1. Assessment

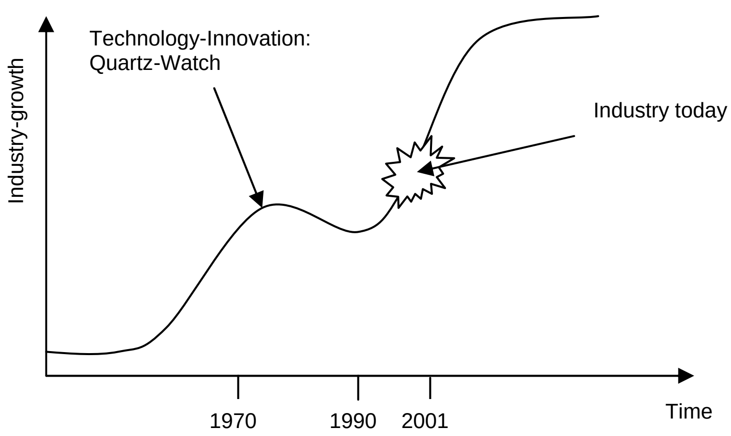
1.1 The Swiss Luxury Watch Industry[1]

The Swiss luxury watch industry dates back to the 16th century. By 1790, Geneva was already exporting over 60,000 timepieces annually. Mass-production started only at the turn of the 20th century, while the end of World War I introduced the first wristwatch. For centuries, the Swiss watch industry was composed of high-end luxury watch manufacturers. In 1967, however, the Swiss invented a new technology that almost sounded the death knell for the entire industry: *The quartz watch*. This invention allowed any company with some assembling capability to produce highly accurate, high-quality watches with minimal manual labor; centuries of watchmaker know-how were no longer required. In inventing the quartz watch, the Swiss watch-industry inadvertently yet single handedly removed many of its largest barriers to entry; deep technological know-how, lack of suitable alternatives, and centuries of marketing expertise. This gave access to inexpensive labor producers such as Hong Kong or highly automated producers such as Japan. A deep recession followed in the 1970s and 1980s, with many of the Swiss market leaders failing by attempting a me-too strategy, competing with the Asian competition on low-cost quartz movements. Others diverted into other fine-mechanic industries, such as aviation instruments, while some watch companies refrained from taking any action and tried to survive the move to quartz. The number of companies decreased from approximately 1,600 in 1970 to about 600 today. The 1990s saw a surge in demand for fine mechanical watches, part of the back-to-tradition trend spreading in the US, Europe and Asia. The luxury watch industry was reborn. Since then, the Swiss watch industry has experienced unprecedented yearly growth. With the unabated demand for technological know-how, those companies that continued to focus on mechanical movements through the recession are the market-leaders today. The exception to the shift towards mechanical watches is the Swatch Group, the only Swiss watch company that successfully was able to compete against the Asian competition on a low-cost quartz strategy by positioning its products as fashion status symbols. Today, the watch industry has become Switzerland's third-largest industry and is such a major exporter that it has only one market: The world (95% of the $6 billion is exported).

1.1.1 5-Force Analysis (see Appendix 1)

With the exception of strong rivalry among existing competitors, the luxury watch industry is an attractive industry for existing companies due to its high entry barriers, low threat of substitutes, weak buyer power, and low supplier power (with the exception of watch-movement and hairspring suppliers, of which there are only a few suppliers).

1.1.2 Life Cycle



The curve shows that the watch industry initially had a surge in growth but experienced a sharp downturn in the 1970s due to the introduction of the quartz watch. By the 1990s, demand shifted and the fine mechanical luxury watch industry experienced a rebirth and an even greater surge in sales. In contrast to the 1970s, when the role of a watch was primarily as a timekeeper, accurate, functional and reliable, today a watch is viewed more as an accessory and status symbol. Today, many other modern means exist to satisfy the time keeping role, such as cellular phones and PDA's.

With no second technological innovation (for example the integration of cell-phone and PDA into a device wearable on the wrist), there is no sign of a slow-down of the industry-growth in the near future.

[1] Federation of the Swiss Watch Industry

1.1.3 Strategic Groups (see Appendix 2)

Historically, the Swiss watch industry has had a horizontal structure with suppliers, craftsmen and sub-contractors supplying parts to “établisseurs,” companies that assemble a watch to the finished product. Specialized agents and distributors market and distribute the watches on a global basis. Recently, however, large companies have been creating a more vertically integrated structure by buying suppliers, several complementary brands, producers, agents and distributors. Maurice Lacroix is in a state of medium integration, maintaining their own case factory and distribution channels but purchasing movements from suppliers. Please refer to Appendix 2 for an overview about who owns the most important brands and classification into strategic groups.

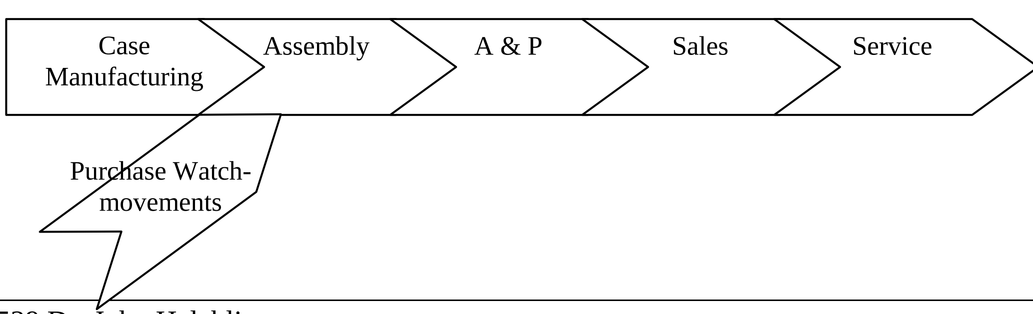
1.2 Firm: Maurice Lacroix (ML)

Established in 1975, ML oversees its own case factory and is one of the youngest Swiss watch brands distributed on a global basis. The brand is currently positioned with an emphasis on quality and reliability for a reasonable value. Through the brand-statement “Tomorrow’s Classics,” the company imparts that ML resembles a contemporary design, with a high potential to become a true classic in the future by not following every short-term fashion-trend.

