

Branding Luxury Through Affective Value Case of Swiss Watch Industry

Shinichiro Terasaki and Shin'ya Nagasawa

Abstract This study focuses on affective value as the key to luxury brand building. Products that invoke affective value imply craftsmanship, history and endorsements of brand personalities that define these items. We cannot commercialize this invisible value, regardless of the delivery of affective value, through a combination of various media such as magazines and selective distribution. In this study, case of the Swiss watch industry is explored to illustrate the communication strategy of affective value, which will be applicable to manufacturers that have unique technologies, but lack the effective communication of affective value. Swiss watchmakers used to emphasize the precision of their wristwatches; after the Quartz Shock, they began to communicate affective value so as not to directly compete with Japanese precision watches. This chapter concludes 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.

Keywords Branding • Affective value • Luxury • Watchmakers

1 Introduction

The rapid industrialization and technological progress in emerging economies have enhanced the worldwide commoditization of both services and products. Even leading global companies such as Sony, Sharp and Panasonic are losing their competitive advantage due to this rapid industrialization. Twenty years ago, such a drastic and rapid change in the business environment was unimaginable. For a

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long time, Japanese manufacturers emphasized the excellence of their products' functional features in their marketing activities while losing customer share, given the increasing needs of emotional appeal to today's experienced consumers.

Compared to Japanese makers, European luxury brands such as Hermès and Louis Vuitton have sustained distinguished reputations and have successfully survived intense competition for over a century. We assume that the core value of these brands is not only in their functional benefits but also in their affective value, thereby not having to compete on price. In fact, many researchers argue that luxury has a high "ratio" of intangible value to price [1–4].

The strategies of European luxury brands are unique and differentiated in the market place. For example, a G-Shock watch is functionally far superior to most luxury watches: It is more precise and directly shows the time with a digital face. G-Shock differentiates their products from competitors through color, material and design variations, even though these physical features are easily copied. However, some consumers are willing to pay a premium for authentic Swiss-Made mechanical watches. What accounts for the enormous differences between affective products and ordinary ones? Why do European luxury brands successfully appeal to experienced consumers? The following two hypotheses attempt to answer these questions: (1) consumers are attracted by intangible facets of affective products and (2) luxury brands are skilled at communicating affective value to consumers.

To support the validity of the aforementioned hypotheses, consider the following argument made by the ex-president of Louis Vuitton Japan, which has maintained high profitability by providing affective products over a century. Kyojiro Hata insists that in addition to efficient business processes, Japanese makers should attach added value to their products to prevail over international competition: This value is not simply quantified but represents an affective appeal to customers [5]. This argument illustrates the importance of attaching affective value to products to make them more appealing to customers.

According to Atsushi Osanai, an ex-employee of Sony and an Associate Professor at Waseda University, Sony previously emphasized the superior functional features of their products compared with Apple. Sony's press releases, however, are currently similar to Apple's and include more comments describing the affective aspects of their products rather than their functions [6]. This implies that affective value communication is essential in contemporary marketing activities.

This study examines Swiss watchmakers to illustrate their scheme of affective value communication with customers to promote their brands.

2 Literature Review

2.1 Overview of Luxury Industry

Before the 1980s, luxury business used not to introduce modern expertise of business management because most luxury brands had been operated as a family business.

Table 1 The scope of the luxury goods and services industry [7]

Luxury brand/service industry	Apparels and accessories Jewelry and watches Leather goods Cosmetics and perfumes Wines and spirits Automobiles and air transportation Hospitality and concierge Selective retailing
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However, the scope of the luxury industry has been quite diversified particularly after the late 1980s when luxury conglomerates started to be formed: LVMH was born in 1987 and so was Richemont in 1988. The figure below visualizes the overview of the current luxury industry (Table 1).

According to Table 1, luxury brand/service industry is divided into eight categories, and luxury watches are categorized as “jewelry and watches.” Since many jewelers are, in fact, watchmakers as well: Cartier and Van Cleef & Arpels, for example, it is reasonable to combine watch and jewelries in one category.

In this research, we analyze the affective value communication in luxury watchmakers.

