

Luxury watches



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Marketing 48-Hour Report: The Jewelry Industry - Luxury Watches Section 2 -

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250568255 250582064 Executive Summary Rolex is currently facing a problem in their brand positioning in the U. S. luxury watch market. In the years following the 2008 recession, Rolex's competitors Breitling and Omega have outpaced them in market share growth. This report aims to analyze the reasons behind this decline and to provide a recommendation for Rolex to reaffirm position as the market leader.

Our industry analysis shows that despite suffering from the sales decline during the recession, the luxury watch market has regained a growth rate of 7% after 2010. The intense competition within the industry and increasing usage of mobile phones for timekeeping have transformed consumers' preferences for watches. The target market of the luxury watch market consists of affluent males with higher education and active lifestyle.

They perceive luxury wristwatches as a piece of craftsmanship that represent their identity and socioeconomic status. The competitor analysis depicts that in the luxury watch market, although Rolex has established its reputable image as the market leader, it has not achieved effective marketing strategies and not adapted to consumers' needs and desires. In contrast, Omega has responded to changes in consumers' preferences and Breitling has evolved its core brand image to capture more market share.

Our short term recommendations for Rolex revolve around addressing the current, known consumer shift to mechanical watches, as well as fixing realigning their marketing to be forward facing with the towards the 35-44 age category of a decade ago, but to the 35-44 category of today. This

involves pushing their current Daytona line as well as finding a fresh new brand ambassador such as Orlando Bloom. In the long term, Rolex needs to connect to the younger consumer segment and fix their current image of being a dated or grandfatherly watch.

They also need to react faster to market trends and leverage their position as the industry leader to set trends instead of remaining passive in the market. We recommend they start a Rolex membership club and to start hosting exclusive events targeting the affluent young male crowd to build their future customer base. Intro This report analyzes the luxury wristwatch segment of the jewelry industry in the U. S. , specifically the brand positioning of Rolex as compared to the their competitors Omega and Breitling.

In recent years Rolex has not kept pace with other companies in the luxury watch industry in terms of trends, image and ultimately market share. Omega's market share has been trending upwards worldwide (World Watch Report, 2012) and Breitling in particular has just finished a co-branding campaign that positioned them in closer competition with Rolex in the U. S. and increased market share by an impressive 8% (World Watch Report, 2012).

By analyzing the jewelry industry, target segment, direct competition, and the strengths and weaknesses in Rolex's company and brand, this report provides recommendations for Rolex that will help to reposition the brand to recapture market share in the U. S. luxury wristwatch market. Industry: Most jewelry sold in the U. S. is imported (" Jewelry Retail". 2011), and the luxury

wristwatch segment is dominated by Swiss watchmakers. The Swatch Group, owners of Omega, are the largest and only public Swiss watch company.

They compete alongside a multitude of strong private companies. The market leaders in this luxury category are Rolex, Omega and Cartier and combine for a (global) market share of 41% (World Watch Report, 2012). The performance of the jewelry industry, comprised of diamond jewelry and loose diamonds (45%), watches (13%), gold jewelry (10%), and colored gemstone jewelry (8%), is strongly correlated to the performance of the economy (INSEAD report, footnote jewelry industry beta = 1.8). Jewelry sales are also highly seasonal, with the majority of sales happening the the fourth quarter leading up to Christmas (“Jewelry Retail”. 2011). The 2008 recession and subsequent lack of consumer confidence led to an almost 14% sales decline in the industry from 2008-2010. This in turn impacted the distribution channels of many foreign watch brands in the U. S. , as many of the smaller jewellery boutique watch specialists they relied on went out of business.

As the watch brands themselves survived the recession, mainly through surging sales in China, they have started to take advantage of their relative strength by opening their own brand specific stores in the United States. Having assumed the position of both wholesaler and retailer, they will have more image control and higher margins on their own products. In 2011, the economy improved and affluent consumers of luxury jewelry regained their confidence and once again began spending their money. This increase in demand has since tapered off in 2012, but growth is still expected to continue (Exhibit 1).

The luxury wristwatch segment of the jewelry industry is projected to grow at a rate of 7% per year (Watches in the US, 2012), which is higher than the general wristwatch industry growth of 4% (Watches in the US, 2012) and once again, slightly higher than the jewelry industry average growth of 6% (Jewelry in the US, 2012). Competition within the industry is the primary driver of innovation and change. As the industry is extremely mature and the products lack a patentable attribute that can define them, brands mainly compete on design, quality, and brand image.

Furthermore, mobile phones with clock features, which have saturated 96% of the American market, have reduced the timekeeping importance of the wristwatch. Thus consumers are shifting towards purchasing watches strictly as luxury items or to make a fashion statement. Ultimately, luxury watchmakers must handle their brands with care, or risk losing to a more consistent competitor. Target Segment: With many similarities between luxury watch brands, target market selection is paramount. In addition, brands must choose a market segment that they can grow with. Though 50% of all affluent consumers in the U.