1.2.1 SWOT Analysis

Strengths	Weaknesses
• Independently owned (not in one of the “Big 3”) • Exceptional product quality • Own production facilities • Deep expertise (master watchmakers) • Solid financial resources • High service orientation • 100% Swiss Made label • Vertically integrated distribution • Market-leader in Europe • Outperforming Swiss watch industry averages since 1986	• Limited global brand awareness • Over broad product-variety • Limited marketing efforts • Overly dependent on European sales (74%)
Opportunities	**Threats**
• Concentration in groups (see 1.1.3) • Strong industry growth • Outperforms industry sales average so must have a competitive advantage	• High quality today is a necessity • Marketing is the key to industry success • Rapidly changing market conditions • Weak brands becoming weaker, strong brands becoming stronger: Consolidation of brand power • New production technologies • Globalization and Internet might influence on distribution channels and buying power • Company concentration in groups (see 1.1.3)

1.2.2 Value Chain



1.2.3 Competitive Advantage

ML's main competitive advantage is owning their own case factory and vertically integrated sales, marketing and service departments, which are currently established in nine countries. By eliminating the outside middlemen and being able to oversee key parts of the manufacturing process, ML can control and ensure the high quality of their products while keeping costs and prices low.

1.3 So What?

ML is a young brand in an industry rich in history and tradition and is one of the few brands which has successfully jumped the high entry-barriers presented in Appendix 1. Although still facing stiff competition from more traditional and more powerful competitors, ML has experienced tremendous success in Germany and other European countries by leveraging its "high quality for reasonable prices" image. Equally important, by offering retailers a wide variety of watches, ML has succeeded, particularly in Germany, the fourth largest Swiss luxury watch market, in convincing retailers to carry the full scope of ML watches, allowing them to reduce the number of other brands that they carry in addition to ML. However, ML's low brand-awareness in Asia makes alternative strategies a necessity.

Success outside Europe, especially in Asia and particularly in Hong Kong and Japan, the second and third largest Swiss luxury watch markets, requires a marked shift in strategy and a move away from being overly dependent on European sales. Asian consumers differ significantly from Europeans in buying habits and are extremely brand-conscious and relatively price inelastic, seeking out brands that are popular and impart a level of high status upon the owner. As a result, ML's "high quality for reasonable prices" image has an adverse effect on Asian clients. Also critical, Asian retailers see little advantage in offering fewer brands and replacing them with the ML range.

2. Recommendations

ML's "high quality for reasonable prices" strategy has landed the company in an unfocused, "stuck-in-the-middle" position, making it near impossible to differentiate against more powerful and better-positioned brands. The company is also overly dependent on the European market, which is much smaller than the Asian market. In order to break away from this position and take advantage of the growing demand for Swiss luxury watches, I recommend the following actions:

- By promoting high-quality watches for reasonable prices, ML tries to make the gap between the high luxury image and low prices its Unique Selling Point. In Asia, this gap is a weakness and has an adverse effect on consumers, creating confusion among end-consumers and diluting ML's brand equity. Thus, ML should close the gap by increasing prices to leverage ML's brand-perception as a luxury watch in price-inelastic Asia.
- Low brand awareness prevents ML from succeeding with status-conscious Asian consumers. ML should reinvest the additional cash flow from the price-increase into a strong brand-*awareness* campaign, focused on Asia while maintaining the existing brand-*image* campaign on a slightly reduced scale in Europe, where ML already has created a strong brand awareness.
- Create a clearer brand positioning of ML by streamlining the existing product range through reducing the number of overlapping models and focusing on lines, which better define the brand image.

3. Take Away

Strategies that work well in certain countries often do not work in others without careful adaptation. Characteristics, which are assets in one country, can be liabilities in others. In order to be make a globally successful brand, managers have to "think global, but act local."

Appendix 1: 5-Force Analysis of the Swiss luxury watch industry

Entry-Barriers: High
High investments in production capacity, nonreplicable brand-history and equity; ***Long-term relationships with distributors and retailers are difficult to replicate and are mandatory in most cases to sell product***
Threat of New Entrants: Low

Suppliers:
Many suppliers with the exception of watch-movements and hairsprings; ***Suppliers are not unionized or otherwise in coalition with each other***
Bargaining Power of Suppliers: Low (with exceptions)

Competitors:
30 Swiss brands in ML's price-segment
Rivalry Among Existing Firms: Strong

Customers:
Easily influenced by advertising and marketing; Price of luxury products is of secondary importance
Bargaining Power of Buyers: Weak

Substitutes:
Inexpensive quartz watches from Hong Kong and Japan
Threat of Substitute Products: Low

Who owns whom?

Swatch Group	Richemont	Louis Vuitton/ Moët Hennessy	Desco
Blancpain Breguet Calvin Klein Certina Glashuette Hamilton Jacquet-Droz Longines Mido Omega Pierre Balmain Rado Swatch Tissot	Baume & Mercier Cartier Dunhill IWC Jaeger-LeCoultre Lange & Sohne Montblanc Officine Panerai Piaget Vacheron Constantin	Chaumet Christian Dior Ebel Favre-Leuba Fred Tag Heuer Zenith	*Maurice Lacroix*

Strategic Groups: