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Evolution through Creating Unique Value Proposition: The Case of the Business Transformation and Value Proposition Development of Swiss Watchmaking Industry

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**Evolution through Creating Unique Value
Proposition: The Case of the Business
Transformation and Value Proposition Development
of Swiss Watchmaking Industry**

By

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A Capstone Project Submitted in Partial Fulfillment of the
Requirements for the Degree of Master of Science in Service
Leadership and Innovation

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Abstract

The project aims to determine how mature, re-identified and transformed industries that have appeared again, consequently create new value proposition on the market rather than simply restore old market positions and offerings. This study examines the case of the Swiss watchmaking as an industry that had gone through turmoil and cycles of re-development and explores content of various sources which can legitimize its changed identity and transformed business model. There are products and industries that returned to the market after experiencing severe challenges and crises; eventually they established new positions. The Swiss watchmaking is an example of such case and by employing qualitative methods, this study provides relevant content analysis to explore how this industry's transformation and revival process has been determined and regarded in terms of exemplary value proposition development. Statistics for the industry as a whole and for particular brands within the industry were examined and the case has been analyzed through particular theoretical frameworks and relevant sources. Data provided serve as a support to the specific case reflections and theoretical findings. This work contributes to assumptions that old products that return to the market will eventually establish new position by changed approach to the value creation. These results finally provide additional contribution about the relevance of the Swiss watchmaking industry case for the discussions about the need of business model transformation and simultaneous value proposition development as inevitable steps in the evolution process for old re-emerged products or industries.

Keywords: market, business transformation, value creation, revival, mature industries

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Purpose statement

The purpose of this study is to examine a case of the transformed business model and related value proposition development for a specific industry. The case of the Swiss watchmaking industry has been used to explore the connection between its market approach and value creation process and to explore how this re-emerged industry's business model affects value proposition development. This industry has been used in various sources for considerations about the successful industry revival attempts and identity transformation. It had gone through turmoil and cycles of re-development, so this study aims to provide understanding about how various sources reflect to these events and how relevant considerations and frameworks validate this process. Based on these findings, the aim is to provide a learning opportunity about how transformed business model of this industry and its revival influenced value proposition development. Also, this project could provide additional clarification through the analysis of various reflections and thus would further validate and concentrate considerations about the significance of the Swiss watchmaking case in terms of marketing, innovation, and product quality. The findings provided in this study should expand the knowledge about authentic and specific market positions of old re-identified and transformed industries that have emerged again.

Introduction

What makes the Swiss watchmaking industry so different and interesting that both customers and scholars have continuous and specific interest about it? Most of the people are familiar with reputable watch brands and "Swiss made" label and many works have been written on various subjects about this industry. It seems that there is some specific perception and value proposition that this industry has created during its long history that makes it so recognizable and attractive.

Several studies and books have covered long history of the Swiss watchmaking. Many works pay attention also to the changed role, transformed identity and perceived status of this industry. There are valuable historical reflections supported with statistical data that offer an explanation for Swiss watchmaking success. Donzé (2012) stated that Swiss watchmakers dominated the industry for nearly two centuries and Trueb (2005) concluded that there was something rare and very special about Swiss watches that made them keep coming back on the scene. Also, some works focused on the “Quartz Crisis”, the period of a staggering decline for this industry (Glasmeier, 1991). In that period, quartz movements enabled competitors to reach new positions where the focus was not on being able to produce watches, but being able to sell them (Donzé, 2012). The events caused changes where Swiss watchmaking have repositioned itself towards luxury (Donzé, 2012).

Through the periods of change that lead to a complete transformation of this industry, Swiss watchmakers saw their core competences as a series of capabilities that expand beyond production of mechanical watches (Keillor, 2007). These capabilities enabled the Swiss watchmakers to overcome the “Quartz crises” and find new value exactly in the products that were considered obsolete and not competitive. Today, Swiss watchmaking relies heavily on these products and skills that have almost disappeared from the market due to the challenges competition imposed in 1970s and early 1980’s. Customers find Swiss watchmaking worth of their money and have developed a specific relationship and perception about the industry. Many of the Swiss watches are regarded as products that bring unique value and experience to the customer, despite many alternative products exist which offer same functionality and quality at a lower price. Swiss watches provide value proposition that is beyond usual perception and positioning of jewelry and industrial product. It seems that the industry has managed to reach different and unique level of the engagement with their customers and thus gained competitive advantage that is very difficult to compete with.

This qualitative research project is designed as a case study that would provide deeper understanding of particular market challenges and solutions in the revival process of old industries. As the Swiss watchmaking industry has developed specific business models, innovative products, and has a track record in dealing with most challenging market factors and crises, relevant sources that reflect on its history, market challenges, and business solutions are explored. The aim of this study is to provide comprehensive learning platform about how particular old industry can overcome difficult business challenges and regain its competitive advantage. Specifically, this study aims to explore how this traditional Swiss industry has managed to revitalize itself through the creation of new value proposition for old products in the new market environment. This study will explore how this industry managed to achieve this, what were underlying factors of its transformation, and why customers have again found a benefit in owning a Swiss watch.

This work addresses these specific research questions:

1. Why do consumers buy Swiss watches?
2. How does its value proposition link to its success?
3. What value proposition does Swiss watchmaking deliver?
4. Despite competition, how did the Swiss watchmaking industry managed to create a universal value proposition?
5. Has the value been developed predominantly through business model innovation, or product quality development?
6. Has it offered new values by changing the product or by creating new values to the same offering?

In particular, this study will answer these questions by exploring various sources with specific content that is related to the Swiss watchmaking industry and relevant terminology, frameworks and definitions. The aim is also to answer whether old products have to

eventually provide new values as a result of product evolution and as an indicator of the successful product revival process.

Statement of qualification

As a graduate student with 12 years of working experience, I have a potential to write this study in an appropriate manner with valid credibility. My Master of Science program is designed also to teach students how to find credible sources, extract valuable information and avoid any type of plagiarism. My past education in entrepreneurial economics provides me with the solid ground to explore relevant sources and derive useful conclusions. Also, my work experience in the field of project and business development shall serve for my critical thinking and for structuring realistic and reliable project plan.

Personal interest that I have for Swiss watchmaking and for old industries will help me to find motivation and successfully realize this work. By being already involved in researching various elements related to the Swiss watchmaking and by following the development of this industry, I will be able to derive valid information, avoid potential misleading data and recognize key elements. I have already learned a lot about the industry itself and about particular entities that are important for this study. Also, by collecting relevant sources for my course assignments, I have already gained useful knowledge about credible theories and reflections. And finally, our course assignments related to APA writing style, shall bring needed academic approach to language use, formatting and work presentation.

Literature review

There are products and industries that return on the market after a period of complete or partial absence. Most of these products or industries have gone through specific change in this period and often return transformed and re-identified (e.g. Fiat 500, VW Beatle, and Polaroid camera). These products and industries eventually establish particular positions on

the market as consumers become interested in the product category concerned (Brown, 2001).

The Swiss watchmaking is an example of such case and by employing qualitative methods, this study provides theoretical lens through which this industry' business model and value proposition are determined and validated.

Limited research has been done to verify whether old products that come back inevitably offer new values and create distinctive market position and new consumer's perception. For the purpose of this research, the case of the Swiss watchmaking has been used since this industry is very old and has gone through various crises and comebacks. The aim is to explore the link between transformed business model of this industry and the process of value creation, which lead to its revival. Providing new values to the customer as an aspect of the transformation for this particular industry could be important since according to Brewer (1991), "the main concept having to do with this aspect of identity is the pivotal notion of "optimal distinctiveness" (cited in Gioia et al., 2014, p. 169). Also, Corley et al. (2006) and Gioia et al. (2010) pointed out that "organizations work rather assiduously to see themselves (and just as importantly, have others see them) as simultaneously similar to some desirable referent group (a market category or industry) and yet notably distinctive from those other members" (cited in cited in Gioia et al., 2014, p. 169).

