

# Big Ideas and New Methods in Marketing: Dynamic Marketing Capabilities Concept Application to the New Product Creation and Innovation Process in the Swiss Luxury Watchmaking Industry

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## ABSTRACT

Trying to identify marketing factors that influence new product creation as well as innovation process, this study adopts resource-based theory and applies it to the Swiss luxury watchmaking companies. This paper presents results of qualitative research based on semi-structured interviews with CEO and Marketing managers among Swiss luxury watchmaking companies. We present a set of suggestions that outline how dynamic marketing capabilities could benefit new product creation and innovation process, creating competitive advantage in the highly competitive Swiss luxury watchmaking industry.

**Keywords:** *dynamic marketing capabilities, luxury marketing, resource based theory, innovation, Swiss watchmaking*

## Introduction

Nearly 70% of the Swiss watch market is represented by major groups that are among top luxury watch producers (Swatch Group, Richemont, LVMH, Kering and Rolex), bringing together about fifty well-known brands worldwide. There are also numerous independent brands trying to compete with these “heavy-weighters.” According to the estimation made by the Institute of Watch Marketing, there are approximately two hundred active Swiss watch brands on the market today. Under condition of such competitive market more and more companies are obliged to create a new way of dealing with concurrence and create competitive advantage based on internal resources. The challenge here concerns not only market share and product management but also the innovation processes.

This context leads us to formulate the following research question: What are the main peculiarities of the DMC application to new product creation and innovation process in Swiss luxury watchmaking industry.

The first section of this article highlights background and methodology of current research paper. The second section presents conceptual framework concerning resource-based theory and dynamic marketing capabilities. The third section presents the results of the qualitative study and discuss them. The final section presents conclusions and further researches avenues.

## Methodology

In this article, we apply a two-step approach that brings together literature review and exploratory qualitative research. First, we proceed to the analysis of scientific publications concerning resource-based competitive advantage and dynamic marketing capabilities.

Therefore, to gain a deeper understanding of the resource based theory and to strengthen it with empirical findings we proceed to qualitative research (semi-structured interviews with CEO and Marketing managers) among twenty Swiss luxury watchmaking companies as the second part of current

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research. We choose to mobilize a convenience sample of companies including independent companies as well as companies-members of the main Swiss watchmaking groups. We made a specific focus on top managers involved in the product development and decision-making processes in order to identify the peculiarities of their “organizational” capabilities.

This approach and choice of participants, allows us to collect and confront different insights coming from «industry-based» perspective. The key issues addressed were: a) characteristics of the key company’s resources; b) innovation process organization; c) the main actors inside and outside the company active in innovation processes, d) market sensing activities. Qualitative research method was selected with the aim to generate data rich in details and embedded in context. (Maxwell, 2013). This study will allow us to enlarge and enrich previous theoretical foundations of the resource-based theory and illustrate it with insights coming from Swiss luxury watchmaking industry.

### **Conceptual Framework**

Last decades have seen an important economic shift from manufacturing to information and knowledge-driven services. This shift has been accompanied by an increase in the importance of intangible assets and capabilities. Thus the source of competitive advantage has changed from mostly manufacturing assets to market based intangible assets and capabilities (Ramaswami et al., 2009).

The resource-based theory (RBT) provides an important framework in explanation and prediction of the firm’s competitive advantage and superior performance based on market based insights (Barney and Arikan, 2001, Vorhies and Morgan, 2005). RBT considers a company as an idiosyncratic mix of resources and capabilities that are available for application by various departments in the company and are very difficult to imitate by competitors (Teece et al., 1997).

According to Barney and Hesterly (2012), sustainable competitive advantage results only if resources are simultaneously valuable, rare, imperfectly imitable, and exploitable by the firm’s organization (VRIO). This VRIO framework has acknowledged that resources need to be leveraged effectively by the organization, instead of simply possessed by the firm. Even if a resource is valuable, rare, and imperfectly imitable, a firm must be “organized to exploit the full competitive potential of its resources and capabilities. According to Newbert (2008), performance improvement is not directly a function of the value or rareness of a firm’s resource-capability combinations but rather of the advantages it creates from their exploitation.

Then, through insightful theoretical development researchers have expanded the RBT into the concept of dynamic capabilities. Specifically, dynamic capabilities are defined as the ability to build, integrate, and reconfigure internal and external intangible resources to address rapidly changing environments (Winter, 2003).

Teece et al (1997) and Eisenhard and Martin states that sustained competitive advantage could be based on the firm’s renewal and reconfiguration of its resources and capabilities through dynamic capabilities. The dynamic capabilities view changes from the resource-based view of the firm (Barney, 1991), by its attempts to the explanation of the conditions under which firms achieve competitive advantage based on their resources and capabilities (Molina et al., 2014).

Furthermore, researchers have increased conceptual understanding of the role of marketing in enabling firms to create and sustain competitive advantage and superior performance (Ramaswami et al, 2009). In accordance with potential to improve business performance, some studies (Bruni and Verona, 2009), have introduced the term ‘Dynamic Marketing Capabilities’ (DMCs hereafter).

In fact, DMCs are specifically focused on releasing and integrating market knowledge that helps firms evolve. Developing DMCs could constitute the real basis for sustainable competitive advantage and superior performance in most competitive sectors (Molina et al, 2014).

Fang and Zou (2009) define DMC as the responsiveness and efficiency of cross-functional business processes for creating and delivering customer value in response to market changes. It is this focus on customer value that distinguishes DMCs from dynamic capabilities in general. According to Bruni and Verona (2009) DMC are those capabilities aimed specifically at developing, releasing and integrating market knowledge that helps firm evolve.

