

2. Situation Analysis

2.1 Industry/Market Analysis

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).

2.2 Competitive Analysis

Please see **Appendix 1**: 5 Force Analysis; 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).

Appendix 2 shows the results of a yearly market-survey conducted by the Japanese Watch Importers Association where they ask consumers "Which watch are you interested in?" The results show the relative strengths of the individual brands compared to each other, based on purchase intention. Additionally, we compared the results of 1999 with the results of 2000 in order to determine trends in the purchase intention and relative strengths of the brands. According to this, although Maurice Lacroix is among the weakest 10 brands in Japan, it is the brand with the strongest increase in purchase intention of more than 28%.

2.3 Customer Analysis

Ladies:

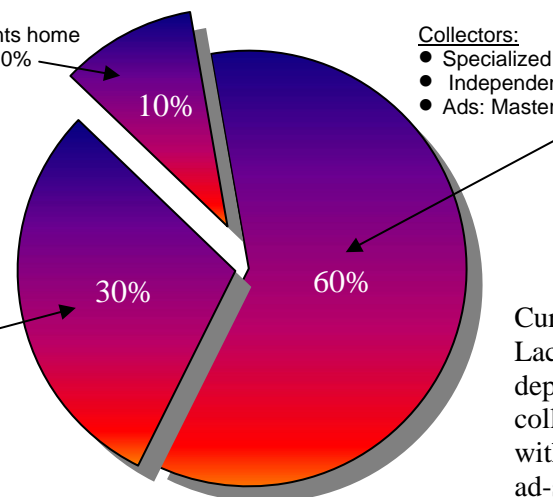
- 100% Female, Age 20-40
- Education: Junior College+
- Social/Income: irrelevant, living at parents home
- Geographic: 50% Tokyo, 30% Osaka, 10% Fukuoka, 5% Sapporo, 5% Nagoya
- Independent minds (no followers)
- Ads: Miros Integrale

General Audience:

- 70% Male, Age 25-45
- 30% Female, Age 25-45
- Education: High School/University
- Social/Income: > 5 Mio. Yen
- Geographic: 50% Tokyo, 30% Osaka, 10% Fukuoka, 5% Sapporo, 5% Nagoya
- Independent minds (no followers)
- Ads: Masterpiece Retrograde/Miros Integrale

Collectors:

- Specialized watch-magazines
- Independent minds (no followers)
- Ads: Masterpiece Retrograde



Currently, Maurice Lacroix in Japan is very dependent on watch-collectors and "maniacs" with roughly 60% of their ad-spending going into this segment.

2.4 Marketing Mix Situation

The Marketing Mix currently consists of following items:

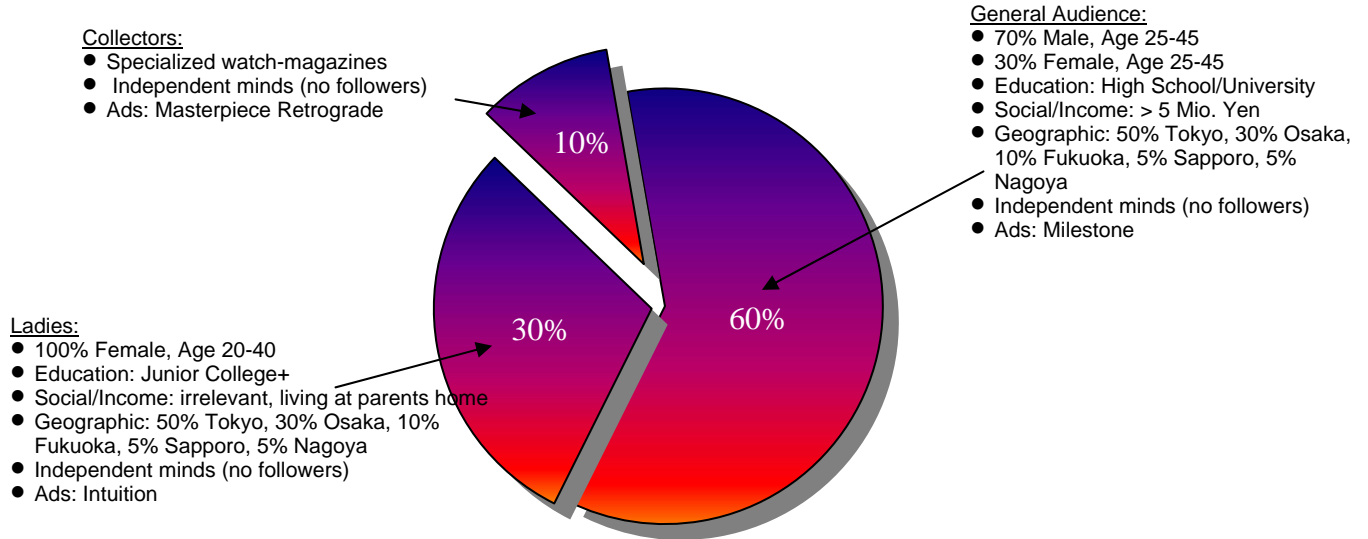
- Exhibitions: Hotel exhibitions for trade and general public, which are expensive and hard to get to
- Sponsorship: Sponsorship of Miss Universe; not well-recognized in Japan and not necessarily reaching a useful target market
- PR: Press releases and invitations for journalists to Switzerland
- Point of sale: Retail exhibitions, POS displays, catalogs etc.
- Promotional items: gifts with purchase
- Magazine image advertising: currently largest budget item (more than 50%)

2.5 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Limited global brand awareness • Over broad product-variety • Limited marketing efforts • Overly dependent on European sales (74%)
Opportunities	Threats
<ul style="list-style-type: none"> • Concentration in groups (see 1.1.3) • Strong industry growth • Outperforms industry sales average so must have a competitive advantage 	<ul style="list-style-type: none"> • 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)

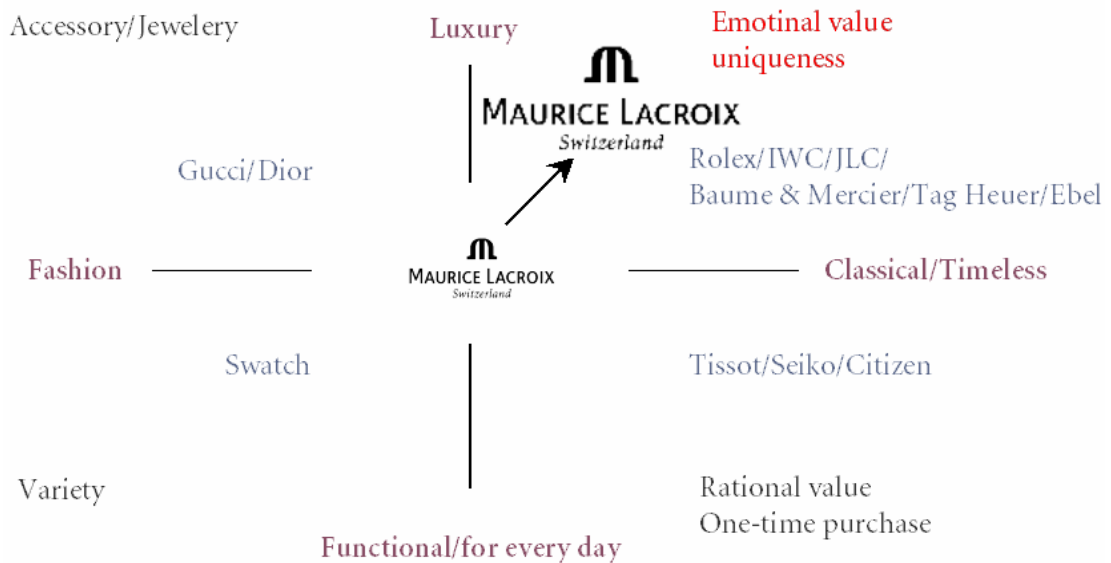
4. Marketing Strategy Recommendations

4.1 Target Market



In comparison with the existing customer profile as described in Pt. 2.3, we recommend that Maurice Lacroix puts its emphasis on the General Audience (see description above) instead of the Collector, which offers a very small potential. Also young, single Japanese female are of a high importance in Japan, since they are opinion-leaders and usually have a lot of money to spend.

4.2 Type of Positioning



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:

4.3 Marketing Mix

4.3.1 Customer Satisfaction

- 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.

4.3.2 Product

- 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.

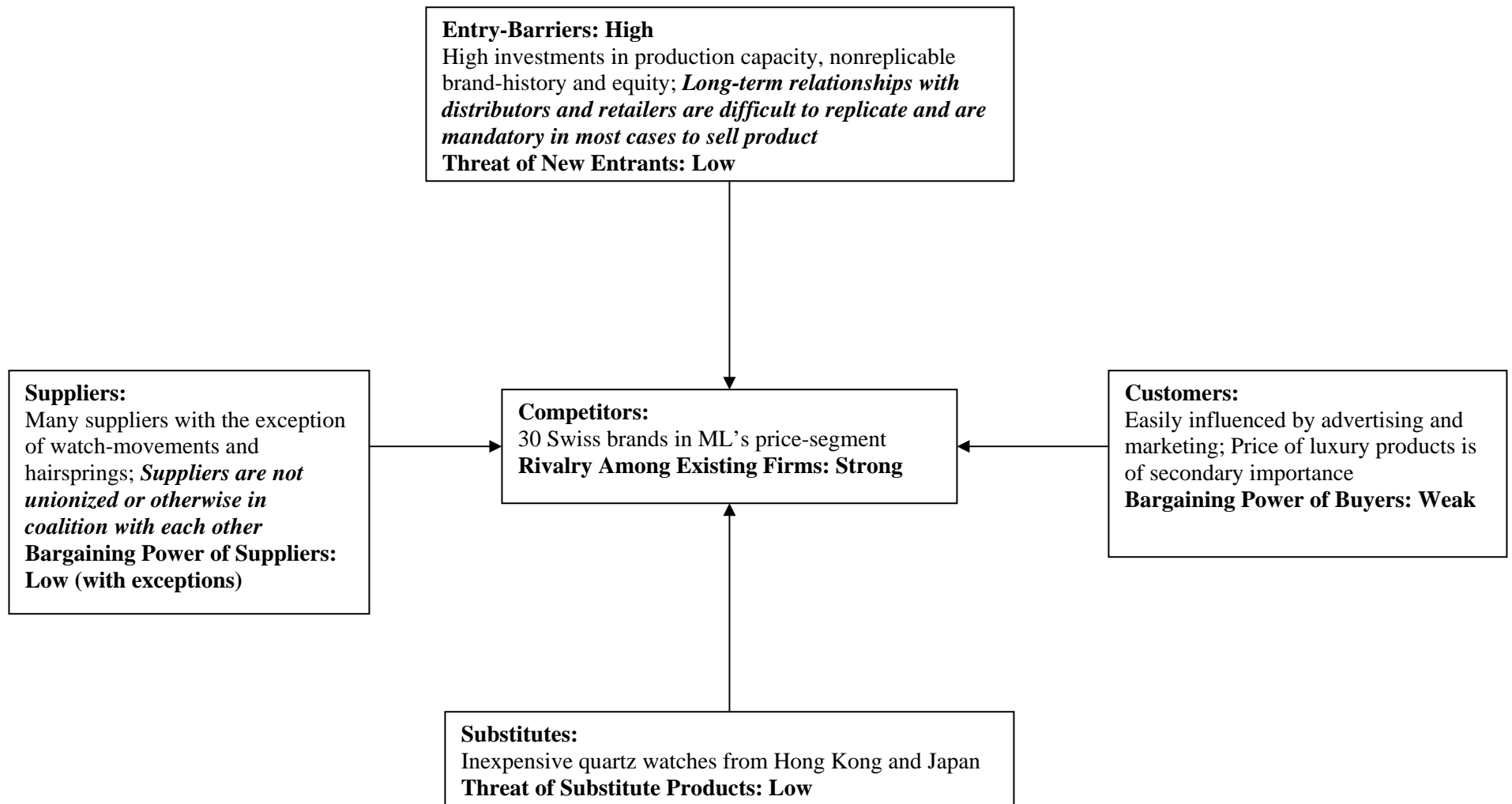
4.3.3 Price

- 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.

4.3.4 Distribution

- Salespeople are extremely influential in watch purchase decisions, especially when the consumer does not have a preferred brand or model. Therefore, positive relationships have to be developed with salespeople by launching a campaign with the following features:
 - Free salesperson training events which introduces Maurice Lacroix's history, product line, and commitment to quality, teaches watch service and repair techniques, and provides effective sales strategies.
 - An incentive program allowing salespeople to accumulate points for each watch sold, and then redeem the points for merchandise, events, or travel.

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



Appendix 2: Comparison of Competitors relative strengths 1999 -> 2000

Source: Yearly market-survey of Japanese Watch Importers Association

"Which brand are you interested in?"

Brand	1999				2000				
	Responses*	%	Comp. Ranking	Overall Ranking	Responses*	%	Trend	Comp. Ranking	Overall Ranking
Rolex	6527	19.67%	1	1	5002	18.14%	↘	1	1