Following these attempts to create product distinctiveness, there are also various sources that can be used to define relevant terminology, guide analysis process, and validate findings. For example, Kotler and Armstrong (2012) discuss and define what is a product positioning and how it relates to the consumer. Jensen, Kim B., and Kim H. (2011), further discuss what defines a product status through definition of horizontal (product) and vertical (status) market position and stated that as the number of entities within some nascent market category increases, this category gains legitimacy and becomes taken for granted as a category. However, even Jensen et al. (2011), concluded that despite there are studies that

researched the population (density) of some category, there is less research done on the actual emergence of specific categories and related values. Brewer (1991) discussed that the issue here is the extent to which organizations actually are demonstrably different from those from whom they wish to differentiate themselves (cited in Gioia, Patvardhan, Hamilton and Corley, 2014). Gioia et al. (2014) stated that “the degree, to which they [organizations] can sell their distinctiveness in the marketplace of competitors, generates a more-or-less useful image among outsiders” (p. 169).

Following these statements, there are several works that reflect on the Swiss watchmaking industry focusing throughout its history on its identity, market position and values delivered (Donzé, 2011; Glasmeier, 2000; Trueb, 2005). Kotler and Armstrong (2012) suggest that the full positioning is in fact the company’s value proposition but Holbrook (1998) argues that consumer’s value is represented through interactivity, relativism, affectivity, and grounding in consumption experience. According to Holbrook (1998) these facets are embedded in the nature of the consumer value.

By reflecting on the industry’s turbulent history that affected proposed values, Landes (1979) provides very useful and rare information about the world of watchmaking in 1970s and delivers some interesting observations and reflection on the status of the Swiss industry compared to France and Britain. These works pay attention also to the changing role, transformed identity and values attributed to Swiss watches. There are valuable historical reflections supported with statistical data that offer an explanation for Swiss watchmaking success (e.g. Federation of the Swiss watch industry [FH], 2014). Donzé (2011) stated that Swiss watchmakers dominated the industry for nearly two centuries and Trueb (2005) concluded that there was *something rare and very special* about Swiss watches that made them keep coming back on the scene. Also, some works focused on the “Quartz Crisis”, the period of a staggering decline for this industry (Glasmeier, 1991). In that period, quartz

movements enabled competitors to reach new positions where the issue was not being able to produce watches, but being able to sell them (Donzé, 2011). The events caused changes where Swiss watchmaking have repositioned itself towards luxury (Donzé, 2011). For the purposes of this study, this repositioning will be examined and supported through the use of the relevant terminology and definitions. Kapferer (2012) states that “the luxury object is the very opposite of an industrially manufactured object, which is expected to wear out and go out of fashion in order to be replaced and keep the production machinery busy” (p. 23). That is an interesting suggestion, knowing that Swiss watches are industrially manufactured products but still considered luxurious products. In that sense, Phau and Prendergast (2000) discuss the influence of awareness, purchase and dream values of luxury brands and the principle of rarity, while Truong, McColl, and Kitchen (2009) refer to the case of the Tag Heuer watches as new luxury items.

These various works provide substantial source of valuable knowledge about history, transformation, and identity change of the Swiss watchmaking. However, it is hard to find sources that specifically provide comprehensive reflection on consumers’ value and subject relevance to industry’s transformation. Breiding (2012) discussed the position of the Swiss industry in general, but without providing clear connections and verified assumptions about the legitimation of perceived luxury position and defined value proposition of the Swiss watchmaking.

In particular, we miss studies that clearly validate that mature industries emerge and also offer new value proposition to gain competitive advantage. Fashion, luxury, quality craftsmanship, tradition, and similar attributes are linked and associated with the Swiss watchmaking, especially in terms of its identity and product category marketing (Donzé, 2011; Trueb, 2005). However, there are many companies who aim at the same position and provide similar product attributes. Japanese watches are also quality products that managed to

severely jeopardize Swiss watchmaking during the 1980'. Also, there are many jewelry items that can compete with high-end Swiss watches. According to Kotler and Armstrong (2012), the company has to differentiate its offer by building a unique blend of values and benefits that appeals to substantial group within the segment to gain the competitive advantage. There are no clear suggestions and conclusions about how the Swiss watchmaking industry has offered its value proposition in terms of the consumer-perceived value and thus gained competitive advantage. So, what does the Swiss watchmaking means to the consumer? In that sense, Kotler and Armstrong (2012) discuss and define a brand as a term in relation to a product and in relation to its meaning and value in consumers' minds. Prahalad and Ramaswamy (2004) go further and argue that a value is created through consumer's experiences and shift from product and firm centric view of creation. These sources are useful for providing insights about changed aspects and related definitions about business transformation and value creation. Since there is no clear and exact value proposition statement defined for the Swiss watchmaking, it would be very valuable to determine its aspects through identification of the values for which consumers' believe they receive as an outcome of the positioning and validate the reflections through the use of the definitions from the mentioned sources.

According to Barnes, Blake, and Pinder (2009) a value proposition is not about a company's features or offerings but about the customer's experience in terms of their needs and wants. In that respect, we miss a case that would clarify the assumptions that old products that return on the market could eventually add new values and thus establish different status than the one they had hold before. Swiss watchmaking is an interesting case for this examination and some previous works studied all turmoil, challenges and identity changes for this industry. Still, there is a gap among these works and the lack of comprehensive examination of its market transformation that has been driven by development of new value

proposition that generated the revival process. In that sense, it would be very valuable to discuss further the role of specific type of innovation in this case since, according to Davila, Epstein, and Shelton (2013), the business model change can drive innovation through a value proposition change. These authors also state that “changes in value proposition of the product or service can involve an entirely new product or service, or an expanded proposition for existing offering” (p. 32). Examining these suggestions on the case of the Swiss watchmaking could bring additional legitimization of unique value proposition and industry’s success.

Kessous and Roux (2008) developed a study about nostalgia for old products that companies use to create value and position their products by connecting individuals to some previous experience. In the case of Swiss watches, this experience could be related to the tradition, image and quality of the craftsmanship. The industry probably found a new source of value in offering the unique experience of owning a Swiss watch versus offering their timepieces as an industrial commodity. In relation to that, it would be useful to determine if this is the value proposition based on the specific resulting experience rather than on product attributes positioning. Positioning of the Swiss watchmaking with the aim to produce the unique resulting experiences could correspond to Kapferer’s (2012) suggestion that “the luxury value of a product is its symbolic value, also non-monetary, emanating not from work or exchange, but from social satisfaction” (p. 29). Thus, it would be useful to determine how a Swiss watch as a luxury item provides specific resulting experience, i.e. social satisfaction. Pine II and Gilmore (2011) have described this new source of value related to the experience and stated that when a person “buys an experience, he pays to spend time enjoying a series of memorable events that a company stages to engage him in an inherently personal way” (p. 3).

Following this evolution of the industry, several works are also available that provide framework for examining the emergence and legitimation of new market categories (e.g. Navis & Glynn, 2010) and offer cases about new luxury positioning (e.g. Truong & McColl,

2009). Aaker (1996) in his book used some real cases of successful brands and demonstrates common pitfalls in which companies often fall trying to set identity and brand awareness. For example, Ansari and Krop (2012) identified and presented particular mechanisms and conditions under which some products re-establish their position or even create some new identity. There are three categories which are examined in that work – company, industry and challenge – and all of the mentioned are analyzed in situations where innovation is threatening to overthrow established products from the market. The article provides solid basis for understanding the process of re-establishment of a Swiss watch industry after the Quartz crisis in the 1980s. Navis and Glynn (2010) in their article suggest how new market categories emerge and how they are legitimized. Authors used a case of satellite radio market as their empirical model to determine internal and external confluence of factors which lead to emergence and legitimization of new market categories. Navis and Glynn (2010) reported that their convergent empirical evidence demonstrated consistency with their four hypotheses that were used to legitimize relevant product. Authors summarized their recommendation and proposed further studies to be developed where “examining the robustness of our findings in market categories that are more (or less) institutionalized, complex, or broad in the range of actors or scope of activities, would offer an interesting extension” (Navis & Glynn, 2010, p. 465). Silverstein and Fiske (2005) discussed the emergence of the “masstige” brands and strategies, a form of creating affordable new luxury that still has reasonable level of prestige (cited in Truong, McColl, & Kitchen 2009, p. 376). Truong et al. (2009) refer to the lack of the empirical studies that have not been conducted as a support for the suggested existence of strategies focused on product and brand extension to be able to reach more consumers. Authors rationale was “to verify the hypothesized positioning of new luxury brands in relation to traditional luxury brands and middle-range brands, and to draw implications for both academics and practitioners” (Truong et al., 2009, p. 377). In this article, masstige

strategy “is viewed as being very innovative and effective because it combines a successful prestige positioning with a broad appeal, but with little or no brand dilution” (Truong et al., 2009, p. 376).

