

# Omega brand analysis | challenges for omega



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Omega is a brand that is recognised worldwide and is coveted for its precision and quality which justifies its high price. A marketing audit of the brand's current position suggests that, in line with other luxury brands, it has weathered the economic storm better than most industry sectors and expects to soon be able to recover sales to the back to 2007 levels. Omega also has a number of other inherent strengths, such as its skilled and loyal workforce and the financial resources of the dominant Swatch group behind it. However, it faces a number of critical issues that could negatively impact on its business performance these include the increasing trend towards cheaper products from China as well as the ever present and increasing threat of counterfeit watches from Asia.

Recommendations are made to counter these threats and to consolidate and grow Omega's sales and revenues and its brand reputation. Ten traditional marketing promotion strategies of advertising and promotion are explored and although the report supports Omega's current strategy in this area it also recommends that spending cuts are made in order to finance other activities recommended with the marketing mix strategies and to help protect and grow net operating profits.

The expansion of Omega's market development strategy is seen as crucial to its future success and proposals are made to accelerate this process especially in India and Brazil which have been identified as key emerging markets for luxury products. Omega's 'high price, narrow scope, differentiation strategy' is seen as being appropriate for the brand and a recommendation is made to clearly define the target audience segment

through the findings of the marketing audit being assimilated with the current audience definition.

Lastly, the beneficial roles of corporate social responsibility and lobbying within the marketing mix are clearly explained and their contribution towards stakeholder value in the longer term is highlighted.

## **Table of contents**

### **1. 0 Introduction**

#### **1. 1 Purpose**

The purpose of this report is identify the key market and marketing issues affecting the reputation and sales of the Omega brand and to make recommendations about the future marketing of the business that address these issues.

#### **1. 2 Structure**

This report presents a background to the current state of the luxury wristwatch market and the position of the Omega brand within the marketplace. It goes on to put forward a case in support of the marketing audit as an integral and business-critical part of the marketing planning process for Swatch.

The use of recognised marketing models helps to formalise and structure the input into the marketing audit process. Based on the market analysis, the report recommends a course of action for the Omega brand which includes the setting of marketing objectives and the implementation of a marketing mix strategy in support of those objectives.

### **1. 3 Omega – Introduction and Brief History**

Omega was founded in 1848 and is part of the Swatch Group and is positioned in its 'luxury' brand range alongside such names as Breguet (Swatch Group Annual Report, 2009, p. 8). Omega has always been an innovator in the luxury wristwatch market and made its debut as a sports watch at the international ballooning contest for the Gordon Bennet Cup in 1909.

Since then Omega has been renowned for its precision timekeeping at major sporting events such as the Olympic Games, where it is the official timekeeper. Its 'Speedmaster' model was the first and only watch worn on the moon and the first deep sea diver's watch. It also holds more records for timekeeping accuracy than any other watch.

Omega watches have a global presence and Omega has boutiques in the world's prime retail locations, including one on New York City's Fifth Avenue (Omega Website, 2010)

## **2. 0 Situational Analysis**

### **2. 1 The Macro Environment**

The PESTEL model was first conceived by Gillespie (2007) as a means of analysing the external macro environment for an organisation.

Political

The Swiss watch industry is subject to high levels of import duties in its key markets. For example, China is an increasingly important market with some 12.5 % of Swiss being exported to that country. The average import tax

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levied in China for Swiss watches is currently 15% with an additional 20% for luxury products such as Omega (Allen, 2010).

### Economic

The ongoing worldwide economic recession impacted sales of luxury watches in 2007/8/9. However, this sector of the watch market appears to be recovering better than other sectors.

Silverstein and Fiske (2003) believe that the market for luxury goods, particularly in the USA, has expanded due to significant changes in the disposable incomes of consumers since the 1970s.

Also rising incomes in emerging markets, such as India and Brazil, have led to a new category of affluent young professionals with high purchasing power. These countries have become a potential opportunity for ultra expensive watch manufacturers (Global Watch Market Report, 2010)

### Social and Cultural

The trend in consumer behaviour is towards an increasing desire for luxury products. This desire is often driven by the need for 'status', which fulfils the need of certain consumers need for recognition of their career success and their associated wealth. There is a direct correlation between status and the ownership of luxury brands like Omega (Hines and Bruce, p. 142, 2007).

In the USA the status motive is particularly prevalent amongst males and can manifest itself in the ownership of multiples of the same luxury products, such as expensive watches. (De Mooij, pp. 139-140, 2004).

Changing consumer tastes and preferences have created a demand for higher quality products than used to exist. (Silverstein and Fiske, 2003).

### Technological

The Swiss watch industry is characterised by technological innovation. Omega has been at the forefront of this as evidenced by innovations such as the production of the first deep-sea divers watch.