### **Main Findings and Analysis**

Analysis of semi-structured interviews with the CEO and marketing managers of the Swiss luxury watchmaking companies lead us to a number of findings concerning the role of DMC in the new product creation and innovation processes.

Most of the Swiss high-end watchmaking companies are traditionally founded focusing on specific kind of watch and technological expertise in it. Often, these companies tend to develop and grow by mastering their technological competences.

As it comes from our research nowadays rare are companies that uses dynamic DMC. Those who do it, use these capabilities mostly for new product creation and its quality as

well as for reconfiguration of their innovation processes. Even if the majority of companies confirmed the importance of DMC, it is very difficult to implement them on practice due to the complexity of the numerous stages of industrial production, various operations and partners. Furthermore, very few companies use DMC in order to adjust their business models, create additional value proposition, or customer's relations.

DMC application to new services configuration around the brand and consumers relationship were indicated very rarely by some companies active mostly on the niche market of very-high-end sophisticated personalized or even co-created watches. In order to get more inputs, these luxury watchmaking companies propose (online or offline) configuration and personalization of watches according to the wish of the customer. *"For very special demands we propose exclusive watch configurator that goes further than just a personalized design of the watch – the heart (the movement) is personalized and it impacted all the watch after all. Thus, we are talking about absolutely new way of dealing with clients by putting them into the center of our attention."*

Largely applied in other industries this "configuration" approach is considered to be a niche in Swiss luxury watchmaking. As stated by the participants of the study, this allows acquiring additional source of the information about clients, their preferences and apply it not only to the limited versions of the high-end watches, but also enrich and modify the main collections.

The main factors encouraging the innovation process in the company were identified as the culture of dialogue, open-minded managerial vision and support of professional perfection of the employees. The key resources company has for innovation are highly experienced employees, vision of the managers encouraging creativity and flexibility of the production capacities of the company *"Management of the trans-hierarchical and trans-functional exchanges and internal culture of the dialogue could be even more important as an organized and structured department for the innovation."*

Thus, the size of the company is also very important, because it will be very difficult to adjust a production line to changes in various processes. *"Innovations takes time. Swiss watchmaking industry does not really have a lot of free time, because every year we have to present something new. It is almost impossible in these conditions to concentrate on the big changes and strategic vision. Moreover, it could be dangerous to fix the vision of the company only in this direction."*

As it was stated previously, most of the Swiss high-end watchmaking companies founded focusing on specific kind of watch and technological expertise in it. Often, this type of

companies tend to develop and grow by mastering their technological competences. In parallel to a very important role of outstanding technological capabilities (conception and manufacturing of the high-end watches), the competitive landscape is identically very complex. Various forms of distribution channels, marketing channels, geographical positioning and strategic partnerships could explain this complexity. All these actors and processes between them create valuable insights on the market, feedback on the product and customer preferences. Meanwhile, rare are the companies doing organized market-sensing activities. Most of the companies still perceive their status of the luxury companies that has no need to adapt to the changes in customer behavior and listen to their voice.

Traditionally, informal communication takes the most important part in the Swiss luxury watchmaking industry. As far as "watchmaking cluster" (approximately 90% of all production capacities, suppliers and sub-contractors) is situated within 300 km region of Northern Switzerland, numerous information exchanged in the informal manner. *"We don't do many studies about the industry in general, we don't need it as we are a luxury brand and we decide what customer will see in our boutiques, but informal exchange with our relations in other brands, keep us informed on the changes in the industry."* Professional fairs and exchanges between various participants, contacts with partners and suppliers, competitive intelligence and benchmarking with other industries are the main drivers of the market sensing activities in Swiss luxury watchmaking industry. *"it is always important to see what is happening outside Swiss watchmaking industry in order to add some novelties to our products, in terms of materials and complications"* we could sum these activities to networking.

As for external factors that in many other industries could influence application of the DMC in the company, in Swiss luxury watchmaking industry the vision stays very traditional and little changes were mentioned even when the situation on the market is quite turbulent.

To sum up our findings, we could state that in such a "product centric industry" as Swiss luxury watchmaking companies applies DMC mostly in the area of product development and innovation process. Client relationships, business model or branding is not really a subject of questioning or in a very few cases.

### **Scientific and Managerial Contributions**

Traditionally, the resource advantage theory was predominantly constructed on the theoretical level. In our opinion, such approach could be considered as the key drawback of scientific discourse. Recognition that science and practice produce distinct forms of knowledge has been longstanding.

According to Van de Ven (2007), the gap between theory and practice may be a knowledge production problem. The aim of the current research is to suggest a *vice versa* point of view and to highlight empirical evidence coming from practice. It provides and allows for the analysis and structuring of empirical data gathered in the Swiss watch-making industry.

The main purpose of this study is to highlight how it is possible for a Swiss luxury watchmaking company to create new products and organize innovation process based on internal resources and capabilities.

Managerial contribution of this article lies in best practices illustration that could be used as a support for strategic decision-making in Swiss watch-making companies.

The novelty of this project lies in its empirical approach applied in order to develop RBT application to the Swiss watchmaking industry based marketing managers and CEOs semi-structured interviews. Thus, with such empirical findings we attempt to provide a valuable contribution to the overall applicability of resource advantage theory for industrial enterprises.

### Research Limitations and Avenues for Further Research

The main limitation of this research lies in its nature. The exploratory research helped us to identify the key resources that could help the company to create new products and develop new type of innovation process. However, this does not allow us to understand the depth of this phenomenon. To do this, it would be appropriate to cross-identify elements between them in order to find out what are links between them and to analyze what is the importance and influence of each identified factor on the construction of competitive advantage based on dynamic marketing capabilities.

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