Burrus and Mann (2011), discussed how reinvention of the old product could refer to using it in a new way. Furthermore, Brown, Kozinets, and Sherry (2003) offered an interesting research about revival of old brands and creating new meaning for old products through retro marketing. Berenson and Mohr-Jackson (1994) pointed out that companies should not forget old products when considering new market moves. These works can be connected to Swiss watchmaking status after the Quartz crisis events and Young (1999) discusses the rise, fall and revival of the Swiss watchmaking in that period. Following the Quartz crisis, Donzé (2012) provides specific information which have contributed to the success of the Swatch Group, world’s leading watch manufacturer. Threatened by the pressure coming from Japan, Swatch emerged as a well thought and effective answer to changed market environment. Following the case of the Swatch Group establishment there are works that provide very useful information and framework for observing new products and brand creation. Saunders and Jobber (1994) report about their study of long-term survival strategies referred to the simultaneous deletion and introduction of new products. Kapferer (1997) delivered comprehensive work about the importance of the brand in company’s assets and provides several cases of successful branding strategies. Through the case of the world’s foremost watch brand, Reardon (2008) delivered an interesting study about marketing strategy, amazing advertisements and use of tradition to reach specific audience using the case of Patek Philippe. This case also provides remarkable example for exploration of the innovative advertising through offering unique blend of messages about tradition, craftsmanship and innovation. Jeannerat (2013) developed the study that refers also to the Swiss watchmaking case and “the emergence of an economy in which business is primarily

made not out of a technical offering of goods or services, but out of consumers' engagement in 'memorable' experiences" (p. 370)

Sarasvathy and Dew (2005) examined whether new market can be a product of a theoretical process involving organized exploration and selection or can happen as a result of some uncontrolled realities and market events. This work provided a platform for relations towards Quartz crisis as an uncontrolled event that caused transformation of the Swiss watchmaking industry. Silverstein, Fiske and Butman (2008) discussed the changed buying patterns and creation of the new luxury segment. This helped to determine to what level in recent years Swiss watchmaking is using marketing actions and practices in relation to actual manufacture promotion and devotion to creating a real sophisticated piece of craftsmanship.

All mentioned theories, studies and proposed frameworks will help to analyze how Swiss watchmakers performed business transformation to develop changed value proposition and status of their products. When mentioning status, Kotler and Armstrong (2012) define it as "more-for-more positioning that offers not only higher quality, but also gives prestige to the buyer that symbolizes status and a loftier lifestyle" (p. 236). Again, it would be valuable to extract from here mentioned sources the value proposition elements that offer this status to industry's consumers. There are some brands within Swiss watchmaking industry that correspond to the masstige concept and works about new luxury supported the objective to define Swiss watchmaking as established product category that has its own subcategories. Reflections from mentioned articles and studies would be used throughout the research as theoretical lens that provide useful orientation and relevant framework.

Since the Swiss watchmaking went through several crises and cycles of re-development, this work should provide deeper understanding about ensued specific value proposition and define its unique positioning. The findings provided for this case should expand the specific knowledge about the emergence of distinctive market positions of revived

industries that have already went through cycles of crises, transformation and re-identification. This work will be a source where employment of a specific marketing and entrepreneurial theories, supported with useful and comprehensive data, will result in examination and validation of a relevant case.

Research method

This study will focus on the exploration and analysis of the content of various sources that discuss and reflect on the Swiss watchmaking industry, its entrepreneurial entities (brands) within the industry, as well as on its history, key events and crucial business strategies. The units of analysis are sources that can reveal and validate data and reflections about business transformation and related value creation of the Swiss watchmaking, specifically having in mind the aspects that enable consumers' benefits and values which serve as relevant criteria and condition for successful value proposition. To frame the boundaries of the research, the focus is on the sources that can help to determine and identify reflections, messages, statements, suggestions, terminology, definitions and observations relevant for extraction of the data about the industry's transformation, value creation aspects, and events that lead to change. Also, the focus is to use relevant sources mentioned in the Literature Review that cover the fields of marketing, innovation, and customer centricity as "a theoretical propositions to guide data collection and analysis" (Yin, 2009, p. 18). The sources will be organized based on their type (historical, statistical, case studies, journal articles, theory materials, official brand websites, forum web sites about Swiss watches, relevant magazines). The final aim of the analysis is to identify the specific content from which the answers on the Major Questions can be answered and supported with relevant assumptions and terminology.

The process will start with the research of the sources to determine considerations and reflections about the transformation of the Swiss watchmaking and statistics that can

provide data about financial results as an indicator of successful market performance. Then these findings shall be validated through the use of the specific reflections and terminology from relevant sources that were discussed in the Literature Review. The next step will include exploration of relevant web sites and forums that discuss about the Swiss watchmaking. In that part of the research, the focus is on finding the messages, statements and reflections that reveal aspects of value proposition – experiences, personal meanings, benefits, and personal considerations about products. After that data is analyzed, all data will be used to propose the answers on the Major Questions. Finally, the meaning of the results will be discussed and final conclusions will be proposed.

In order to add the validity to this qualitative research, some key data and findings shall be triangulated from several sources in order to reach convergence (Creswell, 2014). Specific research studies and theoretical platforms will be used to create a valid framework which will guide data collection and validate the findings in relation to terminology, definitions, and concepts.

The content analysis itself will focus on the sources already mentioned in the Literature review and other sources like official websites of the specific brands in order to explore the messages and values they aim propose. Historical data and information about key events shall be compared to other sources like books about general industrial history or Encyclopedia. They would be examined to determine events that lead to turmoil and transformation of this industry. Swiss watchmaking industry went through severe crisis in 1980s, in the years known as the Quartz crisis. That was the period where the demand for Swiss watches declined rapidly, virtually wiping out one of the most important sources of export in Switzerland (Breiding, 2012). Thus, this period shall be explored and data collected about relevant sales statistics production output shall be examined to provide comprehensive picture about the consequences of Quartz crisis and subsequent successful business

transformation. Figures and findings will be compared to data from other years to determine the level of the change relevant to quantitative aspects within the industry.

Qualitative design shall be used to frame all particular theories that provide valid reflections and relevant definitions suitable for determination and validation of particular terminology that will be used for this case. Discussions about luxury and branding concepts shall be explored to determine and verify the perceived luxurious status of the industry. Business frameworks and assumptions shall be placed against the development and organization of the industry to determine to what extent it has involved marketing, innovation, and product quality into the process of products' new market positioning. Sources about social and marketing practices shall be used to explore the industry's public appearance, image creation, and promotional trends.

As this is the study of one specific industry, the data will be collected from relevant sources that provide comprehensive statistics. The Federation of the Swiss Watch Industry [FH], with its headquarters in Bienne, is the Swiss watch industry's leading trade association. FH is very useful source of all kind of information, from statistics to market surveys. It brings latest news relevant for the industry and also has its branch office in Japan. Other data shall be collected from the companies' official business documents and relevant PR and marketing releases. Also, external sources such as bank and industry audit reports could be used. These documents contain detailed and verified information about performance, current position and prognosis about the industry.

The plan is to use available literature, web search for relevant academic sources, and verified documents. A potential limitation in proposing the links to other old and traditional industries could occur due to studying only one specific industry that has its particular history and business nature. However, Swiss watch industry has a long track record and has been present on the market for a very long time and has experienced a lot of different challenges.

