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ARTICLE **HBR CASE STUDY AND** **COMMENTARY**

Competing Against Bling

How can an understated watch brand stand out in China?

by Stephen Nason, Joseph Salvacruz, and J.P. Stevenson

Should Song push for the new ad campaign?

Expert commentary by Kent Wong and Martin Ganz

CASE STUDY COMPETING AGAINST BLING

HOW CAN AN UNDERSTATED WATCH
BRAND STAND OUT IN CHINA?

BY STEPHEN NASON, JOSEPH SALVACRUZ,
AND J.P. STEVENSON

Wei Song noticed the fashion models first, preening in their chiffon-and-lace gowns.

CASE STUDY CLASSROOM NOTES

Nason and Salvacruz teach the original case in leadership, negotiation, and marketing courses to highlight the cultural differences between Europe and China and the ferocity with which luxury brands compete for Chinese consumers, who, according to a 2016 Bain study, account for about 30% of worldwide spending in the category.

They flanked the entrance to Shanguang Jewelers' flagship store on Nanjing Road. A vintage Eagle roadster was parked nearby; a dozen well-heeled men and women clustered around it. Song could see more people inside the store, sipping champagne. Many were trying on watches.

"It's quite an event," Song said to his colleague, Pearl Zhang, who was standing next to him, across the street.

"Yes," she replied. "If only it were ours."

Song was a director at Rochat & Schmid, a 100-year-old Swiss maker of luxury timepieces, overseeing Greater China from his base in Shanghai. Pearl, his VP of marketing, had learned that their rival Berlinger was launching a line of gem-accented watches, which would be sold through Shanguang, China's biggest jewelry retailer. She'd persuaded him to do a bit of intelligence gathering with her.

"I told you they'd make a splash," Pearl said. "Couture clothes, a classic car, and watches with your choice of diamonds, emeralds, or rubies around the face. Look at the customers—they're loving it. You asked what we could do to boost sales? The answer is something like this."

"Well, unlike Berlinger, we're not owned by a conglomerate that has a fashion line, a winemaker, and a car company," Song replied. "Besides, we don't do diamond-encrusted anything. Berlinger's brand is splashy, so they do splashy promotions. R&S stands for subtle elegance."

"And so we're stuck with subtle marketing? In this city? This country?" Pearl gestured toward the neon-lit road, then up at a billboard featuring a Hollywood actress. "There has to be some license to adapt to local tastes. Geneva needs to understand that, especially given how much they depend on us to make their yearly numbers."

 **STEPHEN NASON** and **JOSEPH SALVACRUZ** are professors of business practice at HKUST Business School. **J.P. STEVENSON** is a manager of competitive intelligence at the Fung Group. This fictionalized case study is inspired by "Battling Giants for China's Luxury Consumer" from the HKUST Thompson Center for Business Case Studies.



Groups such as LVMH, Kering, and Richemont—which have portfolios of 30 to 50 brands across categories—have come to dominate the luxury industry.

Some high-end watchmakers, such as Titoni, have created designs exclusively for the Chinese market. Is such customization wise?

Thanks in part to an anticorruption drive that is deterring the “gifting” of watches to officials, high-end watch sales in China grew by just 3% from 2012 to 2015, Bain reports.

Data from UnionPay shows that at home and abroad, Chinese consumers spent \$67 billion during the Chinese New Year celebration in 2017.

Luxury sales in China’s second-, third-, and fourth-tier cities are rising and have, in some categories and places, even surpassed sales in first-tier cities.



“You know I’ve passed on your thoughts about adding new designs and rethinking how we market here. Every time I’ve had to address the same-store sales declines, I mention it. But you also know how Simon feels about bling.”

He was referring to R&S’s strong-willed chief creative officer, Simon Carbonnier. “So,” Song continued, “we’ll need to think about more-innovative ways to generate buzz here.”

“I’m ready to show my ideas to you and Simon tomorrow,” Pearl said. They were scheduled to present mock-ups for the Chinese New Year ad blitz to the CCO via teleconference the next day. “Still,” she added, staring at the models, the car, and the crowded store. “I’m not sure I can compete with that.”

A GOOD NICHE?

The following afternoon, Song was back at the Shanguang store, meeting with the retailer’s CEO, Li Gui Ying.

“I walked by the event here last night, and it looked like a great success,” Song said.

