. To understand the nature of these new markets in the service context, this paper begins by questioning whether or not a neo-luxury service experience can truly be defined or created in the same manner as a neo-luxury good.

Literature review

Defining neo-luxury

There are two types of situations where consumers might be labeled "neo-luxury". The first situation is where an individual is economically *nouveau riche* and becomes a repeat purchaser of luxury goods and services. Recently:

[...] much media and market attention has been given to the “swelling numbers” of the “newly affluent”, “high-income” or “moneyed strata” who are frequently labeled China’s “new elite” or “nouveau riche” (Croll, 2006, p. 81).

The second type of situation comprises persons of middle or lower class who trade up in their purchase behaviors and product requirements. Consumers consciously trade up for many reasons (Amaldoss and Jain, 2008; Roche et al., 2008). In fact, McKinsey & Company found that, in China, the so-called “value” consumers actually represent a larger segment (184 million households) than traditional affluent consumers (18 million households) for small luxury items including tourism services (Atsmon and Magni, 2012). A formal definition of neo-luxury consumer for this paper entails the combination of a perceived lower social class consumer requesting a product of high status level, i.e. luxury service.

The luxury goods industry has looked to tiered specifications for materials selection and design innovations to adapt products to neo-luxury consumers; this might be as simple as exchanging real leather for fake leather in furniture or silk for polyester in women’s blouses. Some companies have moved from Old Luxury thinking, i.e. promoting exclusiveness and social stratification (Kapferer and Bastien, 2012) to advertising laddered benefits and actively designing New Luxury lines, i.e. accessible superpremium goods, Old Luxury brand extensions and masstige goods (Silverstein et al., 2005, pp. 55-58), based on visibly modifying selected product attributes to be somewhere between luxury and regular. In the apparel industry, traditional luxury brands have introduced secondary lines with lower prices aimed at neo-luxury consumers: Miu Miu from Prada, Just Cavalli from Roberto Cavalli, D & G from Dolce & Gabbana, VERSUS from Versace and McQ from Alexander McQueen lines. Thus, a neo-luxury good may be defined as one that has been systematically created to fill the gap between the traditional luxury good and a mass good, allowing consumers to perceive sufficient evidence of upgrades in product design and material quality to feel satisfied that they are purchasing upscale products.

Even within luxury goods, there is uncertainty about how best to accommodate neo-luxury clients. Nisch (2004) believes that, as many of today’s consumers avoid conspicuous consumption, retailers should deliver more “casual design luxury” ideas to consumers. Conversely, appealing to this market in Asia may require different designs entirely. For example, new entrants into the luxury good market in China tend to prefer luxury products that ostentatiously display the brand name (Ben-Shebat, 2015). In any case, goods suppliers do not have the same levels of complex customer contact that services suppliers do. The service sector has characteristics that impede it from readily copying luxury goods segmentation tactics.

The dilemma of intangibles and customer presence in the service system

In services, the product mix matters greatly, as products are composed of both tangible elements and intangible experiences (Uhl and Upah, 1983). The sector also involves higher degrees of customer contact causing customer attributes and behaviors to play a more central role in the service delivery system (Canziani, 1997). Services are often delivered through interpersonal interaction between staff and clients. Thus, the outcomes of service encounters are especially important to service brand reputation.

Consequently, service firms marketing to neo-luxury consumers have to distinguish between altering tangible attributes by using tiered specification for goods production and altering intangible experiences within the service encounter. It is conceivable that luxury service providers

can ramp up or customize tangible features of their services to charge premium prices and satisfy the emotional needs of alternative customers. Enhanced square footage in hotel rooms, valet and concierge services or even a personal chef or butler for resort guests would be examples of upgraded tangible elements. Marketing the use of premium coffees or teas and luxury linens are other ways the hospitality industry promotes upscale offerings for people willing to pay.

Yet, it is difficult to distinguish between luxury and neo-luxury consumers in any significant way in terms of differentiating service encounter standards for different consumer groups. It is highly doubtful that companies will want to be seen as deliberately altering service standards for communication strategies based on social and economic perceptions of customers. Rather than rely on tiered service standards for interpersonal dealings with customers, service firms need to manage actively the degree to which their service staffs react to social class cues from customers. Firms need to avoid inadvertently stigmatizing neo-luxury consumers as somehow less desirable. Therefore, it is necessary to pursue a deeper understanding of how individual staff members' perceptions of customer social class affect their provision of services to neo-luxury consumers during the actual service encounter.