Potential bias could occur since some relevant statistical sources are trade orientated entities or have a specific connection with the industry. Despite being independent, some institutions could provide information that is of promotional and protective nature. Also, a bias could occur if works were based on the cases that were examined in irrelevant period and within unique market environment. Such cases would be treated as phenomena and would not represent genuine and valid platform for extracting key information and assumptions. It will be important to give special attention to insure sources are credible and that works cover broader period and various market conditions.

Quartz Crisis

This crisis is considered by most authors as the crucial event for the global watchmaking industry due to its consequences for the industry transformation and development. According to Munari, Oriani, and Wezel (2003) introduction of the quartz wristwatch caused radical changes for both market structure and technology. Swiss watchmakers were almost destroyed as a consequence of these changes, but were in fact the ones who initiated quartz technology development. Munari et al. (2003) state that the Swiss watchmakers were the first who developed a quartz watch prototype in 1967, but it was first commercialized by Seiko in 1969, with the model 35SQ Astron.

The development of the quartz watch was radical but was not a process that happened in short period of time. Throughout 1960s and 1970s even American watch producers (e.g. Hamilton and RCA) were involved in research of the new mechanisms that would power a watch and did, as Swiss and Japanese producers, launch R&D strategies that would enable them to innovate in that field (Donzé, 2012). The development of the electronic watch began back 1950s and in 1954 Swiss engineer Max Hetzel developed an electronic wristwatch that was powered by a 1.35 volt battery (Young, 1999). In the following years, several watch producers were involved in the development of the electrically powered wristwatch.

American producer Bulova produced the electrically powered model Accutron which was released on the market in 1960s and another American producer, Hamilton, released its model Pulsar, which became the first battery driven wristwatch in production (Glasmeier, 2000).

Despite several producers pursued the development of fully functional and marketable battery powered wristwatch, it was Swiss Centre Electronique Horloger (CEH) who succeeded in producing the first quartz movement that was small enough to fit into a watch case (Young, 1999). So, the question is why Swiss producers had turned to the quartz power development and why they almost collapsed despite being the first who developed this technology?

Aforementioned Swiss engineer Max Hetzel decided to retain the control of his electric technology through licensing agreements and thus the industry largely remained far from being able to commercialize based on this technology and so it eventually turned to available quartz crystal (Glasmeier, 2000). However, despite Swiss Centre Electronique Horloger (CEH) had made first quartz prototype, watchmakers in Switzerland did not involve further in the mass production of the quartz watches. Tajeddini and Mueller (2011) state “that Swiss manufacturers convinced of the superiority of their high quality mechanical watches, made no real attempt to exploit this innovation“ (p. 360). Swiss producers were traditionally orientated to the craftsmanship, tradition, and specific manufacture skills so they had regarded the quartz technology as the less artistic and less admirable way of production. Despite being innovative and largely responsible for the development of the quartz technology, Swiss watchmakers failed to recognize the commercial potential of this technology. In particular, the business structure and organization of the Swiss watchmaking were very much atomized and revolved around independent companies that cooperated based on the specific trade agreements without attempts for actual business integration. According

to Jacobides and Winter (2005), Swiss watchmakers were vertically disintegrated, market-based organizations circumscribed by the limits implicitly imposed by the existing division of labor in the value chain. Donzé, (2012) further states:

The crisis experienced by the Swiss watch industry was thus only the indirect result of a technological change linked to the nature of the product. It appears to be more the consequence of structures unsuitable to globalized capitalism. While maintaining an industrial base composed of hundreds of small and medium sized firms, interdependent but autonomous, the watchmaking cartel (1934 – 1971) delayed the industrial concentration which was necessary for a rationalization of production and marketing on a competitive world market. (p. 126)

Since Swiss producers showed a little interest and business capability to take the quartz technology closer to feasible mass production, the competition from Japan took the opportunity and had engaged in the devoted development of the efficient technology for mass production. Thanks to its effort and business organization Seiko produced the model Astron which was more accurate, thicker, and most importantly, affordable quality quartz watch that was snapped by consumers around the world (Barrett, 2000). According to Donzé, (2012), Swiss watchmakers delayed industrial concentration which was necessary for business rationalization and marketing on a global scale, and Seiko did just the opposite. As a consequence, Swiss exports of mechanical watches plummeted from 40 million pieces in 1973 to only three million ten years later and number of work force in the industry plunged from nearly 90,000 in 1970 to 47,000 by 1980 (Young, 1999). Donzé, (2012) concludes that the Swiss watch industry in the 1970s was not competitive on the world market and that “Swiss watches were too expensive, especially due to a lack of rationalization of production and of a marketing strategy organized and coordinated at the global scale” (p. 127). The

factors that lead to the crisis were thus related to the product innovation but also to the non-competitive business structure and marketing model of the Swiss watch industry.

Norman and Verganti (2014) discuss that with the product innovation, the Quartz crisis brought the change in the meaning of the watches for the consumers and that is why the competition from Japan was successful. Japanese producers were able to add various functions to the quartz watches (e.g. stop watch, alarm, and timer) and produce highly accurate and affordable pieces. On the other hand, more functions on the Swiss mechanical watch meant more expensive and bulkier product. In the case of the Japanese watches, consumers could get a product that was representing new values on top of the basic function of the time keeping, without having to pay substantial amount for the product. As one of the lessons from the Quartz crisis events, Keillor (2007) emphasizes that “it is important to remember that the core competency throughout the process is no guarantee or protection from competitors” (p. 114). That is what the Swiss watchmakers had failed to realize. Again, Keillor (2007) states that the powerful competitors will enter into the market using the technologies as their gateway and thus the companies have to focus on a series of the capabilities to be able to compete rather than just on the core capability.

Tajeddini and Mueller (2012) reflect on one very important aspect of the innovation process that Swiss watchmakers apparently lacked, and that is proactiveness. Swiss watchmakers were able to produce quality products and innovative quartz technology but were not proactive in their approach to the business model and market potential. Instead, they often innovated to prove their industrial and craftsmanship virtue, eventually failing to successfully commercialize their innovativeness on the market. In that respect, Davila, Epstein, and Shelton (2013) propose a rule of the importance of managing natural tension between creativity and value capture that finally represents crucial distinction between truly innovative companies and ones that are unable to commercialize their creative sources.

Finally, Tajeddini and Mueller (2012) refer to the lack of the focus on the customers' needs and market potential for the Swiss watchmaking, which was instead focused on the core competency related to production quality and specific technical aspects. These factors lead to the lack of the competitive aggressiveness and increased risk aversion (Tajeddini and Mueller (2011), what can be also attributed to the exaggerated focus on the core competency of mechanical watch production and neglecting broader market aspects and future potential.

Swatch Development

As a consequence of a non competitive business structure and threats coming from Japanese competition, Swiss watchmaking was on the brink of collapse at the beginning of the 1980s. The situation was so difficult that almost no one saw a favorable outcome for the industry and many predicted only the worst scenario. In that respect Landes (1983) wrote “now we bid farewell to the master craftsmen who have brought us these wonders of the mechanical arts. Their time has come and probably gone” (p. 359).

However, the events that followed proved the opposite and showed clearly that the Swiss industry still has something to offer. That something was Swatch, “a plastic-made quartz watch manufactured in Switzerland, launched in 1983 that experienced growing popularity in the world since the end of the 1980s” (Donzé, 2011). Developed primarily as a fashion product, Swatch brought a new and innovative perspective to the world of watches. Tajeddini and Mueller (2012) state that “Swatch changed the parameters of competition by making watches that were fun, fashionable, and collectable” (p. 360). Norman and Verganti (2014) further elaborate this:

The Japanese dominated the watch industry until the Swatch watch company revitalized the Swiss industry through yet another radical meaning change: watches as emotion, watches as fashion. Swatch was marketed as a fashion accessory. Whereas people used to own only a single watch, Swatch encouraged them to own multiple

watches just as they owned multiple shoes, belts, ties, and scarves. They encouraged their customers to change their watches to match their clothes. (p. 10)

Schlegelmilch, Diamantopoulos, and Kreuz (2003) concluded that “as Swiss watch makers, such as Swatch, reoriented the industry towards the future and introduced the highly innovative, low-priced, high-quality quartz watch, the Swiss once again achieved world leadership” (as cited in Tajeddini & Mueller, 2012, p. 360).