2.2 *Luxury Watches as Affective Products*

This study examines luxury watchmakers in Switzerland. Originally, the primary value in Swiss watches is functionality to show time precisely. However, the importance of this value significantly decreased along with technological development of wristwatches and globalization. Substitutes such as “Made in Japan” quartz and digital watches had threatened its existence and values particularly during the 1970s and the early 1980s. In fact, many Swiss watchmakers went into a decline particularly in the 1970s due mostly to Quartz Shock brought by Seiko.

In contrast, Vacheron Constantin and Jaeger-LeCoultre, for instance, were able to survive even in this miserable time by incessant communication of affective value. Yutaka Nishimura, a president of Richemont Japan, pointed out that the key success factor in luxury business derives from the maximization of luxurious feelings and added values that come from histories, endorsements and shopping experiences [8].

Vigneron and Johnson [9] identify five values of luxury: (1) Conspicuousness, (2) Uniqueness, (3) Quality, (4) Extended-self and (5) Hedonism. The former 3 can be called as non-personal-oriented perception, and the latter as personal-oriented perception that could be difficult to assess numerically because of the affective nature. Particularly, Hedonic value of luxury overlaps affective value because it encompasses, for instance, intrinsic enjoyment and satisfaction [10], sensory gratification [11], and sensuality [12]. As such, luxury goods can be regarded as affective products in this research.

2.3 Luxury Strategy in Mechanical Watches

Several studies related to luxury watches have been made especially on business historians who narrate the story of mechanical watch industry. Giacomel [13] provides an overview of the mechanical watch industry, particularly in Japan, and traces its historical development from consumer portraits to luxury watches. Donzé [14] writes the historical development of the entire Swiss watch industry, referring to the “Quartz shock” in 1969 when the industry suffered serious recession. Although studies above are valuable to understand the industrial structure, references associated with business management are needed to analyze the secrets of the Swiss watch revival.

Carcano and Ceppi [15] explore the contemporary challenges for Haute Horlogerie, considering market penetration strategies not only in mature market place, but also in emerging economies. This study illustrates the comprehensive analyses of luxury watch industries from the angle of business management. However, there are still few studies that deal with case studies of luxury watchmakers in comparison with luxury fashion brands.

After a comprehensive study of the luxury industries by Chevallier and Mazzalovo [16] and Kapferer and Bastien [17], Hoffman and Coste-manire [18] explores luxury watches as part of their research. Besides the limited literatures on luxury watch industries, it seems little findings about the process of affective value communication with customers in luxury watchmakers. Concerning marketing promotion, significant difference is found between watch and jewelry and fashion and leather goods: the marketing communication of watches is craftsmanship-driven and that of fashion and leather goods is fashion-driven [19]. For fashion and leather goods, the influence of designers is much larger than watch and jewelry brands. The innovation of fashion and leather goods mostly depends on designers; Marc Jacobs in Louis Vuitton, Gianfranco Ferré in Christian Dior and Tom Ford in Gucci, for example. Instead, designers are mostly “unknown” in watch brands, for such brands promote craftsmanship rather than cut-edging fashion. Hence, it must explore the communication strategy of luxury watches to expand the scope of luxury brand management.

In this chapter, the case of the Swiss watch industry will illustrate how Swiss watchmakers can successfully manage their affective value of their products to make the tight engagement with customers. This would provide tips with companies struggling to avoid needless and intense price competition in the contemporary market.

3 Swiss Watch Industry

3.1 Industrial Structure and History

Swiss mechanical watch and clock-making industry underwent rapid expansion during 1770–1786, whereas its advantage was threatened by emerging technology. In the middle of the twentieth century, when Seiko, a Japanese watch

Table 2 Complementary roles of advertising and public relations for luxury goods [24]

	Advertising	PR
Audience	Large	Limited
Good for	Awareness	Preference

manufacturer began to produce the “Quartz,” a high-precision watch, the Swiss mechanical watchmakers, including many machine-tool factories, voluntarily went out of business. The name of the first commercialized quartz watch is Seiko Astron. Quartz was superior to mechanical watches as it was far lighter, inexpensive and precise. If you were to purchase a Swiss mechanical watch, such as Patek Philippe, you would be warned that it loses 2 min every year [20]. In this instance, functional benefits such as price and performance prevailed over the competition.

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 [21], affective value is intangible and more difficult to communicate, thereby building competitive advantages over the rivals.

