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**MANAGEMENT OF INTANGIBLES: APPLICATION OF THE DYNAMIC
MARKETING CAPABILITIES CONCEPT TO EXPLANATION OF UPWARD
EXPANSION TREND TO “HYPER LUXURY” IN SWISS WATCHMAKING
INDUSTRY**

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ABSTRACT

Introduction

According to the Federation of the Swiss Watchmaking Industry (FHS) in 2017, Switzerland occupies approximately 3% of the global market regarding the quantity of watches. As for value, Switzerland represents 54% of global sales that is 21 billion USD. About 95% of luxury watches with price starting from 1,000 USD are stamped "Swiss Made." Thus, the Swiss watch industry has become an integral part of the luxury universe.

However, it's not an easy task to get a place in this luxury market of reference. According to the estimation made by the Institute of Watch Marketing, there are approximately 200 active Swiss watch brands on the market today. In order to create an uncontested market space and stand out from the competition luxury watch brands are obliged to create a new way of dealing with concurrence.

The majority of brands chose the positioning at the top of a watch pyramid. First of all, it is an economic issue: according to the recent Deloitte report (2017) on watchmaking industry, the most important increase is in the category of watches belonging to the "Haute Horlogerie" segment. While other categories have been steadily losing their shares in exports for years, the high-end category of watches is growing considerably.

In the last two decades, luxury brand management has attracted much interest and discussions in academic and business circles. Among the business leaders and scientists, the debates were related to the challenges and paradoxes associated with luxury branding and management that emerged as a result of the evolution of the field (Okonkwo, 2007; Kapferer, 2008 Chevalier and Mazzalovo, 2008, Dubois B., Laurent G., et Czellar S, 2001).

In order to create and maintain the position of a strong luxury brand, a number of key elements have been identified as crucial and divergent within the scientific literature (Sicard, 2008; Fionda and Moore, 2008, Merle, Chandon and Roux, 2008). Vigneron and

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Johnson (2004) proposes key luxury dimensions that managers should establish and monitor for creating a lasting luxury brand.

Nevertheless, in our opinion there are no many researches explaining hyper luxury segment growth and the upward expansion of the Swiss luxury watchmaking to the hyper luxury.

To our knowledge, there is no scientifically accepted definition of the hyper luxury segment. We attempt to define hyper luxury watch brands as “Haute Horlogerie” watch brands with a unique positioning based on the personal-oriented perceptions of customers, high experiential value and proprietary manufacturing know-how, offering mainly mechanical watches in a price range starting at roughly 60'000 USD and then passing to the price categories of 100'000-500'000-1'000'000 USD for a watch.

In order to shed light on upward expansion to Hyper Luxury trend in Swiss luxury watchmaking we should formulate the following research question: What kind of resources to optimize and which processes to implement in order to create resource-based competitive advantage in a highly competitive market of Swiss luxury watchmaking?

Methodology

To gain a deeper understanding of the upward expansion to hyper luxury in Swiss watchmaking industry we proceed to qualitative research (semi-structured interviews with 20 CEO and Marketing managers) among watchmaking companies. We specifically focused on top managers involved in the product development and decision making and management processes. The key issues addressed were: definition of the key company's resources, information management, market sensing, innovative approaches in management, sources of value creation for customers and differentiation strategies, managerial vision and firm-specific practices and procedures.

Qualitative research methods were selected for this study with the aim to generate data rich in details and embedded in context. This study will allow us to enlarge and enrich previous theoretical findings and illustrate it with practical evidences.

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 for the hyper luxury brand expansion. The exploratory study confirms many of the elements presented in the conceptual part of this article.

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. Even if the majority of companies confirmed the importance of DMC, it is very difficult to implement it on practice due to the complexity of the numerous stages of industrial production, various operations and partners.

Meanwhile, there are some companies that managed to integrate the concept of dynamic marketing capabilities and improve their performance. A deeper questioning into their management practices revealed that they are achieving these results because of the sophisticated and effective way of implementation marketing insights coming from partners and clients. These high performing companies generate growth because of their particular focus for constant improvement of their marketing activities. *“The main idea is to question all the time our way of working and to elaborate more sophisticated marketing mix than most of our competitors. For us, sophistication of our watches has the same importance as sophistication of our marketing activities”*.

Our research pointed out that these few firms of Swiss luxury watchmaking industry, that successfully accomplish the search and gap-assessment stages concerning dynamic marketing capabilities have an advantage over rivals. The market-based identification of valuable resources and internal management of intangibles help managers recognize the need for improvement. In a case of such particular industry as Swiss watchmaking where any considerable changes are very costly and time consuming the companies that applies DMC through small steps and project-based development assure their presence and adaptability to the globalized changes of the economy. *“Swiss luxury watchmaking industry strongly related to the overall economic and social changes in the world. So we need to be constantly aware and understand global trends, for example, emerging categories of customers and their expectations towards luxury products”*.