Having in mind the discussed meaning and the impact of the Swatch on the Swiss and global watchmaking, the question is how did Swatch succeeded in achieving this status. The answer arguably revolves around one name, that of Mr. Nicolas G. Hayek. Born in Beirut in 1928 and educated at the University of Lyon, Hayek had founded in 1963 a consulting firm in Zurich (Donzé, 2011). Mr. Hayek wrote a report for Swiss banks in 1982 and proposed as the main measure merging of two largest, but struggling watch groups ASUAG and SSIH, into a single holding company - the Société suisse de microélectronique et d’horlogerie SA (SMH). In 1983 the merger was finalized, giving birth to the world’s largest watch group SMH, which changed its name to Swatch Group in 1998 (Donzé, 2011).

As much as the Swatch watch was a breakthrough product in many aspects, it was in fact Swatch Group’s business model and management practices that helped the Swiss watchmaking to revitalize and capture the market with a different approach. According to Eckert (2005), “Hayek, the savior of Swatch, put the blame for plunging the Swiss watch industry into crisis in the early 1980s, on management that underestimated the competition as well as a lack of Swiss entrepreneurs with courage, imagination, and vision” (as cited in Tajeddini & Mueller, 2012, p. 360). Mr. Hayek therefore brought a new approach to the business model and different vision about the industry, shifting it from a traditionally disintegrated industry to a globally integrated business system. In that respect Maillat, Lehot, Lecoq, and Pfister (1996) state:

The new production mode was the result of integrated production, not only because it drew on an integrated capability, but also because it required firm-specific investments that were not standardized—so that the transaction costs in the new mode of production were higher. So better capabilities were linked with higher transaction costs, and this led to an increase of integration, which was then followed in the industry. (as cited in Jacobides & Winter, 2005, p. 409)

Driven by Mr. Hayek's ambition and vision, and initially monitored by the Swiss banks, Swatch Group had become highly integrated holding company which owned several business entities related to watch assembly, parts manufacture and marketing. It is important to mention that the process of reorganization and recovery was not fast and easy, and SMH (predecessor of Swatch Group) financially struggled during its first years after ASUAG and SSIH merged. At that time, under ASUAG group were many companies which were producing watch components and movement-blanks (*ébauches*) for the whole Swiss industry, while Omega and Tissot were the flagships of SSIH (Donzé, 2011). At its beginning and for the first part of the 1980s, SMH was focused on the rationalization of its business and reached financial stability in the second part of the 1980's (Donzé, 2011). According to Munari, Oriani, and Wezel (2003), that was a time of "a major wave of liquidations, mergers and acquisitions [which] consistently redefined the industry structure"(p. 15).

As far as technological aspects, SMH focused on rationalization of the production system that was closely related to the Swatch watch. In that respect Barret (2000) states:

SMH slimmed down the Swatch in part by cutting the watch movement's components to 51 (compared to as many as 150 in other watches on the market). The parts were inserted inside a plastic case which was sealed with welding, instead of screws [...] In 1992, production costs for the Swatch were estimated at just 7 Swiss francs per unit – largely as a result of the automated production process. That, in part,

allowed Swatch production to remain in a small mountain town in Switzerland, while other Swiss watchmakers began moving manufacturing plants abroad to cut costs. (p. 368)

This production process that was created for Swatch watch proved that it is possible to produce affordable yet high quality and innovative product in generally very expensive Switzerland.

As already mentioned, Swatch was one of the aspects of the SMH success. In fact, it was a result of an innovative approach to the business model that SMH employed. According to Jeannerat and Crevoisier (2011) it was in fact non-technological innovation that had actually driven SMH toward its success. Donzé (2011) states that SMH grouped companies “together into three sub-holdings, depending on their type of activity (complete watches; movements and parts; other), and initially characterized by rationalization“ (p. 5). That allowed to SMH to employ new practices in production and marketing strategies that until then had not been performed within the Swiss industry. Donzé (2011) further explains:

It shows that, rather than product innovation (Swatch), it was the rationalization and globalization of the production system (concentration of strategic parts’ production in Switzerland; transfer of production facilities in Asia), together with a new marketing strategy (brand segmentation, distribution and retailing facilities, communication, etc.) which were the two main sources of the comeback of the Swiss watch industry on the world market. (p. 1)

SMH and Swatch were genuine breakthrough both in terms of business model and technology. SMH introduced practices and strategies which allowed Swatch to capitalize on its technological strengths and prevented the whole industry to collapse. In that respect Norman and Verganti (2014) mention “Technology Epiphanies that bring a radical change in meaning enabled by the emergence of new technologies or the use of existing technologies in

totally new contexts” (p. 13). Swatch used quartz technology in a new and creative way which was enabled by innovative approach to business organization and manufacture process. Glasmeier (2000) finally points out that “Swatch was a Swiss savior in terms of the Swiss industry’s return to the low-priced end of the industry and in terms of industry image and morale. Its importance was as much in saving face as in saving the industry itself” (p. 250).

Revival of Mechanical Watch

As the industry recovered from the turbulent events in 1980s, beginning of the 1990s brought new trends and different prospects for Swiss watchmaking. Thanks to restructuring and new marketing strategies, the industry was able to respond efficiently to different market expectations and new consumers generated by globalization and opening of new markets around the world. In the 1990s Swiss watchmaking had found new source of profitable inspiration in mechanical watches and gradually repositioned towards luxury (Donzé, 2012).

Again, circumstances and trends did not seem favorable for mechanical watches and many thought that they would eventually diminish from the market thanks to the rise of electronic era and new market trends initiated in 1980s. Young (1999) points out that due to “the dramatic decline of mechanical watch exports in 1970s and 1980s, some pundits stated it was inevitable the mechanical movement would go the way of the horse-drawn carriage” (p. 47). But, already as a rule for the Swiss watchmaking, the industry proved that it can create new values against all odds. In that respect Trueb (2005) states:

Hardly anybody had expected what happened next: as the price of quartz movements declined by a factor of 100, beautifully crafted, exquisite mechanical movements came back in favor – and they had to be made in Switzerland. They were something rare and very special: high-tech machinery, almost artistic skills and tremendous experience were required to make, assemble and service them. (p. 11)

From late 1980s, the demand for the luxury products has been a trend that was present in many market segments, including watchmaking. Phau and Prendergast (2000) state that “for the past 20 years, the pursuit of luxury brands has propelled the growth of the luxury market” (p. 122). Jeannerat and Crevoisier (2011) further state that “communication strategies and products progressively become more oriented towards social and cultural distinction of consumers (sport, business, fashion, luxury...)” (p. 34). Thus, Swiss watchmakers had to find a way to capture value from these new and growing areas of market. So, how did the industry manage to create highly profitable value from the products that had been practically regarded as obsolete and non-competitive?

Although the Quartz crisis had a devastating impact on the Swiss watchmaking and as much as Swatch concept and business model had a key role in saving the industry in general, there are cases within the industry which demonstrate where aspects of new value proposition were hidden and how they could be used. One of the examples is Rolex, a producer that had a stable business even during the Quartz crisis, thanks to maintaining its strategy of mass production of high quality watches, but without diluting its brand with vast volumes and models, like e.g. Omega (Donzé, 2012). According to Barret (2000), Rolex produced only 200.000 watches in 1977 with sales of \$90 million, and had \$280 million in revenues already in 1980. That was 19% of total industry’s export and only 1% in produced watches by volume. On the other hand, Omega, also one of the most prestigious Swiss brands, diluted its brand during 1970s with numerous models and volumes and almost collapsed but was saved thanks to the Swatch Group’s new strategy and vision (Barret, 2000). The Rolex example shows that a carefully managed business system can create high added values even with traditional products in turbulent times. Donzé (2012) further elaborates:

[During the Quartz crisis] Rolex maintained its strategy of mass manufacturing high quality but not too expensive watches. It is itself the example that the lack of

competitiveness of the Swiss watch industry on the world market in the 1960s was not a consequence of problems linked to quartz watches but to the incapacity to adopt a systemized mass production system for mechanic watches – and thus to structures inadequate to globalized capitalism. (p. 138)

In some segments, Swatch Group had applied the strategy similar to Rolex case when managing Omega's recovery and brand revival. In late 1970s, Omega had 2,000 models and Barret (2000) states that Omega's new officials gradually "trimmed the product line to only 130 models and concentrated on reviving its former image as a luxury timepiece" (p. 369).

In addition to systemized a mass production strategy, Watada, Shiizuka, Lee, Otani, and Lim (2014) also refer to a specific luxury marketing strategy, initially employed by few brands, e.g. Vacheron Constantin and Jaeger-LeCoultre, and later adopted by Swiss watchmaking in general. Watada et al. (2014) further explain this strategy of communication as the delivering of affective value:

To counter the falling demand, the Swiss mechanical watchmakers focused the strategy toward affective value communication. For instance, companies tried to deliver affective values such as superior craftsmanship, history and authenticity to customers. Unlike technological excellence that is tangible, visible and palpable, affective value is intangible and more difficult to communicate, thereby building competitive advantages over the rivals. (p. 171)

To gain an advantage over its rivals and to step deeper into the luxury market segment, Swiss watchmakers turned to unique attributes that were used to build a position where rivals will not be able to compete. By communicating its affective value, Swiss watchmakers generally focused on two aspects of their authenticity: Swiss origin and rich tradition in mechanical watch production. According to Jeannerat (2013), this authenticity is regarded as a possible form of market valuation where "experience in consumption and

technology in production appear as strategic economic resources but what is primarily valued is authentic watchmaking” (p. 370). Kessous and Roux (2008) further explain that “the more an individual is attached to tradition, the more he or she is attached to the authenticity of brands” (p.205).

From the early 1990’s until present, Swiss watchmakers continuously delivered carefully constructed messages that emphasized their tradition and origin. They have employed principles of “experience economy” (Pine & Gilmore, 2011) to involve many consumers who find these unique affective values important for their personality and thus worthy of their money (Jeannerat & Crevoisier, 2011). Many watchmakers clearly found that these aspects are no less important asset than technological aspects. Watada et al. (2014) state that “Swiss watchmakers used to emphasize the precision of their wristwatches; after the Quartz Shock [crisis], they began to communicate affective value so as not to directly compete with Japanese precision watches“(p. 167). Watada et al. (2014) further point out that “it is indispensable for luxury watchmakers to communicate affective value in an exclusive manner to imply rarity - the key for creating customer appetite for affective products” (p. 167).

There are several examples that clearly demonstrate that Swiss watchmakers have actively used their tradition and origin to distinguish from competition. For example, Omega’s website instantly brings message “Manufacturer of prestige Swiss watches since 1848” and Zenith’s website demonstrates the same concept – “Swiss Luxury Watches & Manufacture since 1865”. Oris on its website emphasizes its devotion to mechanical watch production – “Purely mechanical Swiss watches” while Rolex emphasizes luxury with “Timeless Luxury Watches”. From the early 1990s, Swiss watchmakers have employed several principles that helped them to revive the mechanical watch and use it to gain competitive advantage and luxury repositioning. In that respect, they have also used nostalgia

and retro branding for making unique relationships between their products and consumers. Patek Philippe became known for its slogan “You never actually own a Patek Philippe, you merely look after it for the next generation”, while many watchmakers have also started to re-launch new versions of old watches. Brown, Kozinets, and Sherry (2003) consider the retro branding “as the revival or re-launch of a product or service brand from a prior historical period, which is usually but not always updated to contemporary standards of performance, functioning, or taste“ (p. 20). Furthermore, Aaker (1996) states that revived brands could potentially be drawing upon consumers’ personal and communal associations, which are also close to the definition of ‘brand heritage’ (the bulk of associations to past events and memories connected to a brand) (as cited in Cattaneo & Guerini, 2012). Clearly, the mechanical watch and related Swiss origin and tradition correspond well to these mentioned concepts and principles.

The revival of the mechanical watch and repositioning towards luxury was very successful for Swiss watchmakers. During the last 20 years, the industry managed to break away from its competitors and has created a unique character and aura around itself. Already “in the early 1990s, Switzerland accounted for just 6% (42.5 million) of watches produced worldwide, [but] it granted nearly half of the value at \$4.3 billion” (Barrett, 2000, p. 370). Also, production volumes and financial value between electronic (quartz) watches and mechanical changed dramatically. According to Federation of the Swiss watch industry [FH], the volume of exports in 2000 was 27,2 million units for electronic watches and 2,5 million for mechanical watches, but sharing almost equal financial exports value (CHF4,8 billion and CHF4,4 billion respectively) (FH, 2015). However, also according to FH (2015), in 2013 the exports volume was 20,6 million units for electronic watches and 7,5 million for mechanical watches, where electronic watches gained only CHF4,6 billion and mechanical watches CHF16 billion. Once obsolete and almost discarded, the mechanical watch is today a flagship

product of Swiss watchmaking. Jeannerat (2013) states that “characterized by a generalized move to higher-range and higher-priced products, this technological [mechanical watch] revival has extraordinarily increased the average value of Swiss timepieces“ (p. 377). Watada et al. (2014) finally conclude that “the mechanical watch industry has returned to be one of the key drivers of Swiss national economy“ (p. 171).

Swiss Made Label

Since Swiss watchmakers have always faced with aggressive competition and with transfer of their competitive assets to other markets, they had to find a way to effectively preserve their core know-how and unique profitable advantage coming from their Swiss origin and industrial tradition. Out of many challenges, the central issue for the industry during the first half of the last century had been “*chablonnage*” – exporting of the watch parts that would then be assembled in the country of sale (Donzé, 2012). That practice was common in the mentioned period because of the high customs and taxes that had been applied on the fully assembled watches imported from Switzerland. However, at the same time, that practice led to strengthening of the competition whose skills and know-how had grown as they worked on the assembly of Swiss watches for the local market. At the beginning, the industry and the Swiss state tried to protect itself by creating the holding company Allgemeine Schweizerische Uhrenindustrie AG [ASUAG], who’s main goal was to introduce permitting system for production and prohibit uncontrolled export of its assets (Cassia, Fattore, & Paleari, 2006). Thus, “Swiss made” label was at first introduced as a protective and quality control measure and later became a strong marketing tool for the industry.

The marketing aspects of this label have gradually become very important for the industry over the last 40 years, especially after the “Quartz Crisis” in 1980s, during which Japanese watchmakers capitalized its position (Cassia, Fattore, & Paleari, 2006). The Swiss

made label itself was registered and protected on 23rd December 1971 (Federation of the Swiss watch industry [FH], 2015). Strict criteria and rules are introduced in the Federal Ordinance and according to the FH (2015), a watch is considered to be Swiss if: (a) its movement is Swiss; (b) its movement is cased up in Switzerland; and (c) the manufacturer carries out the final inspection in Switzerland. Furthermore, FH (2014) states that a movement is considered to be Swiss if: (a) it has been assembled in Switzerland; (b) it has been inspected by the manufacturer in Switzerland; and (c) the components of Swiss manufacture make up for at least 50 percent of the value, without considering the cost for assembly. These rules are strictly applied and even if a non-Swiss owned company applies the same rules and criteria, it can earn the right to place the Swiss made label on its watches. Today, there are some non-Swiss owned watchmakers working under this label (e.g. Ball) but they have to do their assembling and produce defined parts in Switzerland. It is important to emphasize that criteria for Swiss made label will be soon additionally strengthen due to the new policy called “Swissness legal framework“ (FH, 2015). Starting in 2016 (at the earliest and with a transition period), this new regulation will bring new minimum value criterion for the watch, as opposed to the movement only, where the percentage of the Swiss value build into the watch will have to be 60% for quartz and 80% for mechanical watch (FH, 2015). The minimum rate of Swiss value in the Swiss movement will be increased from 50% to 60% (FH, 2015).