Historical and modern attributions of class and status

Up to this point, neo-luxury consumers have been discussed largely in economic terms; however, the more abstract notions of social class and social status also enter into the equation. While economic indicators are most often quantitative, e.g. income and personal wealth, social class and social status are qualitative attributions made by one person or group about another person or group. Status attributions are stereotypical representations of people based on historical data about social groups and personal appearance/behavioral cues of individuals. Because people generally do ascribe class and status rankings to others they encounter in society, background on these two concepts will be helpful in this discussion.

Historically, social class refers to commodity or labor markets; "class situation is, in this sense, ultimately market situation" (Weber, 1958, pp. 927-928). Members of society who owned or had access to scarce resources were classified as a higher social class, having more power, authority, prestige and privileges than people at lower levels. Upper classes possessing greater wealth have been the traditional consumers of luxury goods and services. Moreover, advantaged groups within societies have established and retained social dominance by monopolizing or restricting access to valued resources and opportunities at the expense of other members of the community (Weber, 1958). The luxury marketplace clearly demonstrates Weber's proposition, as access to luxury goods has habitually been restricted to a small segment of society.

Over time, measures of social class expanded (Bell, 1987; Blau and Duncan, 1967; Jencks et al., 1972; Lareau, 2003; Sewell and Hauser, 1975) to include occupational status, educational level and political status, i.e. the latter suggesting that members of a dominant political party might be considered the upper class in a country. In many countries, other factors such as race, ethnicity, religion or nationality further obscure the original economic rationale for attributions of high or low class to specific individuals or groups. A modern interpretation of social class incorporates additional lifestyle factors such as time spent on leisure, club membership and even health and nutritional standards. Thus, many observable factors contribute to the "class" a person is assigned to by others.

Social status varies conceptually from social class. Weber (1964) suggests that status refers to the fact that social beings accord honor or prestige to selected others and, in so doing, reinforce

the latter's abilities to monopolize goods or the available channels to obtain them. The assignment of high status to an individual tends to be more subjective an act and less dependent on the person's possession of material wealth. Thus, social status is an ordinal ranking that is highly contingent on a giver's willingness to concede honor or prestige to a receiver. This cognitive split between class and status also implies that economic wealth alone does not confer status to an individual in luxury service encounters. In essence, resources beyond wealth serve to discriminate groups and play a role in further restricting opportunities for social mobility across societal hierarchies. Increased social status cannot be achieved by one's increasing material affluence alone; such movement would require the attainment of considerable deeper cultural knowledge and refinement of taste or a direct sponsorship into select social networks.

Social distinction is a third key concept embedded within theories of social class and status. Distinction here means that individuals overtly display cues to signal others to categorize them into higher classes or to confer on them higher status (honor). Through "distinction" tactics such as noticeable consumption and displays of wealth and high culture, wealthy or dominant social classes are able to separate themselves from lower levels in society. In one of the field's seminal works, Veblen (1899) articulates this as the "conspicuous consumption" of costly consumer goods and services – to outwardly demonstrate upper classes' superior standing. Elias (1978) notes the use of elaborate behavioral codes and etiquette rituals by elites in pre-modern Europe to signal membership in the more cultivated classes.

What remains of social class, social status and distinction tactics in today's social milieu? More recently, scholars are focusing on the micro-behavioral acts of representation and interpretation, discussed under the concept of symbolic boundaries (Erickson, 1996; Grusky and Weeden, 2002). Such acts are used to draw lines between "us" and "them", particularly when evaluating the worth of others (Lamont and Molnar, 2002). Society continues to be fascinated with observing details and classifying others as distinct from one another. In the setting of luxury establishments, it is conceivable that servers watch customers and judge how well they fit the brand or product they are requesting.

Contemplating the neo-luxury consumer from a class and status perspective

There is evidence that luxury companies struggle with how to acknowledge and react to growing demand from new types of customers. When marketing to emerging consumer groups, firms must pay attention to brand management to avoid dilution. One strategy is pricing. To maintain the strength of the traditional brand images of "luxury", neo-luxury product lines tend to carry a hefty price tag to prevent the brand turning into a mass-purchased commodity. This tactic will restrict the economic class of consumer opting to purchase the brand's products. But such a tactic does little to help companies manage more subjective brand image issues or to counteract tensions that might develop between luxury firms and their new "able-to-pay" customer base.