“You should have come in!” Gui Ying admonished. “That was the first, but we’re doing them across the country—next in Hong Kong and Beijing, of course, but then Shenzhen, Guangzhou, Tianjin, Hangzhou, and Chengdu. Given the new government initiatives, we can’t rely on the ‘gifting’ market anymore. The only way to drive sales is to persuade customers, especially the middle class, that they deserve to splurge, even if the economy is slowing down.”

“Are you hoping for events from us, too?”

“We had impressive sales last night, and the publicity was amazing. But events from Rochat & Schmid? No, nothing along the lines of what we did with Berlinger. You’re in a good niche. When people come in looking for something less glitzy, we send them right to your watches.”

“But our sales with Shanguang are flat—even with your new locations—and our same-store figures in the big cities are all slightly down,” Song said. “I know from your recent earnings report that most of your points of sale seem to be doing OK despite the dip in luxury spending. I’m not sure

you’re sending enough people our way. I’m wondering if you would consider giving us more counter space, showing a wider variety of our watches—especially in the faster-growing cities.”

Gui Ying sat stone-faced for a minute. Song waited politely.

“I think we have just the right amount of Rochat & Schmid now,” she said. “Yes, sales are off, but the corruption crackdown and the sluggish economy are causing tastes to shift. People are trying to be less obvious about their wealth, so I can see your watches drawing many more customers going forward—maybe in a year or two? Of course, if you want to give me something new to work with—a new slogan, new designs, even a celebrity endorser—I’m always willing to listen.”

CELEBRITY FLASH

Song had to hustle back to the R&S China headquarters to make Pearl’s 4 PM presentation. When he walked into the teleconference room, Simon was already up on the video screen.

“Song, good to see you, my friend.”

“And you, Simon. How are you?”

“Very well, thank you. I’m unfortunately pressed for time today. The design team has a workshop starting at 10 our time. And then I’m meeting with Rolf.” Song and Pearl exchanged glances. They often made bets about how long it would take Simon to mention his contact with Rochat & Schmid’s CEO, Rolf Odermatt. “But you have my undivided attention for the next 30 minutes. Pearl, please go ahead.”

“Thanks, Simon. So I’ve worked with our team and our ad agency on two distinct directions.” She clicked on her laptop, and a slide appeared on a second screen in the room.

“The first will feel very familiar,” she said, calling up a set of ads. “We run with our traditional ‘Mark every occasion’ tagline but give it a feminine spin to highlight our new range of women’s watches. Instead of a father giving his son a watch at graduation, we see a mother giving one to her daughter. Instead of a wife giving a husband a watch for his birthday, we see sisters surprising each other with matching watches. We update to a

In China, foreign watches are principally distributed through specialty stores and partnerships with local companies that market products in high-end department stores and malls. Though a watchmaker may be represented by several retailers within a region, retailers may carry the products of more than 50 watchmakers. How should that inform the way Song negotiates with Gui Ying?



How does Song’s geographic location—so far from headquarters—affect his ability to influence C-suite executives at Rochat & Schmid?

By 2014 women accounted for more than half of Chinese luxury spending, up from 10% in 1995, according to Bain. However, in China men still dominate the luxury watch market by a ratio of 3:1, reports HKTDC Research.

When Deloitte asked 19- to 29-year-olds which marketing channel most influenced their decision to buy a watch, the top answer among Chinese consumers was brand ambassadors. Most luxury goods companies pay celebrity endorsers to wear their products and appear in their ads. What are the costs and benefits of such an approach?



slightly more modern font, but the photography is still black-and-white.”

Pearl waited for a response from Simon. When she didn’t get one, she pressed on. “The second would be a departure but a calculated one, also designed to appeal to women. Song, I know you’re familiar with Changchang Gao. Simon, she’s a Chinese singer and actress who recently switched from TV to films. She has 30 million followers on Weibo, many of them Millennials. When she releases a song, they download it. When she wears a dress, they buy it. I happen to be friendly with her agent, so I know she’s open to one or two endorsement deals. I think she could be locked down at a reasonable rate if we gave her a three-year contract. I’d like to make her the face of a new slogan: ‘You deserve it.’” Pearl clicked and an image of Changchang appeared on-screen. She was walking down a busy street in a short red dress, flashing an irreverent smile and wearing three R&S watches on her right arm. Everyone else in the picture was looking at her.

Song smiled. He liked it. Simon clearly did not. He was frowning.

“Simon, I’d love your feedback,” Pearl said carefully.