Above mentioned criteria and legal framework clearly show that Swiss Made label is of vital importance for Swiss watchmakers. According to Donzé (2012), Swiss watchmakers have dominated the market for more than two centuries. This dominance in the last 20 years is directly linked to the creation of the Swiss made label and promotion of its local identity on the global scale. In this regard Donzé (2011) also states:

Two reasons explain why the Swiss watch industry was – and still is – localized in Switzerland. First, there was a strong political will to preserve the structure of family capitalism in the watch industry, especially during the period of the cartel (1930s–1960s), in order to maintain the social order. The watch industry being the main, even the only, industrial activity in the Jura Mountains, it was seen as a necessity to keep an industrial structure made up of hundreds of small firms which ensured the existence of workshops in each village and town, and thus employment. Second, after the collapse of the cartel and the passing of the legislation on Swiss Made (1971), there was a marketing reason. (p. 152)

These marketing reasons are directly related to the concepts of authenticity and affective valuation mentioned in the previous chapter. For consumers, Swiss Made label is the umbrella term that stands for unique values that one respects and advocates by choosing a Swiss watch. Jeannerat (2013) further explains these specific values:

Since 2009, the Fondation de la Haute Horlogerie (‘Foundation of Fine Watchmaking’) and the Federation of the Swiss Watch Industry, which represent most of the watch manufacturers established in Switzerland, have been leading an intense international anti-counterfeiting campaign under the slogan: ‘Fake watches are for fake people: Be authentic. Buy real’... Beyond the slogan, this catchphrase points to a particular form of valuation that is neither technical nor experiential. Quality builds upon the authentic status that is assigned to particular objects and actors (‘be authentic’) through this essential question: ‘Is something/someone real or fake?’ (Gilmore and Pine, 2007) (as cited in Jeannerat, 2013, p. 378)

Through carefully created marketing strategies and by not compromising on the quality of the products, Swiss watchmakers have built strong and unique identity concept that is delivered through each Swiss watch. In the era of emphasized personality, individual

differentiation and expressive living are closely related to the products one chooses to express his values. Swiss made label on Swiss watches brings forward a message about genuine identity and Swiss watchmakers have used this identity aspect as a core element based on which they engage consumers. By using a Swiss made label as a universal communication driver, the industry has been able to achieve genuine standardized framework that sends unique message to each and from each consumer regardless of the type of the Swiss watch one wears. No matter if it is a case of affordable Swatch or high-end Omega, Swiss made label ensures to a consumer that he will receive and express further universal message about the authenticity. This authenticity is about the consumer as well as about the industry. As a result, a genuine relationship is created which enables long term profitability for the industry and long term satisfaction for consumer. In that respect Gioia, Patvardhan, Hamilton, and Corley (2013) state:

[...]we see another key aspect of identity as its being not only self-referential, but also self-reflective—that is, it is a reflexive consideration of the existential question “who-am-I-as-an-individual?”/“who-are-we-as-an-organization?”. Identity, at all levels, taps into the apparently fundamental need for all social actors to see themselves as having a sense of “self”, to articulate core values, and to act according to deeply rooted assumptions about “who we are and can be as individuals, organizations, societies”, etc. (p. 127)

Swiss made label is a remarkable example about how identity is used to build a competitive advantage and loyal consumers. Also, it shows how both product and marketing communication have to be authentic and consistent. Furthermore, the case of the Swiss made is also about the need of creating more complex levels of engagement that go beyond the product itself. Jeannerat and Crevoisier (2011) state that Swiss watchmakers have “developed *desirable product and narrations* which mobilize customer’s knowledge and identities in

much more complex ways than previously” (p. 32). They use cultural events, exhibitions, and endorsement to speak about tradition. Gioia, Patvardhan, Hamilton, and Corley (2013) emphasize that “an important part of identity is history because an organization can only know if it is acting “in character” if it has a history of action consistent with its founding or adopted core values” (p. 125.). With choosing a Swiss made label, consumers choose to send a message that history, technical excellence and authenticity are highly important in their personal set of values.

Conclusion

Swiss watchmaking has gone through several redevelopment phases in its revitalization process and major challenges were linked to the impact of the globalization aspects on the industry’s traditional business model and products. The industry faced severe turmoil due to the rise of the competition on a global market which almost destroyed Swiss watch as a traditional product. This resulted with dramatic changes in the business model that the industry has adopted over the last 30 years and these new approaches have been crucial for the industry’s survival.

This study has been focused on the analysis of the factors that are important for understanding the revitalization aspects for a traditional industry in changed global environment. These factors are closely related to innovation, leadership, and service design, and reveal very important processes that have driven business transformation and evolution. The underlying forces are based on the identity and authenticity of the industry, which eventually enabled Swiss watchmakers to create new value proposition and manage repositioning on the global market. Two central elements embedded in this value proposition are Swiss watch itself and end consumer. The relationship is created between these two pivotal factors and has resulted in the experiences created from value proposition inherent in the Swiss watch.

The questions addressed at the beginning of this study led to answers that exposed all crucial drivers and structure of processes that have been initiated back in 1980s and have continued until today. To make an overview of the particular answers and provide summarized conclusion about them, it is important to emphasize the interrelation between the answers since events and resulting outcomes cannot be separated and considered without taking into account all aspects equally. As already mentioned, the answers revolve around innovation, leadership, and service design.

This study has shown that several sources mention Quartz crisis as the crucial event that marked the beginning of the new era for the Swiss watchmaking. The analysis shows that interpretation about this event has provided conclusions that all emphasize innovation as the major factor of influence. However, several authors referred to the technical innovation related the quartz watch development to point out the competitive threat coming from Japan that eventually jeopardized the existence of the Swiss watchmaking. Further analysis provided findings that Japanese competition relied in fact on the quartz technology developed by Swiss watchmakers, and revealed the lack of the competitiveness of the Swiss industry in terms of weak business model and obsolete industrial structure. Therefore, the findings show that Swiss watchmakers had to find solutions in new business model. Finally, our analysis provides the answer that the new value has been predominantly developed through the innovative business model transformation and not technology. This process resulted in new marketing strategies and integrated global business system, initially developed by Swatch Group. Broader implication of this finding means that a particular industry does not have to compete heavily in the technological arena, but can gain competitive advantage by applying innovative approach to business organization. This new approach created a universal value proposition whose core elements are localized Swiss identity and industrial authenticity, but delivered through globally integrated business system.

These new aspects of genuine identity and authenticity are nested in new value proposition that differs from one promoted prior 1980s. As much as precision and quality were major factors emphasized prior to Quartz Crisis, Mr. Nicholas Hayek from Swatch Group brought new business dimension into the industry. Thanks to his leadership skills and vision, the whole industry eventually shifted its communication from technological to affective values, thus facilitating new relationships with consumers based on the engagement that goes beyond technological excellence. Broader implication of this leadership case has two aspects. On one hand, it shows that in times of crisis a leadership role is crucial in order to create new shared vision and recognize advantages of the existing forces so that their strengths can be used in new market environment. On the other hand, it shows that a change in leadership can have a crucial impact in evolution of an organization, even if a technological base stays more or less the same. Therefore, it is important to recognize that Mr. Hayek's leadership significance was not a result of the Swatch watch success, but vice versa. This leads to a conclusion and answer that new values for the industry were based on the predominantly same offering but with dramatically changed valuation source and communication strategy.