Omega	5338	16.09%	2	2	4525	16.41%	⇒	2	2
Cartier	5076	15.30%	3	3	3904	14.16%	↘	3	3
Gucci	2939	8.86%	5	6	2598	9.42%	↗	4	5
Tag Heuer	3030	9.13%	4	5	2467	8.95%	⇒	5	6
Longines	2110	6.36%	6	8	1928	6.99%	↗	6	8
Rado	1660	5.00%	7	9	1504	5.46%	↗	7	9
Breitling	1316	3.97%	8	13	1175	4.26%	↗	8	13
Oris	613	1.85%	11	33	614	2.23%	↗↗	9	29
Tissot	758	2.28%	9	25	584	2.12%	↘	10	30
Ebel	604	1.82%	12	34	548	1.99%	↗	11	33
Chronoswiss	634	1.91%	10	31	427	1.55%	↓	12	39
Zenith	364	1.10%	14	50	406	1.47%	↗↗	13	41
Baume & Mercier	366	1.10%	13	48	386	1.40%	↗↗	14	42
Gerard Perregaux	337	1.02%	15	56	264	0.96%	↘	15	54
Revue Thommen	249	0.75%	16	58	253	0.92%	↗↗	16	55
Ulysse Nardin	184	0.55%	17	61	176	0.64%	↗	17	59
Sinn	183	0.55%	18	62	168	0.61%	↗	18	61
Concord	133	0.40%	20	73	135	0.49%	↗↗	19	64
Eterna	178	0.54%	19	65	117	0.42%	↓↓	20	69
Maurice Lacroix	94	0.28%	23	87	100	0.36%	↗↗	21	77
Movado	131	0.39%	22	75	93	0.34%	↓	22	80
Fortis	76	0.23%	24	94	62	0.22%	⇒	23	94
Raymond Weil	133	0.40%	21	74	51	0.18%	↓↓	24	103
Mido	52	0.16%	26	113	35	0.13%	↓	25	117
Certina	63	0.19%	25	101	31	0.11%	↓↓	26	122
Eberhard & Co.	31	0.09%	27	131	18	0.07%	↓↓	27	136
Total Competitors	33179	100.00%	27	155	27571	100.00%		27	155
Others	40967				33658				
Total	74146				61229				

* Multiple Responses were possible

Appendix 2: Comparison of Competitors relative strengths 1999 -> 2000

Which Brands are you interested in? - 2000