For example, consider reports of a statement from the Cristal brand of champagne (speaking to the use of champagne by hip hop artists): "As winemakers, we cannot deny that we have occasionally been a little dismayed at seeing our wine sprayed around in celebration instead of being savored in a glass" (Rouzard, 2006). This is an interesting case, as it exemplifies what might occur if luxury firms do not manage their approach to neo-luxury consumers carefully. In the Cristal case, the firm is managing brand image by being cautiously resistant to public displays of brand loyalty from neo-luxury consumers. Cristal appears to be resisting the types of "bubbleup" or "trickle-across" democratizations of style through the influence of global media and popular

culture that have been inundating the fashion industry (Atik and Firat, 2013). Reputational damage can result if service firms are perceived by the public to be reacting to their new customer groups in the wrong way. In the Cristal case, the hip-hop community issued a boycott of the brand.

Leveraging research on social encounters

Luxury brands have been slow to leverage research on social encounters. Studies on service encounters (Hanser, 2012; Sachdev and Verma, 2002; Sherman, 2007; Tsang and Ap, 2007; Williams, 2006; Winsted, 1997) have portrayed consumers asserting class-based entitlements through service interactions. Although Silverstein et al. (2005) downplay the influence of class aspirations on consumer-side decisions to trade up, it is plausible that employees might use perceived social class to assess the legitimacy of consumer requests for luxury services and thus adjust behavior according to perceived legitimacy, regardless of ability to pay. Anecdotal reports on experienced aloofness toward aspirational consumers and provider comments on customer vulgarity seem to support this belief. For instance, service has been denied to well-established celebrities that do not fit servers' expectations; in 2013, a sales associate in an upscale handbag boutique in Zurich, Switzerland, reportedly refused to show US billionaire Oprah Winfrey a \$38,000 crocodile Tom Ford handbag because she did not recognize Winfrey and did not believe that she would be able to afford it (Thompson and Magnay, 2013). Customer profiling on the part of service staff can affect employee conduct in encounters. The process of profiling customers (Figure 1) is a relatively immediate cognitive process whereby employees notice identity markers, predict group membership and react to the customer accordingly.

The cognitive process of customer profiling can have effects on the service encounter that range from the very positive to the very negative depending on the degree of cognitive bias operating during the profiling activity and also on emotional and motivational forces working within the employee as he or she recognizes the customer as a member of a specific group or social category. Customer profiling as a process is complex and fallible due to the variability of customer traits and behaviors that are visible in the service setting. On the consumer side, not everyone in a social group will exhibit expected characteristics or behaviors all the time due to additional constraints affecting consumer actions, such as personal needs, situational contexts or existing incentives for a person to alter his or her behavior to win resources, rewards or escape sanctions. Furthermore, from a moral stance, customers should not have to change who they are.

On the employee side, customer profiling is further compounded by the fact that mental heuristics, e.g. observational bias, attribution error and overgeneralizations, influence how employees interpret customer cues. Nonetheless, customer profiling still influences employees' treatment of customers. To counteract the influence of biases, employees need to be trained to interact with new people by learning to discount first impressions and to check assumptions about people that may influence service levels, especially when providing service to neo-luxury consumers. In the next section, a conceptual model is provided which summarizes how services are influenced by staff perceptions of consumer variables, the status of a product and the balance of goods and services in the product mix.

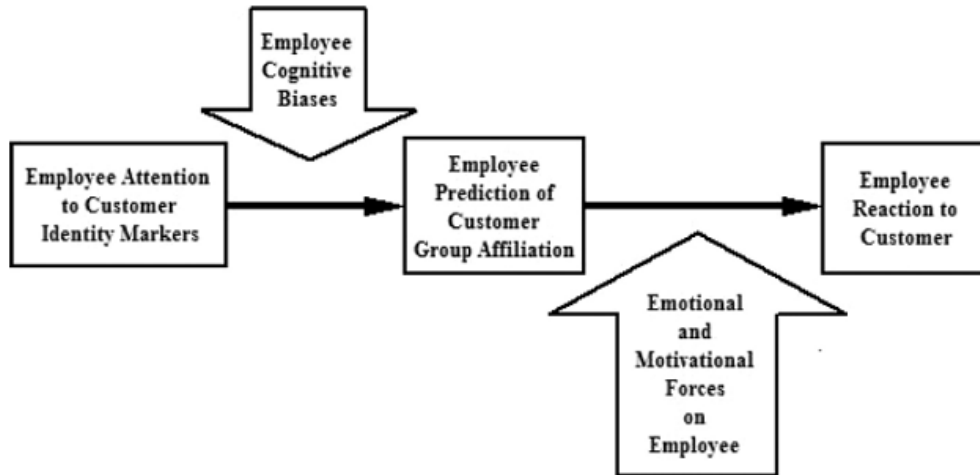


Figure 1. Process of profiling customers

Conceptual model

The model in Figure 2 depicts a number of factors that are postulated to affect the provision of services to consumers during service encounters.

In this model, product status level (i.e. luxury, premium, mid-tier or budget), product mix (goods/services) and consumer characteristics influence perceived consumer request legitimacy and ultimately the outcomes of the service provided. Reviewing Figure 2, one sees the suggested effects of product status, service mix and customer attributes on resulting provider outcomes of deference, responsiveness and courtesy. Moving up the y-axis, a product requested can be positioned between budget and luxury endpoints. Along the x-axis, the product mix changes from pure goods into pure services. The third axis represents observable customer variables: perceived ability to pay, product/brand knowledge, indicators of social class and customer product/brand loyalty.

During a service encounter, preliminary consumer behaviors function to initiate the encounter with a service staff member; these involve minimally a service request and some level of expressed entitlement on the part of the customer. The presence of a neo-luxury consumer or a trading-up scenario in the service system would be articulated in this model through the combination of a perceived lower social class and a higher level of product status requested. The degree of product/brand status impacts the staff members' expectations for what kind of customers deserve to receive access to these products/brands as noted in P1:

P1. As product/brand status ascends toward the luxury category, service staff will have more rigid expectations for the comportment and appearance of customers, inferred in the model by social class.

A separate factor is the idea that in the selling of goods-dominant products, the presence of the customer in front of the employee is not a requirement, e.g. in online sales, or necessarily a focus of the firm; thus, the level of observation of customer attributes and behaviors may be lower than when selling services. In contrast, the selling of services-dominant products relies more on interpersonal encounters with increased consumer presence, as well as involving the notion of inseparability of customer behaviors from the service being provided. This idea leads to P2

regarding the impact on the model of the ratio of goods/services in a product being delivered to a neo-luxury consumer:

P2. As the product ratio of goods to services moves further across to services and away from goods, service providers will be more influenced by customer attributes and behaviors than in purely goods-based sales situations.

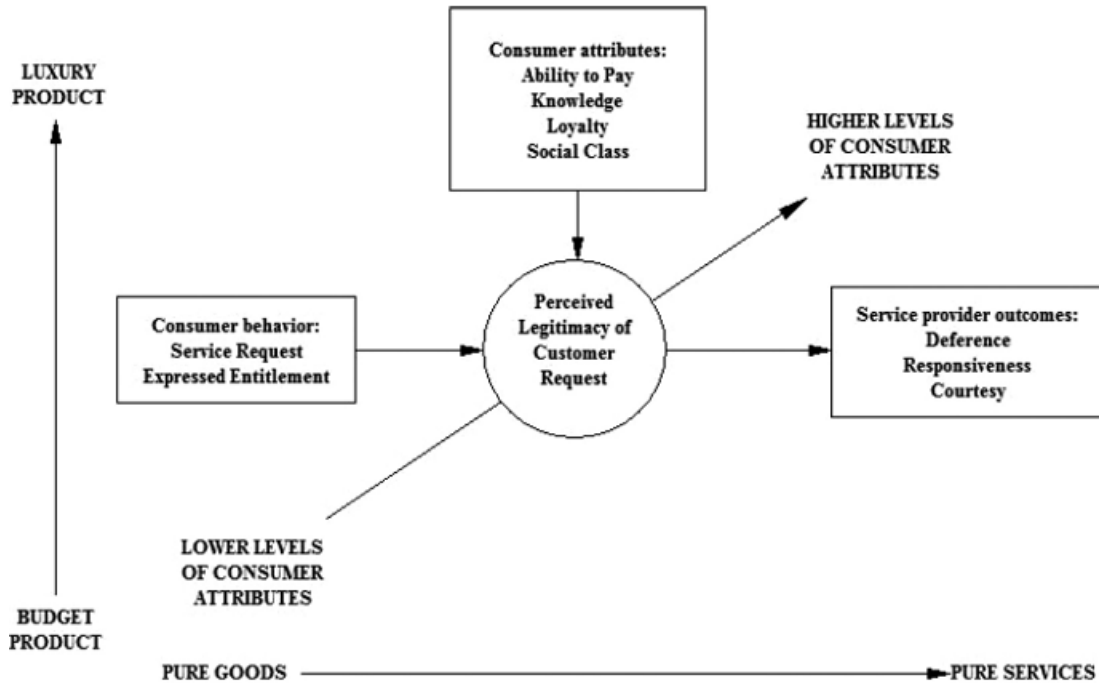


Figure 2. Effects of product status, service mix and customer attributes on provider outcomes

In the model, the operationalized concept for assigning social status to a customer becomes that of the more focused assignment of “legitimacy” to the request; the latter is tempered by the customer’s display of product/brand knowledge, product/brand loyalty and perhaps by ability to pay. The concept of “legitimacy” is that of an attitudinal judgment that formed when service employees evaluate the fitness of a consumer’s request based on comparing customer attributes (social class cues) against the request service level, taking into consideration the client’s knowledge level, loyalty and ability to pay. The relationship among these concepts is summarized in P3:

P3. Ability to pay, perceived brand/product knowledge, social class and product/brand loyalty will correlate positively with service staff members’ assignment of legitimacy to a customer’s service request.

In the way that attitude drives behavior to achieve conformity with or realignment to previous social categorizations (Ledgerwood and Chaiken, 2007), an attribution of legitimacy is a precursor to subsequent employee behaviors, i.e. deference, responsiveness and courtesy, that reflect the employee’s desire to achieve “rightness” and reduce personal stress and confusion in social interactions. Thus, follows a final proposition:

P4. The degree of legitimacy assigned to a customer's request will impact the degree of deference, responsiveness and courtesy demonstrated to the customer by staff members.

Ultimately, based on how legitimate the request for service seems to them, service employees provide a greater or lesser level of service to their customers as evidenced through courtesy or deference communication behaviors.

Conclusion

This paper conceptualizes a linkage among consumer attributes, consumer requests for luxury services and the outcomes of service encounters, and in turn, offers a viable framework for studying the complexities of service systems responding to "neo-luxury" consumers. The overriding ethical question raised is to what extent service firms do or should alter their strategies in serving different consumers based on the perceived fit between consumer attributes and status of product/service.

Given that services comprise both tangible material qualities and intangible experiential qualities, the question of how to design neo-luxury service products must be examined through a different lens than is used when innovating in the material luxury goods sector. In this paper, dichotomous thinking has been applied to differentiate between the role of tangibles and intangibles in the service delivery system. The resulting model proposes that the perceived legitimacy of consumer requests for upgraded services is influenced by multiple consumer attributes, the status of product requested and the product mix; furthermore, it is suggested that perceived legitimacy influences service outcomes.

Social class cues play an important role in differentiating traditional luxury consumers from neo-luxury consumers. It is seen in the model that, when requests for service are initiated by consumers, the legitimacy of the request is actively assessed by the service provider based on observed customer cues. Assumptions underlying the model are that:

- social status of customers is attributed by employees based on their observations of consumer attributes and behavior; and
- mobility across consumer status levels does not necessarily correlate directly with movement across economic class levels.

Practical benefits of the model

The more practical application of this paper lies in preparing service providers to consider not only the implications of untapped markets across Asia but also how to approach developed markets with their increasing numbers of customers actively seeking to purchase upgraded products and luxury services. The proposed model can be useful to service firms for enhancing communications to neo-luxury consumers in service settings.

Neo-luxury service providers should train employees to construe their relationships with consumers as a set of conscious moral choices rather than permitting uncontrolled reactions to consumer cues based on individual assumptions. And too, companies will want to monitor more closely how staff responses to consumer attributes impacts service outcomes. The model suggests that not all customers are treated equally during service encounters and that there are discernible

psychological and social reasons behind this. It has also been noted that handling customer requests inappropriately leads to potentially negative impacts on brand image due to inferior service encounter quality.

Future research

Researchers will want to explore further the implications of Figure 2. As the proposed relationship between service employees and customers is a complex situation, there are many avenues of fruitful inquiry. Practical questions that need the benefit of empirical research include the following:

- Which social class markers most greatly impact assessments of consumer legitimacy, either positively or negatively, in both the Asian context and elsewhere? Understanding how attributions of social class are made, especially about guests from other countries, is important in today's global business environment.
- In what ways do consumer product knowledge and loyalty impact legitimacy or buffer the effects of social class cues on legitimacy? Examining the role of customer relationship management practices in service encounters would be one viable way to study this, i.e. assessing the effects of program loyalty on customer legitimacy (Luck and Lancaster, 2013).
- Which organizational strategies moderate the employee's response to the neo-luxury customer most efficaciously? Findings may differ along cultural lines; this should be addressed if firms wish to succeed either in Asian countries or with Asian consumers (Kale and Spence, 2009; Park and Reisinger, 2009).

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