There was a long pause. “I admire your creativity, but I’ve always found endorsement deals a bit lazy. And even if we did do celebrities, which we don’t,” Simon said, “she doesn’t seem right for us. Too young, too flashy.”

“But, Simon, Chinese consumers are young, and they like flash,” Pearl replied. “We’d love to offer them products that capture that, but without new watches, all we have is marketing.”

“Elegance always trumps excess with luxury buyers. We’ve talked about it before. These days the trend is toward inconspicuous consumption. It’s starting to happen in China, too. That’s why we’re not changing our product designs now. We shouldn’t change our marketing, either.”

Song decided to speak up. “I understand what you’re saying, Simon. Certainly the anticorruption movement seems to be hurting the flashier brands. And maybe aesthetic preferences will change in a way that favors us. But will they change fast enough to deliver growth to our shareholders this year? As you know, if we lose ground in

China, it affects the whole company. So maybe we need to shake things up.”

“I’m against it,” Simon said. “Let’s not lose track of what value Rochat & Schmid offers the market.”

Pearl chimed in. “Simon, I understand the importance of honoring our heritage and maintaining a consistent image worldwide, but as you’ve said yourself, China is a unique market. Our existing campaigns are beautiful and on brand, but in a crowded and stagnating market they’re simply not working as well as we’d like.”

“And how do you know that this endorsement will work?” Simon asked.

When Pearl didn’t reply, Song spoke up again. “Simon, perhaps you and I can take some time to review these.”

“I don’t think I need time on both,” Simon replied, “but I’ll send my notes on the first set in a few days.”

UP FOR A FIGHT?

The next day Song had his weekly call with Rolf. They exchanged the usual pleasantries, then talked through the regional sales numbers.

“What’s this I hear about you and Pearl wanting to shake up your marketing?” Rolf asked.

Song was taken aback; he didn’t think Simon would have spoken to Rolf already. “Yes, we’re considering a slightly new direction.”

“Simon thinks it’s off-brand and could hurt our image,” Rolf said. “Of course, he doesn’t run the firm. I do.”

“Have you looked at Pearl’s mock-ups? They’re a departure, yes, but not too flashy.”

“Simon showed me. To be honest, the pretty girl, the red dress, the three watches—it does seem flashy to me. But you know China better than I do. Do you have the budget to do it?”

“We wouldn’t be asking for more than we’re already allocated. Pearl says we’d get a better deal by signing a longer contract.”

“Unless it doesn’t work. Then it’s not a deal,” Rolf replied.

“Yes,” Song admitted.

“So do you want to fight Simon on this?”

Song had been asking himself that same question since the previous day. He hadn’t realized he would need to answer it so soon.

“Value proposition” is a key concept in strategic marketing. Did Song’s proposals adequately convey the unique benefits of R&S watches?

Among Chinese executives, silence is often a sign of disagreement, but a Swiss executive might be more likely to interpret it as acceptance.



SEE COMMENTARIES ON THE NEXT PAGE ➔

SHOULD SONG PUSH FOR THE NEW AD CAMPAIGN? THE EXPERTS RESPOND

SONG AND PEARL know the Chinese consumer better than Simon does. They should trust their instincts, engage Changchang Gao as an endorser, and pursue the new marketing strategy.

I suggest this course of action for a few reasons. First, despite the current slowdown in high-end watch sales in China, it's still the world's most important luxury market, with the potential to grow further in the future. Companies must continue to invest in brand building here if they want to keep succeeding. Second, we've seen many companies, including Longines, Omega, and Baume et Mercier, benefit from advertising campaigns featuring Chinese celebrities. Critically, Changchang appears to be not just a famous singer and actress but one with a significant social media following, through which she can promote Rochat & Schmid.

Her digital influence will be a huge asset in attracting buyers—both young and old—to the brand's watches, as more people investigate products and make purchases on mobile phones. But it will particularly help R&S appeal to Millennials, an increasingly important market. (In China the average age of luxury buyers is 40, compared with 50 or 60 in other countries.) We've seen some fashion watch brands—those priced at \$1,500 or lower—really take off in recent years because of their savvy use of new digital platforms. And even

some at the superluxury end—priced at \$100,000 and above—are now embracing online and social marketing. Of course, any new campaign must fit with the brand's DNA. But the one Pearl suggests seems to walk that line well.