### Environmental

There is a growing demand for more corporate social responsibility especially from multinational organisations like the Swatch Group. It is possible that pressure from consumers may lead to a more rigorous legal framework for the future protection of the global environment. This may include, for example, stricter rules on the use of certain materials in the watch making process and tighter controls on emissions from production facilities

### Legal

As well as being aware of environmental protection law (see above). The Swatch group has to monitor changes in intellectual property and patent laws which are subject to constant change.

Perhaps the most serious problem for Omega is one that afflicts most luxury products i. e. counterfeiting. Whilst trademark laws are supposed to protect brands in reality the rate of counterfeiting is increasing. The global counterfeit market is currently worth about \$538 billion a year and the counterfeit market in watches about \$1 billion a year (Havascope, 2009)

Counterfeit luxury goods are even being inadvertently displayed and sold in reputable outlets such as the upmarket New York department store 'Daffy's', which unintentionally purchased and displayed 600 fake Gucci handbags (Goodman, 2004).

## **2. 2 The Micro Market Environment**

### **2. 2. 1 The Global Market for Luxury Wristwatches**

Sales of wristwatches globally are expected to be worth US\$31. 5 billion by 2015. Watches made in Switzerland are exported all over the world including the emerging economies in Asia, Europe and South America. Swiss-made watches dominate the global market for luxury wristwatches and the Swatch Group is the leading manufacturer amongst Swiss watchmakers (Watches and Clocks: A Global Strategic Business Report, 2010).

There is now an increased trend towards the acquisition of luxury watches which is having a significant positive impact on the overall market for watches. The sales of luxury watches in the key developed markets of Europe and the USA are expected to recover slowly (Watches and Clocks: A Global Strategic Business Report, 2010).

### **2. 2. 2 Market Shares, Sales and Profitability**

The Swatch Group derives about one third of its sales and approximately half of its overall operating profit from the Omega brand. In 2008, Omega was ranked third behind Rolex and Cartier, in terms of share of the luxury watch market. According to its president, Stephen Urquhart, Omega expects its sales in 2010 to exceed those of 2007. Urquhart also believes that Omega will increase its market share at the expense of other Swiss-based

manufacturers, particularly Rolex, due largely to its distribution strategy of selling through its network of wholly owned boutique stores (Donville and Muller, 2010).

## **2. 2. 3 Omega – SWOT Analysis**

### **Strengths**

### **Weaknesses**

### **Core Competencies**

- Worldwide reputation for innovation and precision.
- The Swatch Group has 156 production centres worldwide.
- All components are supplied by its own production companies thus ensuring the integrity of the Omega brand.

### **Brand Reputation**

- Widely respected and recognised brand.
- High profile amongst consumers due advertising and sponsorship of prestigious events such as the Opening Ceremony of the Vancouver 2010 Olympic Winter Games.
- An impressive list of brand ambassadors.

### **Distribution**

- A global distribution network of authorised retailers.
- An expanding network of wholly owned boutique retail outlets.
- High level of loyalty from retailers due to Swatch not forcing them to purchase minimum quantities or to sell at discounted prices during difficult economic times.



## **Human Resources**

- Highly talented craftsmen and researchers.
- Maintained the level of its workforce during the recession enhancing the sense of job security and facilitating the recruitment process.

## **Financial Resources**

- Part of the Swatch group the world's largest watchmaker, which had net income of 763 million Swiss Francs in 2008.

## **Core Competencies**

- The Swatch Group has historically borne the risks of developing and supplying new production innovations for the Swiss watch making industry as a whole.

## **Brand Reputation**

- Omega has failed to take sufficient action to protect its trademarks against counterfeiting. There are an estimated 40 million counterfeit watches sold each year with a value equal to 6% of the exports of the Swiss Watch Industry (Havascope, 2009).

## **Human Resources**

- Heavy reliance on ability and loyalty of key personnel.

## **Distribution**

- Heavy reliance on authorised distributors who also sell other watch brands.
- Omega Only has four boutique stores in the emerging market of India and none at all in Brazil.

## **Opportunities**

### **Threats**

### **Brand Reputation**

Enhancing 'green' credentials with all stakeholders.

### **Industry trends**

The luxury sector is outperforming other sectors of the watch market.

### **Socio-cultural trends**

Increasing desire for ownership of luxury products.

### **Regulatory changes**

There is currently a free trade agreement being negotiated between Switzerland and China which will remove import duties (Allen, 2010).

### **Distribution**

Expansion of distribution in emerging economies especially India and Brazil.

### **Economic Situation**

Ongoing economic recession leading to reduced consumer confidence and spending.

On going and increasing threat from cheaper products and counterfeit imitations from China this will be further exacerbated if the free trade agreement between Switzerland and China proceeds.