S. are aged 35-44 and 45-54, from a brand equity perspective it would not make sense to start marketing to just the older segment because this is the stage where the brand should already have a relationship with the consumer (Affluent Consumer, 2009) Therefore, by primarily targeting the 35-44 year old demographic, luxury watch brands are able to establish awareness and recognition that can build to a relationship that will last with that consumer as they age. Additionally, by selecting a male demographic, watchmakers gain access to the majority of the affluent population.

Thus, the common target segment between Rolex, Omega and Breitling are affluent males age 35-44 with an above average income and a high socio-economic status. This segment is worth \$316.25 million or approximately 13.75% of the luxury watch market (Affluent Consumer, 2009). For the complete breakdown of this segment value, refer to Exhibit 2. The approximate income of this affluent target segment is \$75,000 or greater, and can be correlated to the education attained and occupation held by a majority of this segment (Affluent Consumer, 2009).

Prevalent occupations include managers, architects/engineers/social scientists, and sales representatives, requiring at minimum a college level education (Watch and Clocks, 2006). As luxury watches carry price tags of \$1000 or more, a sizable salary is a critical characteristic of this target segment as larger salaries account more disposable income for luxury goods (Watch and Clocks, 2006). Interests of this target segment include active lifestyles in refined athletics such as golf, tennis, yachting, equestrianism as well as exploration (<http://www.rolex.com/>) This target segment is highly concerned with status and is driven largely by fashion and association with a luxury brand. In fact, 53% of this segment considers designer labels as defining a luxury purchase (PPT). This not only illustrates this segment's savvy awareness of luxury products, but also illustrates the likeliness of these consumers desiring symbols of wealth. According to WWD, the needs, wants and desires of men purchasing luxury watches are becoming increasingly focused on technicality and functionality of the timepiece, in addition to its specific brand.

The “ fashionable consumer” trend focusing solely on designer labels seems to be at the end of its lifecycle. The marketing by luxury watch brands has resulted in more educated customers today who know that a designer brand name does not necessarily mean a quality watch. This segment is in the process of shifting into the connoisseur category, as the customer perception of a fashionable watch is shifting towards qualities such as artistry and craftsmanship, having handmade mechanical movements, and having a classic or timeless design. Men in this target segment want to be seen as collectors of watches.

They justify high price purchases as “ seeking a safe haven in high-quality watches”; as an investment in precious metals that “ appreciate in value instantly”(Diderich, 2011), rather than a squander of money. This segment also views luxury watches as a representation of their identity needs in striving for high self-esteem. As one luxury watch dealer commented: “ you can drive a Ferrari, but you can’t drive it into a board meeting”(Spitznagel, 2012) This drives these consumers to reach the ‘ response’ and ultimately a long standing ‘ relationship’ stage of the brand equity pyramid for their luxury brand of choice.

In considering the buying decision process, this segment recognizes status and high self-esteem as needs satisfied through purchasing luxury timepieces. Following this recognition, the information search process commences. As “ credibility and expertise had the greatest impact on respondent purchase intention”(Gautschi, 2005), consumers in this segment seek professional advice from sales associates at retail end-points in order to evaluate alternatives. Following the purchase decision, availability of repair

services for example, is also valued as consistent high-quality service throughout the long-standing relationship with the brand would exceed expectations and further strengthen and foster positive post-purchase behaviors and feelings. Competitive Analysis: Although there are at least 40 global brands in the luxury watch segment, the largest and most impressive competitors, with the largest American market shares, are Swiss. Three direct competitors in the Swiss luxury watch market are Rolex, Omega and Breitling.

Due to the similar pricing of these three brands, the consumer in the target segment must often distinguish and select one of these competitors. Rolex U. S. A. , Inc. Rolex has positioned itself as the exclusive luxury watch brand for those with a high socioeconomic status that offers a classic and prestigious watch which validates their hard work and accomplishments. Rolex is the best known luxury watch brand and holds the largest share of the US market at 29.3% (FOOTNOTE THIS CALC).

This is a result of their reputation as the first wristwatch to be certified with Class A precision (Liebeskind, 2004) and because they have historically limited their yearly production despite high demand. To maintain consistency between the target segment and the messages of Rolex's advertisements, 75% of their brand ambassadors are 35 years of age or older (Gautschi, 2005). These endorsements portray individuals who have achieved success as a result of hard work and dedication. The attributes of their ambassadors are willfulness, determination, self-control and the ability to excel beyond average performance.

This resonates with the reality and desires of the consumers who view a Rolex wristwatch as the prize; something one gets as validation for their accomplishments. As it has been shown that 60-70% of individuals who regularly follow golf are also those able to afford a luxury watch (Gautschi, 2005), Rolex has built strong associations with the game of golf, sponsoring players, such as Tiger Woods, and tour events. Furthermore, the association with golf ambassadors portray success and determination in the context of a gentleman's "refined" sport.

Rolex is rated as the most desirable brand and has spent \$47 million on advertising to maintain this standing (Thompson, 2012). Despite making the largest advertising expenditure in the industry, Rolex's market share growth rate in America has declined from 5% in 2010-2011 to 2% in 2011-2012 (World Watch Report, 2012). This is compared to consistent growth from Omega and an explosive emergence in the U. S. market by Breitling. Although Rolex has not targeted a different age group, a new wave of 35-44 year olds have come into focus.

With needs far different from that of the former group, Rolex has done little to address these new needs, wants and desires. Omega Omega has positioned itself as a sophisticated luxury watch brand focused on reliability and craftsmanship that offers those with a high socioeconomic status a trendy, modern and technically superior watch. As of 2011, Omega holds 14.6% of the U. S luxury watch market-share and attempts to be seen as a more fashionable and more modern brand than that of Rolex (World Watch Report, 2012). The company's marketing is heavily focused on associations with other well known brands, people and organizations.

Although they target much the same audience as Rolex, Omega differentiates themselves through their brand image. The company emphasizes the dependability of their watches through the association of the brand with the NASA space program, and as the longest standing official timekeeper of the Olympic Games. Both of those organizations require precision and reliability of the highest standard, while being seen as trustworthy by these organizations resonates with Omega's consumers. Recently, the brand has responded to changes in consumer preferences by emphasizing the technicality and sophistication of their watches as well.

Association with NASA has also been key in this regard, and their brand has enjoyed a significant competitive advantage through an endorsement by Neil Armstrong as being the first watch used on the moon. Furthermore, horologist George Daniel, inventor of the co-axial escapement, a revolutionary watch mechanism, became yet another brand ambassador and further differentiated Omega from its competitors in terms of technicality and sophistication. Omega also strives to target a different psychographic than Rolex. The majority of Omega's ambassadors are younger males, and their key attributes encompass suaveness, sophistication and hedonism.

For example, the Omega has a long-standing association with the James Bond enterprise, as both Pierce Brosnan and Daniel Craig have been ambassadors for the brand. Further differentiation can be illustrated in looking and the various advertisements Omega produces compared to those of Rolex and Breitling. For example, while both companies have produced athletic advertisements, Rolex emphasizes the difficulty and eventual

achievement, while Omega illustrates the pleasure derived of particular undertakings (Exhibit 3). Breitling

Breitling has positioned itself as a luxury timekeeping instrument brand for those with a high socioeconomic status and offers professional chronographs focusing on precision and high performance that dare men to live like navigators, aviators, and adventurers. Breitling commands 10% of the U. S. luxury watch market in 2011, ranked fourth behind Rolex, Omega and Cartier. What is remarkable about Breitling is that they have only recently moved into this position, having increased their share of consumer interest by 8% from 2010 to 2011 (World Watch Report, 2011).

This increase can largely be credited to significant advertising spending in 2010. Second only to Rolex for spending, the campaign worked to build brand awareness, and was coordinated with the launch of Breitling's first branded boutique. (Media scan, & <http://search.proquest.com/docview/820311288>). Broadly, Breitling's core brand emphasizes professionalism with their media image and product design. Originally intended as a brand for aviation instruments on private and commercial planes, the association to technicality is driven home in their slogan: "Instruments for professionals" (<http://www.breitling.com>). As professionals typically use nothing less than the best tools to do their jobs, Breitling's watches are almost inextricably associated with masterful craftsmanship. This is predominantly reflected in the product design of their flagship models, which are significantly different from the flagship models by Rolex and Omega (Exhibit 4). Breitling's most notable ambassador is actor

John Travolta, who is well known for his private hobby of owning and flying planes (travolta.com).

He is a familiar household name, and so helps consumers to relate to the brand, as well as maintaining consistent brand associations with the concept of aviation. Although Breitling has dominated the niche market of affluent males whose interests and/or aspirations encompass aviation and aircraft, Breitling has expanded its brand beyond this niche category and into the larger and more general exclusive luxury segment. More recently, Breitling has begun to evolve its core brand image of strictly instrumental aviation timepieces to navigational watches capable of multiple functions.

Specifically, Breitling has begun to position themselves within disciplines such as sailing, space exploration, underwater diving and most recently, motorsports (luxury watches overview). Most notably, they are partnered with ultra-premium car manufacturer Bentley Motors through the co-branded ‘Breitling for Bentley Motors’ product line, which has been the most visible shift in Breitling’s marketing in the last 10 years (Exhibit 5). This captured the prestige and exclusivity portrayed by Bentley, transferring these aspects into a luxurious and fashionable timepiece, while maintaining Breitling intricacy (Exhibit 6).

Breitling’s rapid growth in market share in just a single year can be largely credited to two factors. First, changes in market trends and perceptual shifts of consumers desiring watches of a more technical nature (refer to target segment analysis) have given Breitling an advantage over competitors who are continuing to simply rely on their brand name to drive recognition and ultimately sales. As consumers become more educated, they begin to see

the value of a well made, functional and intricate wristwatch rather than one simply bearing a well known name.

This market shift is to Breitling's advantage, as their value proposition has always been offering intricate and technical watches. Secondly, Breitling has not been passive in their brand promotion, having increased their exposure through advertising expenditures that improved brand equity. It is Breitling's consistency that helps consumers to not only become "aware" of the brand, but go through the steps of building their own unique relationship with it as well. These two factors have resulted in the 8% growth of Breitling in the luxury watch segment, causing the company to advance upon its competitors Rolex and Omega.