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Simon mentions the rising preference for inconspicuous consumption in China. I would characterize changing customer tastes in a different way. In my view, luxury buyers are now gravitating toward items that reflect independent thinking rather than following the crowd. I believe manufacturers and retailers should respond by, as Pearl suggests, offering more varied, perhaps even localized, designs and the ability to customize.

Technology now allows us to tailor products and shopping experiences to customers' preferences. In 2016, our group had more than 2,300 Chow Tai Fook and Hearts on Fire points of sale in over 500 cities in Greater China, Singapore, Malaysia, Korea, and the United States, but we also sold close to a million pieces of jewelry through our own e-shop and other e-tail accounts on important online shopping platforms, such as Tmall. Now we're experimenting with blending the two experiences: taking orders online, often via our mobile app, which allows for design-your-own products, and delivering them off-line. Customers can go to the nearest store to pick up their purchases or have a sales associate deliver items to their homes.

Whether it is in product development, sales, or marketing, R&S needs to be much more responsive to its Chinese customer base.



**KENT WONG IS THE
MANAGING DIRECTOR
OF CHOW TAI FOOK
JEWELLERY GROUP.**

MARTIN GANZ IS THE VICE PRESIDENT, HONG KONG AND MACAO, OF BREGUET, A DIVISION OF THE SWATCH GROUP.



MANY BRANDS ENLIST celebrity endorsers or ambassadors, but at Breguet we don't. We prefer to focus on our heritage and the quality of our products. Since our founding, in 1775, our clientele have always included royalty and heads of state, so we like to say that the people who wear our watches are our ambassadors.

While I understand that Song feels he needs to do something to boost Rochat & Schmid's sales in China, I'm not sure a celebrity-led ad campaign will solve all his problems.

Before pushing for this shift in marketing strategy, he needs to ask himself whether a singer-turned-actress fits with his brand's mission and priorities in China. Just look at the many types of endorsers that real-world watchmakers have used to highlight their strengths: sports stars, scientists, conductors, artists.

Even if Song finds the right ambassador, he must also consider other risks: Do all current and target customers know and like this person? Might he or she be less successful or popular in a few years' time? Or behave in a way that reflects poorly on the brand?

Formal endorsements are quite expensive and involve long-term contracts. Perhaps Song should consider a lower-cost, shorter-term experiment instead. For example, if he believes an association with Changchang Gao will help attract younger customers or those that prefer a bit more flash, R&S could simply sponsor a party, dinner, or concert—or a series of events—ask her to perform or attend, and invite the media.

These events need not be as “blingy” as the Berlinger one described at the start of the story. Instead of models and cars, R&S might bring in artisans who demonstrate how its watches are made. As someone who has worked in Hong Kong for more than 30 years and spent the past six building Breguet's mainland China business, I can tell you that luxury brands in Asia benefit when they offer customers special experiences, particularly when

CELEBRITY ENDORSEMENTS ARE RISKY. THE BRAND AMBASSADOR MIGHT BE LESS POPULAR IN A FEW YEARS OR BEHAVE IN A WAY THAT REFLECTS POORLY ON THE BRAND.

they're able to team up with leading retailers to do so. In Taiwan and the Philippines, for example, Breguet has had success with events featuring prominent television anchors.

If the response to R&S China's initial experiments with Changchang are positive and—more important—the initiatives boost sales, Song and Pearl can then present a better case for investing in a partnership that would make her the new face of R&S in China (although I would still recommend limiting the contract to a year or 18 months, with an option to renew).

To be clear, I'm not suggesting that Song roll over for Simon. Brand headquarters need to be the driving force of companies, and their brand strategies should be implemented as much as possible, but it's key to take local intelligence into account. The motto should be: Think globally—act locally.

Clearly the status quo isn't working, and Song is right to consider a change. However, celebrity endorsements are risky, and I would advise him to proceed very carefully. ☺

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COMMENTS FROM THE HBR.ORG COMMUNITY

Stand Up for Your Ideas

Yes, fight for the new ad campaign. Even luxury brands have to adapt to the current trends of the market they're in.

Jan Nissen, business area manager retail, Richemont International

Target New Kinds of Customers

If you want to keep it traditional and conservative, seek a new niche in the gifting space: the wedding market. Market the watches as a long-lasting present from parents to a bride or groom.

Lucas Litwiniuk, senior manager, Royal Bank of Canada

Run a Trial

My advice is to do more market research on existing and target customers as well as competitors, and then design a small pilot to test a new marketing strategy with the help of the retail CEO.

Maria Pantisidou, project manager, GVB