Note: All data sourced from the Swatch Group Annual Report, 2009 and the Swatch Group website unless otherwise stated.

## 2. 2. 4 Current Marketing Mix Activity

Product- Omega produces a range of luxury ladies and mens watches that have a worldwide reputation for their innovation, quality and precision.

Price- Most of the Omega brand's watch sales are in the \$4, 000 to \$8, 000 price bracket (Donville and Muller, 2010). Omega operates a ' high price' strategy based on a ' narrow scope, differentiation position' - see part 2. 2. 5.

Place(distribution) - Omega watches are distributed through an established global distribution network of authorised retailers and an n expanding network of wholly owned boutique retail outlets.

Promotion- Omega's promotional mix includes:

Sponsorship of prestigious events such as the Winter Olympics 2010, the European Masters and World Cup of golf, and the 40th anniversary of the first moon landings.

Trade Fairs - Baselworld Trade Fair.

Celebrity Ambassadors and Endorsement - Olympian Michael Phelps opened the Omega the Omega Boutique in New York City opened on Fifth Avenue

Model

Advertising in Lifestyle magazines.

Own Website and presence on facebook social network.

Source: Swatch Group Website and Swatch Group Annual Report, p. 29, 2009

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## **2. 2. 5 Differential and Competitive Advantage for the Omega Brand.**

Porter (1980) believes that certain 'generic strategies' can be deployed by an organisation to enable it to surpass the performance of its competitors and establish a competitive advantage - see Figure 2 below.

Most of the Omega brand's watch sales are in the \$4, 000 to \$8, 000 price bracket (Donville and Muller, 2010). Also Omega positions its watches as being for those sportsmen and other adventurers who demand precision when it stated that: ' We measure the 100th of a second that separates winning from taking part' (Boone et al., p. 281). Consequently it is reasonable to assume that Omega is operating a ' narrow scope, differentiation strategy' in order to gain a competitive advantage.

## **3. 0 Conclusions**

From the situational analysis it can be seen that the Omega brand has many inherent strengths However, there are some fundamental issues facing the Omega brand in the marketplace now and in the future, namely:

- High levels of import duties in export markets especially in China.
- A slow and fragile recovery from the global economic recession although the sales of luxury goods seem to be improving.
- The demand from consumers for more a socially and environmentally responsible approach to business from the companies they buy from.
- Financial commitment to supporting innovation for the entire Swiss watch industry.

- The increasing incursion into the marketplace by counterfeit products from Asia.
- A lack of wholly owned outlet in emerging markets such as India and Brazil.

## **4. 0 Recommendations**

The recommendations below will help to secure the long term future of Omega's highly valued employees and deliver year-on-year sales and profitability growth for the Omega brand. This will provide acceptable levels of dividends for financial stakeholders and enable Omega to continue to invest in new product innovations for the benefit of its customers and distributors in the long term.

### **4. 1 Marketing Objectives**

To increase net operating profit by 10% for 2011 compared to 2010.

To capture market share from Rolex and Cartier and establish Omega as the number one luxury watch brand by 2015.

### **4. 2 Marketing Strategies**

To instigate an expansion of wholly-owned distribution outlets in the identified emerging economies of India and Brazil resulting in a presence in all the major cities of those countries by 2020.

To develop a full programme of corporate social responsibility in all operational markets by 2012.

To divert significant resources for 2011 to a much more active and rigorous lobbying of manufactures, industry and trade bodies and regulatory authorities to take more action against counterfeiting.

To reduce promotional expenditure over the next five years to help in the funding of other marketing mix activities and to increase operating profit.

## **4. 3 Marketing Mix Strategies**

### **4. 2. 1 Product**

The existing product range is designed and positioned to appeal to Omega's core target audience of sportsmen and adventurers who demand quality and precision. The aspirational nature of such products also appeals to affluent young professionals who make up Omega's secondary audience (see 4. 2. 5). Consequently Omega's current product strategy fits well with the other elements of the marketing mix.

### **4. 2. 2 Price**

It is recommended that Omega considers increasing the price of its entire range of products by 10% in 2011 in order to assist the delivery of the products across. This strategy can be supported by the fact that a number of theorists and academics argue that personality, behavioural and preference traits are really what drive consumers to acquire luxury products and that they will buy such products regardless of their economic means (Silverstein and Fiske, 2003; Chevalier and Mazzalovo, p. 234, 2004).

### **4. 2. 3 Place (Distribution)**

The ' Ansoff' matrix (1957) is an especially appropriate model for a business that may be considering expanding internationally as part of its business

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objectives. Each time a business moves outside of its ' current products-current markets' quadrant then it is subject to increased risk – see next page.

## **Markets**

Market Development Strategy – selling current products to new markets.

Diversification Strategy – selling new products to new markets.

Dawson (1993) identifies three key attributes for international success in retailing, as follows:-

- Small formats requiring relatively low set up costs.
- Single brand facilitating ease of internationalisation.
- The economies of scale from duplicating an existing business model

Also, it should be remembered that the consumer is the prime driving force behind the need for a business to internationalise and Levitt (1983) suggests that this is because the promotion of well known branded goods, on a global basis, has changed consumer behaviour to the point where consumers now expect to be able to buy all of their favourite products anywhere in the world.

Omega fulfils all of the attributes identified above by Dawson and is also a globally recognised brand. It is recommended, therefore, that Omega leverages its market development strategy by accelerating its new boutique store opening programme specifically in two key territories namely, India and Brazil.

## 4. 2. 4 Promotion

Many academics believe that purchasers of luxury products such as watches are influenced in their buying behaviour by psychological rather than marketing factors by not necessarily influenced by advertising (Silverstein and Fiske, 2003; Chevalier and Mazzalovo, p. 234, 2004). Additionally, Danziger (pp. 176-178, 2003) is not convinced that advertising plays an important role in the behaviour of consumers towards luxury brands and goes on to cite a survey by 'Unity Marketing', which found that advertising was actually ranked last out of eight important factors that consumers considered when making their last purchase decisions about luxury products.

It should be remembered that the Omega enjoys an excellent brand reputation. The price/value dimension was found to be the most important factor that influenced consumers. However, there is an opposing view that sees advertising as an important external signal to customers and potential consumers that a business believes in its brand and is prepared to invest in it, with the implication being that it delivers superior quality (Kirmani and Wright 1989).

In view of the above it is recommended that Omega continues with its current successful and high-profile, brand promotional strategy but makes a significant reduction in its level of promotional spend year on year for the next five years. It is also recommended that this situation be reviewed annually at the planning stage so that any impact on sales and revenue can be determined and addressed.



## **4. 2. 5 Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is the term used for businesses that employ marketing strategies that promote products by focusing on the positive nature of their environmental attributes and/or on the socially responsible policies and procedures of the organisations which produce and distribute them (Prakash, 2002). Internationally, organisations such as Honda Cars and Hewlett Packard have led the way in 'green marketing' in response to growing consumer demand for products that are more environmentally friendly. This trend is supported in a study by The Cooperative Bank which suggests the existence of a rising number of consumers who have a more ethical attitude towards their purchases and are, consequently, exercising more discretion what they purchase and where they purchase it from (Cowe and Williams, p. 7, 2002). In addition, CSR is now an important element in the advertising and marketing planning of many of the world's top businesses.

In view of the Omega's position as a highly reputable, worldwide brand it is recommended that it incorporates CSR elements into all of its promotional activity as well as developing CSR initiatives around all of its world wide production facilities in order to enhance relationships with local communities.

## **4. 2. 6 Lobbying**

It is proposed that a specialist lobbying agency be retained to formulate and implement a strategy to lobby the appropriate regulators and trade bodies on Omega's behalf. The key issue for lobbying activity has been identified as counterfeiting but there is also a case for using lobbying to inform and

persuade key stakeholders and influencers about Omega's 'green credentials in the light of its proposed CSR activity.

Lobbying will help to position Omega as a good global corporate citizen, and re-enforce its 'green credentials'. Also, if Omega is seen to be at the forefront of the fight against counterfeit luxury watches then its brand equity and reputation can only be enhanced. In addition, of course, effective lobbying can ultimately lead to changes in the business environment for Omega that can have a positive impact on sales.

#### **4. 2. 7 Consumer Segmentation Targeting and Positioning**

Market segmentation is the process by which a mass market is divided into identifiable and

distinct groups or segments, each of which have common characteristics and needs and display similar behaviour in terms of their response to both marketing and psychological influencers.

Consumer markets can generally be segmented in three ways based on:

Socio-demographics – including age groupings, gender, location, family size, income levels, and educational standard achieved.

Psychographics – including lifestyle and personality characteristics.

Behavioural factors – including attitudes, perceptions values, beliefs and learning, cultural, social.

(adapted from Kotler, p. 286, 2001)

Market segmentation, as a discipline, is now widely accepted as being a prerequisite for the successful marketing of products and services in today's global and fragmented marketplace (Hooley and Saunders, p. 482, 1993)

Research by Mintel has found that one in five men own several timepieces, and those under 35 are the most likely to buy luxury watches (Knowles, 2010). This fits with the current segmentation strategy adapted by Omega. Consequently, taking the above into account together with the audience profile data contained in the PESTEL analysis, it is recommended that the audience for Omega watches be defined as follows:-

Young professionals, sportsmen and sportswomen and adventurers who demand quality and precision from their timepieces and who are motivated by the aspirational status of owning such a watch.

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