Currently, the mechanical watch industry has returned to be one of the key drivers of Swiss national economy. Leading brands such as Zenith and Tag Heuer conducted significant public relations activities, delivering affective aspects of the products through the appropriate media. According to a communication and brand heritage manager in Swiss watchmaker, the use of brand ambassadors began since the 1960s as the influence of mass media expanded [22]: Even though the brand had ambassadors such as racers, the brand could not use them systematically as a promotion tool. Such PR activities had started just before the Quartz shock, and wristwatches had no emotion before the Quartz Shock [23].

The reason to choose PR rather than advertising is that advertising is adept at building brand awareness for mass audiences, while PR is suitable for communicating to selective audiences who are interested in affective products [24]. Hence, PR generally works well for affective products like Swiss mechanical watches. For Swiss watchmakers, reaching thoroughly is more important than reaching widely. The complementary roles of advertising and PR for value-added goods are shown as Table 2.

The total value of Swiss watch exports stood at CHF17 billion in 2008, compared with CHF10.2 billion in 2000 and CHF4.3 billion in 1986 [25] even though the number of exported watches has continuously decreased since 1993 [14]. This suggests that Swiss watches had focused on luxury watch making rather than the production of ordinary functional watches.

In contrast, the share of Japanese watches shrunk from 21 % in 1994 to 11 % in 2009 [14]. Seiko was, in fact, the most successful watchmaker in product innovation, whereas such technological rarity was strongly replaced by communicational innovation lead by Swiss brands. This implies R&D related rarity is not enough for sustainable growth of watchmakers.



Fig. 1 Musée d'Horlogerie du Locle [26]

3.2 Attributes of Luxury Watch Brands

Figure 2 indicates the positioning of luxury goods in the prestige market. In this diagram, brands are divided according to the following two aspects: the degree of prestige and accessibility. This chart is based on the following two studies: Vigneron and Johnson [9]’s “Defining Three Levels of Prestige,” and another one is Alleres [27]’s “A Hierarchy of Luxury Goods Products.” Vigneron and Johnson [9] regard luxury brand as the most prestigious brand within prestige brands followed by premium and upmarket brands (Fig. 3). Alleres [27] divides luxury brands into three categories: exclusive luxury, intermediate luxury and democratic luxury in accordance with social hierarchy: elite, professional and middle class (Fig. 4).

As shown in Fig. 2, Swiss watches, excluding some fashion watch brand such as Swatch, cover the exclusive and intermediate luxury, for some luxury watches such as Piaget prices over, in some cases, 100 million USD that is far more expensive than Rolls Royce.

The target of Swiss luxury watches is, therefore, fairly exclusive. In fact, the average price of leading models equipped with “tourbillion mechanism” is largely over 100 thousands USD except for Frederique Constant who sells a watch with tourbillion named Slim Line tourbillion manufacture at approximately 40 thousands USD, and many models have a price equivalent to that of a luxury automobile. Figure 2 is the mixture of the above two theories into one chart to describe luxury brands more concretely and precisely.

In the 1990s, the Swiss watch industry decided to concentrate on the production of high-end, luxury timepieces, which generally sell for much higher prices. China may be the world leader in terms of volume (80 % of global output), but it has