Thus, dynamic marketing capabilities are considered as very important value creation drivers. We identified marketing intelligence, customer relationships and professional networks as the most important elements for additional value creation. *“It is clear that information is very important in order to stay “up to date” with the market. As most of decisions and processes depends on the feeling of the current situation on the market and clients, it’s very important to gather as much information as possible. There is no one source of information, but the multitude of different sources and various information as a puzzle helps to construct the right vision”*.

Organizational capabilities, information sharing and collaboration between various departments are directly related to new value creation. As it came from the qualitative analysis the main conditions are the “openness” of management vision and strategic flexibility of decision makers. Moreover, high-performing companies participated in our research confirmed that it is very important to adopt an entrepreneurial attitude and to implement “participative” way of collaboration. *“On the initial stages of product*

development, all departments are invited to give their feedback on the product. We organize regularly a brainstorming in order to obtain various perspectives. Cross-functional teamwork brings more value”.

Those companies who could create some sort of flexibility in organization of production find themselves mostly on the niche market of hyper-luxury with a very personalized, sometimes even “co-created” watches. In this approach, it is a client, his visions and his preferences that are incorporated into the watch through its design, configuration, functions and complications. This phenomenon also confirms the recent trends on the luxury market of ultimate personalization and unique experience creation that accompanying the product. *“People who could acquire almost everything that they want are looking for new experiences. Millennials are willing to pay higher price for personalized high-end and luxury items. The watch became not only the symbol of the status of its owner, but the reflection and continuation of the personality of a client. In this case a unique watch for somebody unique is a great concept”.*

Managerial recommendations

Our research revealed that the concept of the dynamic marketing capabilities as a part of intangible resources of the company could be very beneficial for swiss luxury watchmaking companies in the process of expansion to hyper luxury segment. Managerial contribution of this article lies in new approach illustration that could be used as a support for strategic decision-making in Swiss watch-making companies.

The concept of dynamic marketing capabilities is a very complex phenomenon. As a first step for improvement it would be important to get more informed and deeply understand it. In order to create more value and better performance, it is important to deep “intuitive” way of decision making and to implement more explicitly insights coming from practice.

Traditionally very segmented industry of Swiss luxury watches is on the road to changes due to radical social and economic changes around the world. Nowadays, company growth and performance requires connecting many elements across various sources of data. There are more opportunities and synergies in initial collaboration on the basic steps of the expansion to hyper luxury segment of watches then filling in the gaps that were not considered in the beginning.

Feedbacks from customers and partners could be the most valuable data sources for sustainable changes and following up current trends on the market. Extensive data gathering and analysis, flexibility and learning has a direct impact to the performance. The more internal and external sources engaged into the flexible management and decision making process, the better performance and customer value it could bring.

Nowadays, customer is placed in the center of the most of successful businesses. The level of understanding of the customer preferences and values turning to solid insights that could help for better and more efficient performance and decision making processes. Co-created value with customer’s insights will help to achieve more recognition, exclusivity and appreciation from customers. Direct interactions with wealthy individuals

are the main differentiators and value creation mechanisms of a hyper luxury segment of watches. There are numerous opportunities to engage customers in a dialogue instead of traditional for Swiss luxury watchmaking industry one-directional communication. Largely applied in other industries (luxury cars, yachts etc.) this approach is considered to be a niche in the luxury watchmaking.

Thus, in our opinion even in the highly traditional industry as Swiss luxury watchmaking it is of great importance to understand and try to implement this dynamic approach and to adopt “Bottom up” management practices. From managerial point of view it is important to encourage curiosity, open-mindedness and cross-departmental communication of the employees.

Our key managerial recommendation would be to state that in order to gain competitive advantage, information from the markets, partners and clients should be translated into actionable plans that, once applied, tend to yield concrete results. This transition from data to reconfiguration of processes represents the path that creates more value and competitive advantage in a highly competitive industry.

More specifically, firms aimed to compete on the basis of the superior customer service and expansion to the “hyper luxury” sector are advised to invest into building new type of relationship and more dynamic organizational process based on the insights coming from various partners.

Limitations and further research avenues

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.

The theoretical contribution of this article to the academic discussion lies in explaining the expansion to the Hyper Luxury Watchmaking Segment based on intangible assets management. We contribute to the development of RBT with its insights deriving from Swiss luxury watchmaking industry. These issues helps us to come up with managerial recommendations and thus to contribute to the advancement of the RBT.

The main limitation of this research is in the nature of our research. The exploratory research helped us to identify the key elements in expansion to hyper luxury watch segment by Swiss luxury watchmaking companies. However, this does not allow us to understand the depth of this phenomenon.

In order to confirm this results the more profound and focused analysis is needed. It could help to understand deeper micro-foundations of DMC. In addition to that, in our opinion a detailed case study of the firm with outstanding DMC’s would be particularly valuable.

Otherwise, to test quantitatively what are the links between various elements is also a promising avenue for this research.

Keywords: intangible resources, dynamic marketing capabilities, resource based theory, luxury watchmaking

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