To further support these conclusions, this study used the case of the mechanical watch revival. This product is based on the old craftsmanship skills and industrial tradition, and most of the components of the mechanical watch are based on technological heritage. However, our analysis resulted with conclusion that Swiss watchmakers have found a new and innovative approach in order to deliver the value proposition of the same old mechanical watch. This new value proposition does not focus on the technological innovation, but on the affective values derived from heritage, quality, and craftsmanship. In its essence, Swiss watchmaking relies on a traditional product that has been on a market for more than 100 years, but it has found new sources of value in its Swiss identity and industrial tradition. That

enabled the industry to use its authenticity and reposition towards luxury segment which opened new opportunities and new ways of producing personalized consumer experiences that generate more profit and highly engaged and satisfied consumer. It shows how value proposition and its delivery are linked directly to the industry's success. In broader terms, it can be said that traditional industries do not have to perform transformation or replacement of the product in order to revive their market status. They can search and reach for unique aspects connected to their specific identities and authentic characteristics, so that the new competitive base is built on the affective values and not predominantly on a technological platform. It is important, however, to have in mind that Swiss watchmakers never compromised on the quality of the watch, so this aspect of the product should never be in question.

So, why consumers buy Swiss watches and what value proposition the industry delivers? Consumers buy Swiss watches since they find valuable personal benefit in owning a Swiss watch. This benefit comes from the individual experience that is created by the consumer and the industry mutually. The industry uses all its undeniable advantages that are related to its tradition, identity, quality, and technological excellence to deliver affective values that are important for a consumer. Consumer further creates its own experience based on these affective values and brings a message about himself in relation to others. This message is in fact an expression about authenticity and success that a particular individual cares about. A Swiss watch is strong but non-intrusive messenger.

As far as the value proposition, Swiss watchmaking delivers it as set of stories and messages that always speak about authenticity and identity. Value delivery system used here is consistent, credible, and reliable. Service design which is employed by Swiss watchmakers is focused on the emotional aspects of the consumer experiences. The crucial factor in the value proposition of the Swiss watchmaking is that it does not treat watches as commodity

but as emotional products with cultural and social dimension. This is achieved through carefully designed service system that focuses on the consumer's senses and experiences by using market-specific narration. The emphasis is on the exclusivity of the brand and valuation of the consumer. Donzé (2012) finally points out that "in the globalized luxury industry, the territorial localization appears to be a key feature because it guarantees the image of tradition and excellence which are at the basis of its exclusivity. The tradition of luxury is European in its essence, within which watchmaking is Swiss" (p. 154).

Recommendations

This study resulted with several answers based on which one can frame a platform for discussions aimed at finding useful business practices. Also, the case of Swiss watchmaking can be used effectively for better understanding how specific business model deals with severe market challenges by finding innovative solutions in business development.

The case described in this study, brings to attention one very interesting and important aspect of value proposition, and that is the relationship that is created between the company and consumer. Today's businesses have already learned that the value proposition is not about the offering itself, but about the relationship that is being produced mutually by the company and consumer. However, the creation of strong, long-lasting, and fruitful relationships is very difficult process for a company. In that sense, Swiss watchmaking case is a valuable example that shows how services and products should not be treated as commodities if a company wants to engage with its consumers on emotional level without delusions about the quality of the products. Simply put, the case described here clearly shows that business as a minimum has to invest its tradition, reputation, and technological recourses to deliver unquestionable quality based on which the relationship shall further grow. From the case presented here, one can learn that technological excellence and product quality are not enough anymore to guarantee consumers' attention and loyalty. In fact, if these are the only

things a company can offer, competitors will quickly take the consumers away by providing the same offer at a lower price. That is exactly what happened to the Swiss watchmakers in the early 1980s. They had relied on their technological excellence until the Japanese competitors applied more efficient technology at a lower price.

Today, there are a lot substitute products for a watch but Swiss watchmakers do not build their competitive advantage solely on the functional aspects of their products. This research has shown that functions and practical benefits of a product are not enough anymore to satisfy the consumer's interest and ambition. Therefore, this study can be recommended for businesses to learn how neither quality nor functional benefits are not enough for attracting and keeping the consumers. These aspects are something that consumers expect in any case in today's economy, so companies have to go further in finding their unique and meaningful value proposition. In that respect, this study delivers important lessons about how value proposition should not be considered as a simplistic set of words or phrases used for marketing purposes, but should be a structured process that reflects true devotion to production of valuable experiences. Swiss watchmaking case can be thus recommended for better understanding the importance of transforming not only marketing practices, but the whole business model, including production systems and corporate organizations into synchronized value delivery chains. This study shows that value proposition cannot be developed without affecting the whole organization in every segment and without clear understanding of the unique aspects of that value proposition. Finally, this study can be recommended for expanding the knowledge about how service or product is competitive on the market only if it holds a unique place and important value in consumer's mind. In that respect, Swiss watchmakers succeeded because they positioned themselves in a unique way in the consumers' minds, which resulted in their unique market position. This leads to a conclusion that a company will not succeed on the market if it tries to impose its position by

claiming it through marketing actions, but only if it builds it systematically by developing the value proposition where consumers' experiences are central and determining factor.

As far as recommendations for further researches, there are at least two areas which could be analyzed more closely as they are undoubtedly relevant for the near future of the industry. First, there is a case of smart watches being developed and released on the market, and second, there is a case of ETA SA (watch movement producer owned by Swatch Group) which gradually decreases its supply of movements to the companies outside of the Swatch Group.

In regard to smart watches, they are already on the market, and they represent competition for the Swiss watchmakers. Full potential of these products is yet to be determined, so further researches could be focused on analyzing what is the potential link between these products and quartz watches that had appeared in 1980s. Also, it would be valuable to analyze what are the main challenges associated to smart watches, since they extend users' experiences by their ability to communicate to other IT devices. So far, Swiss watchmakers showed moderate interest in smart watches. Few products have been announced but it seems that Apple and Samsung are the main players. The fact is, smart watches will compete for a place in minds of consumers, i.e. for the place on their hands as well. When quartz watches appeared, they offered more or less the same functionality as traditional mechanical watches and did not have the ability to extend their purpose since they were time pieces in their essence. Smart watches on the other hand are IT products and work with other IT devices which greatly increase their usability and user experiences. Thus, for some lower and medium priced watches, smart watches represent serious competition.

ETA's reduction in the movements supply to non Swatch Group producers could have significant consequences for the Swiss watchmakers. ETA has gradually reduced the output starting in 2012 until it finally ceases to supply other watchmakers after 31st December 2019

(swissinfo.ch, 2012). Other Swiss watchmakers have already announced individual projects in production of in-house movements and parts, but this requires time, money, and mastering of the specific technology. Several high-end producers, like Rolex or Jaeger LeCoultre, have always had their own movement production, but for many other brands ETA's decision will lead to new investments and changed supply conditions. In that respect, further researches could be made that would analyze what would the increased production of in-house movements mean for end consumers in terms of price and quality. Also, it would be valuable to analyze if that would lead to further increase of exclusivity for many Swiss watchmakers and what will be the outcome for the industry in the long term. For sure, mastering of the production technology will lead to increase of the know-how and special capabilities, but will this lead to exaggerated exclusivity and would that open new possibilities for watchmakers from Japan or China?

Limitations

This study analyzed only the specifics of the events relevant for the Swiss industry without considering how competitors behaved during the last 30 years. In that respect, there are factors which could have provided broader picture of the whole watchmaking industry if Japanese competitors had been analyzed as well. However, that would have extended the scope of the study and would have diluted primary focus which was value proposition development of the Swiss watchmaking. Further research could be done to investigate whether competitors failed to act at some point and thus enabled successful Swiss comeback.

It could be argued whether this study can offer answers applicable beyond the Swiss watchmaking, in terms of using the case as a learning device for other business challenges. One could refer to this case as too specific, knowing that the industry is very old, localized, and dominated by heritage and tradition. However, it is important to have in mind that Swiss industry have competed on a global market and its turmoil were not at all specific in terms of

technological threat, globalized production, and changed market practices that are all relevant for other industries as well. One has to have in mind that Swiss industry specifics were not used as a solution itself, but as ingredients based on which complex transformation into globalized business system has been created. In that respect this study does not offer ready-made solution, but offers opportunity to learn how value proposition can be developed and what are the important factors and practices that have to be considered.

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