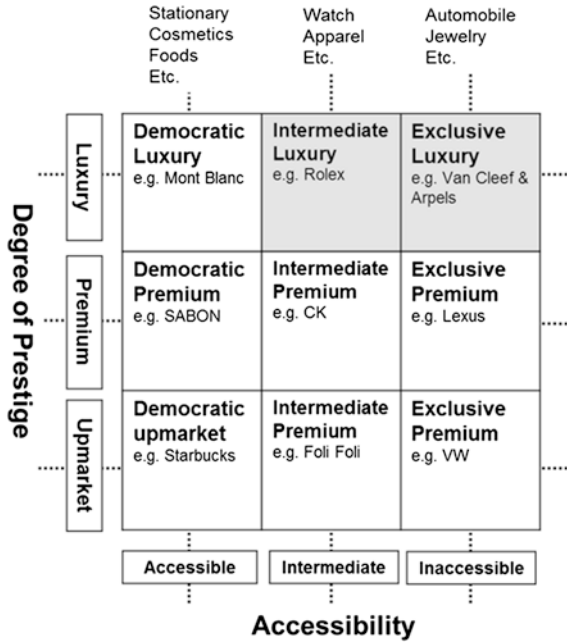


Fig. 2 Positioning of luxury watch brands by prestige and accessibility

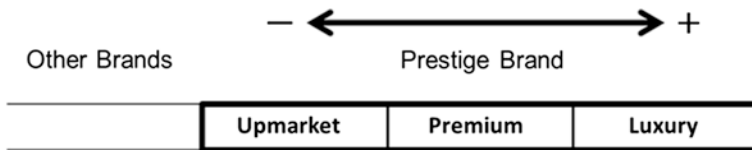
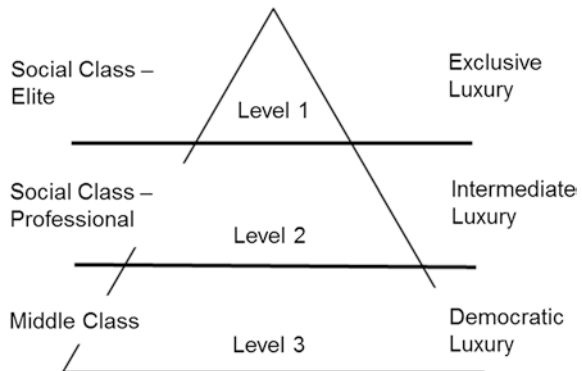


Fig. 3 Defining three levels of prestige. Source Vigneron and Johnson [9]

Fig. 4 Hierarchy of luxury goods products [27]



a long way to go before it can supplant Switzerland as the top exporter by value (see [25]). Kapferer and Bastien [17] explain the reason that customers accept this price range. They insist that customers of luxury brands pay money not only for its functional value, but also for its charm and guarantee of authenticity. The flaw such as inaccuracy of time could be a charm and guarantee of authenticity [20].

It is evident that Swiss watches have a worldwide reputation for high quality, unrivaled manufacturing, know-how and technology. A law “regulating the use of the name ‘Swiss’ for watches” was passed in 1971 setting out the minimum conditions that must be fulfilled before a watch merits the “Swiss-Made” label [28].

Presence Switzerland, a promoter of an authentic image of modern Switzerland worldwide, states that products with “Swiss” label is a sign to customers that they are buying a product of outstanding quality and reliability [25].

As a promotional strategy and law system indicate, a strong sense of pride and philosophy of being “Swiss” or “Switzerland” labeled brands account for a large part of its value, and the brand authorized to use the term “Switzerland” or “Swiss” is trying to emphasize those aspects. In fact, Web sites of Swiss watchmakers show exactly which feature of their brand they would like to highlight. As seen on the Web site of specialized watch companies such as Officine Panerai, Tag Heuer and Zenith, the primary emphasis is on their manufacturing technologies, brand origins and histories. This is unique feature of leading watchmakers and differentiates them exclusively from watches originated in fashion brand. Hermès watch is a typical example. Although Hermès occupies the top of the hierarchy in Luxury brands, the watch is less reputational compared to the privilege status of the bags. In Basel World, Hermès watch cannot share the booth of the primary floor where classical watchmakers occupy instead. Other similar examples are Fendi, Dior and Harry Winston. The core value of fashion brands usually derives from their designer and aspects of their products. On the other hand, the core value of leading watch brands roots in their craftsmanship and history, which connects customers emotionally with their brand. Customers of Swiss watchmakers thoroughly understand the manufacturing process, technology and history of the brand.

Also, Federation of Swiss watch industry illustrates the core values of Swiss watches. It says that the intrinsic value of the “Swiss-Made” label is the result of considerable efforts on the part of watchmaking companies. It also claims that they are ultimately responsible for maintaining their reputation, and they always cooperate together and provide the customer with the best of guarantees [28].

4 Case of World Watch Fairs

4.1 Overview

Switzerland holds two major international watch and jewelry exhibitions every year: Basel World (Fig. 5) and Salon International Haute Horlogerie (SIHH). Basel World is an open exhibition, while SIHH is an invitation-only conference



Fig. 5 Basel World 2012 [29]

for professional guests. Here, we analyze the affective communications of Swiss watchmakers through these two watch conferences.

In Basel World, approximately 100,000 visitors from the industry, general customers and journalists from all over the world visit to see the latest timepieces. The fair attracts over 2,000 exhibitors, including almost all of major watchmakers in Switzerland. Swiss watchmakers utilize this event as a sales and communication channel because almost half of their annual business deal is done at this conference [30]. It indicates that Swiss watchmakers are willing to connect to a wide range of selective customers under a limited condition.

In SIHH, around 12,500 visitors (1/10 of Basel World) are strictly allowed to enter the place. The visitors will be retailers, watchmakers and designers, importers, exporters, collectors, distributors and industry professionals [31]. Compared to Basel World, the number of exhibitors is significantly limited: eighteen brands from Richemont Group, the second largest luxury conglomerate, such as IWC, Piaget and A. Lange & Söhne exclusively dominates SIHH. Richemont has an advantage over LVMH in the world watch exhibition in that Richemont can focus only on SIHH: LVMH needs to hold exhibitions two times: one is in Geneva correspondent to SIHH and the other one is in Basel World, which is economically disadvantageous. Some independent watchmakers such as Audemars Piguet, Roger Debuiss and Richard Mille are allowed to attend SIHH, but this is highly exceptional. Unlike Basel World, accessible watch brand such as Tissot and Swatch are not available in SIHH, focusing exclusively on fine watchmakers with high price ranges. SIHH would be described as the place of privileged. SIHH severely restricts the visitors to make the exhibitors highly exclusive. In addition, Richemont does not join Basel World, the biggest “open” access world watch fair, to avoid Swatch Group [32] that has more diversified watch brands from accessible to inaccessible ones.

Kevin Lane Keller identified three most notable trade-offs in luxury marketers face; exclusivity versus accessibility; classic versus contemporary images; and acquisition of prospective customers versus retaining existing customers [33]. Richemont intends not to attend Basel World probably not to make the umbrella brands accessible, keeping them exclusive from ordinary visitors, even though they might scale back volumes and sales points. Carcano and Ceppi [15] points out that the key to exclusive scenario is to preserve firstly profitability and brand equity and then to keep growing revenues. Richemont follows this exclusive scenario better than LVMH and Swatch Group.

Readily due to the limited information of SIHH, Basel World only is analyzed as a case study from here.

4.2 Privileged Negotiation Spaces

Basically, there are two areas in the exhibit space in Basel World: global luxury brands based in Hall 1.0 and the “others.” Certainly, Basel World is open to public, but there are some limitations to retain their brand status. For example, Hall 1.0 is available exclusively for fine watchmakers such as Rolex, Patek Philippe, Blancpain and Omega. Some fashion-origin brands such as Chanel and Gucci also share the space of the main floor, but this is an exceptional case. Brands who occupy Hall 1.0 can be regarded as the most reputational watchmakers. Although Seiko used to launch the booth in Hall 1.0, they lost the space in 2013 largely due to the domination of LVMH and Swatch Group. Thus, only privileged watchmakers are allowed to open the exhibitions in Hall 1.0 to remain exclusive.

Moreover, there are spaces for business talks and breaks in each exhibition booth available only for the invited customers. Detailed and careful attention to create the world of the brand identity could be recognized. For example, in the booth of Tag Heuer, special customers receive preferential treatment from the brand in the private room and have business talk face to face over a bottled drink with Tag Heuer brand logo. This could be an important element which helps to drive customers be more engaged in the brand. Thus, “exclusiveness” which is essential aspect of the luxury brand is secured. Jasmina Steele, international communication director at Patek Philippe mentioned that Basel World, offered them a privileged opportunity to welcome their partners, and he demonstrated a comparatively forward-looking stance on its participation next year [34].

In conclusion, Swiss watchmakers dominate exclusive negotiation places in Basel World, excluding “trendy” watchmakers originated in fashion and leather Goods. This environment implies the prestige status of Swiss watches that generates added values to validate the inaccessible price settings. In addition, special spaces are provided exclusively with VIP customers who are willing to purchase the latest timepieces much faster than the “others.” This comfortable sales environment contributes to the customer engagement firmly and induces repeat purchases year by year.



Fig. 6 Gucci booth in Basel World 2012 [29]

4.3 Booth to Describe Brand Universe

Basel World provides watchmakers to have a great opportunity to display their timepieces at sophisticated environment with exclusive manner. Kapferer [2] points out that esthetic dimension of the products is utilized as an entrance barrier to create a distance or distinction between consumers and non-consumers. In Basel World, esthetic dimension of the products is enriched by the artistic visual merchandising at the booth to make visitors selective.

For the exhibitors, each booth is the space where customers take an education about the whole facets of the brands. Exhibition halls are no longer simple show rooms, but stages where clients have affective experiences and fantasy worlds (the name of the halls explicit this idea: hall of emotion, hall of experience, hall of dreams, etc.) [35]. For instance, Gucci recreates its craft center and displays the production process of its signature watch for women “bamboo watch” in the booth (Fig. 6). Since the language of luxury brands is mostly nonverbal [17], the emotional relationship with customers will not be created simply by words. Hence, this manufacturing space helps to describe the universe of Gucci, delivering the imagination of the manufacturing processes to the visitors.

Similar, but more elaborated presentation of the brand universe was seen in Bvlgari booth. The brand has had year-round contracts [36] with a hotel near the venue of Basel World so that it can create an extraordinary atmosphere of the brand and communicate it to customers without any interference from its competitors (Fig. 7). This year-round contract implied the exhibitors’ positive evaluation for the event. As such, every visitor experienced the theme of the latest Bvlgari collection, and moreover, special spaces were exclusively provided with VIP customers.



Fig. 7 Bvlgari's booth near Basel World 2012 [29]

Bvlgari has conducted this communication before the acquisition by LVMH even though the brand's financial status had not been sound enough. More important is its way of doing things, its referents, its esthetic and its models of expression [17]. This suggests the importance of exclusive communication toward customers when selling affective products, sharing privileged experience with them. The affective communication has been applied in the way exhibitors create the appearance and atmosphere of their exhibition booth.

4.4 Short Summary

Considering the whole communication processes, luxury watchmakers make an engagement with customers through privileged merchandising places in a fairly exclusive manner. The mode of the Swiss watchmakers seems to be controlled based on the code of luxury communication. The difference between privileged negotiation space (Sect. 4.2) and booth to describe brand universe (Sect. 4.3) is the degree of the communication durability: The former focuses more on intensive communication at the booth, and the latter intends to last the relationship with customers with continuous brand communication as Bvlgari does. The secret booths are provided exclusively with VIP customers who are likely to be invited in the next year as well. It could not be available in the detailed information about the way to retain customers at the authors' field research. However, given the stable number of visitors in Basel World, the retention strategy works for most of the customers.

5 Implications and Research Limitations

This study attempted to identify the delivery of affective value in Swiss watch brands. The results indicate that it is important to add exclusivity to affective value communication: In the case of Basel World, for example, we can see the “manufactured” communication of exclusivity both in negotiation spaces and booths, to describe their brand universe.

Swiss watchmakers began to communicate affective value after the Quartz Shock so as not to compete with Japanese precision watches. Owing to their intrinsic affective nature, Swiss watchmakers successfully communicated craftsmanship, histories and celebrity endorsements, while deploying the crafted certification of Swiss Made. This warranty differentiated Swiss watchmakers from fashion-origin luxury brands such as Hermès, Fendi and Harry Winston, who cannot occupy booths in Hall 1.0 in Basel World, where Swiss watchmakers exclusively dominate.

Swiss watchmakers readily focus on the two largest watch fairs so as not to dilute their brand equity. As for luxury goods, reaching thoroughly is more important than reaching widely as mentioned in [Sect 3.1](#). Through their domination of the primary hall, Swiss watches differentiate themselves from trendy fashion watches, impressing customers with the invisible facets of Swiss-Made timepieces. Moreover, some brands offer privileged spaces for VIP customers to let them be fully involved in the world of their brand. Each booth is also deployed as an educational site to thoroughly communicate the affective facets of their timepieces with the customers.

Overall, exclusivity penetrates the entire process of affective communication for Swiss watchmakers. Because their timepieces are not instantly consumed, luxury watchmakers must impress customers with something “special.” This specialty is provided with the exclusive treatment of their customers.

This study has limitations that must be acknowledged and addressed. Further investigation is required to clarify the process of building the relationship with VIP customers. In addition, if possible, field research in SIHH would be helpful to explore the affective value communicated by the most exclusive brands.

In addition, the case of Swiss watchmakers is not applicable to commodities such as print chapter sold on the Internet. Some commodities cannot be associated with any type of affective value such as craftsmanship, history or endorsement, and consumers do not expect these values from these Goods. Companies should provide functional values or benefits such as affordable prices and instant availability when they are required to broadly deliver this value to consumers.

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