



What's in a Brand?

Tradition, culture, craftsmanship all contribute to the brand you buy. But how much more are you willing to pay for that label?

Impeccably accurate timepieces are perhaps the essence of Switzerland. A Swiss Made watch evokes a concept of quality, a reputation that has taken nearly 500 years to build. Not surprisingly it's one that the Federation of the Swiss Watch Industry is determined to keep. The federation recently quit one of the country's top business organisations, *economiesuisse*, accusing it of not wanting to sufficiently protect the Swiss brand.

The two organisations have been in disagreement over how much of a product is required to originate in Switzerland for it to be labelled "Swiss Made". Current legislation says that only 50 percent of the value of the precision-tooled inner workings of a watch, known as the watch movement, has to be manufactured in Switzerland. There is no such law for other industrial products. The Swiss government has proposed legislation ensuring 60 percent of the source or manufacturing of any item with the "Swiss Made" tag be done in Switzerland. The 60 percent threshold, supported by the watch-making federation (although some members would like to see it raised as high as 80 percent), has been rejected by *economiesuisse* - which represents over 2 million businesses - as restrictive and impractical.

All of which brings into question how much culture and other intangibles – such as sustainability and provenance – are worth, how can they be reflected

in the price tag, and how can companies or industries convince the consumer that these values are inherent in the (generally higher) price they pay?

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Recent studies by St Gallen and Zurich Universities show the Swiss brand generates up to 20 percent more profit on luxury products and in the case of watches made in Switzerland – in contrast to watches made in countries such as China but using a Swiss designed movement - almost double the high-end price to well over US\$100,000.

The use of cultural and geographical references to add value to a luxury product has always been a critical aspect of its marketing, notes **Frédéric Godart**, INSEAD Assistant Professor of Organisational Behaviour. “By indicating a special cultural or geographical reference, luxury producers make replication harder and increase customers’ willingness to pay.”

Is it authentic?

Whether it’s a Swiss watch, an organic cheese or an old mining town looking to revamp into a tourist destination, the social and cultural value of a product is increasing as consumers become vigilant about the authenticity of their purchases.

“Today’s innovation in highly-developed countries largely consists of transforming cultural values and ways of life into sellable products and services,” **Olivier Crevoisier**, a professor at the University of Neuchâtel’s Group of Research in Territorial

Economy (GRET), told a policy seminar at INSEAD’s Abu Dhabi campus.

Consumers, says Crevoisier, are educating themselves and are increasingly making choices based on a product’s provenance, sustainability or history. “But traditional activities like the watch industry as well as new ones have to find some legitimacy in public debate in order to create economic value.”

“The watch today is a cultural good, it’s a useless good really, everybody has a mobile phone (to tell the time) so why do people pay so much for a Swiss watch? It’s precisely because it’s embodying what we call authenticity,” Crevoisier told INSEAD Knowledge noting the difficulty companies have in promoting their cultural value. “It’s not something you can claim for yourself. You can’t advertise with great credibility and say ‘we’re authentic’. Other people have to say it about you.”

Public discussion generates interest around a product and this creates value as well as testifying to the authentic nature of the brand, he adds, noting this desire to be seen as authentic has forced marketers to introduce some innovative techniques.

Many Swiss watch manufacturers are now turning their plants into tourist destinations. Often they are set on a farm or in an old village with a museum next door. Workers are taught to speak English and encouraged to interact with customers or journalists who are brought in to tour the facilities.

LVMH has taken a similar route, opening its major fashion houses, boutiques, vineyards and family homes to guests in an event called “Les Journées Particulières”, giving customers a glimpse at the craftsmanship behind its products.

Reinventing industry

Cultural value is also providing opportunities for ailing regions, as they transform their heritage into a sellable product.

Take the Ruhr Valley of Germany, the old mining and steel district which fell into crisis as collieries and pits shut down in the late twentieth century. By leveraging off these roots the area has reinvented itself, promoting industrial heritage, by turning old mines, blast furnaces and factories into galleries, monuments and landmarks.

And it’s not just old culture which is being used, says Crevoisier. On the south coast of Sweden, the small town of Ystad, the backdrop for the popular Inspector Wallander series of books and television shows, has created a thriving tourist industry off the fictional tales using the series as an advertising tool

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to promote the region.

Value driven by debate

Companies commonly use media events and celebrities to promote their products. But real value says Crevoisier is driven by open debate between experts, connoisseurs, NGOs and customers. Swiss watch-makers like many high-end manufacturers are investing in glossy magazines with articles which encourage journalists and experts to discuss not just the crucial competences of a product but the symbolic knowledge. By stirring up discussion, sharing experiences and swapping ideas across sectors and countries, consumers are becoming semi-experts in a product or sector and more willing to spend money on it.

The football industry has particularly benefitted from this type of knowledge diffusion. "Soccer is big business," says Professor Crevoisier. "There are lots of newspapers and magazines looking at crucial points of a game or statistics. This sparks debates everyday on the television or in bars and as people's knowledge about the game increases they become more passionate and are willing to travel great distances to a match. They will pay a lot of money for tickets or access to a television channel to watch the game, they buy magazines, jumpers, hats."

Anything that creates discussion will add to consumers' interest and ultimately to the value of the product, notes Crevoisier which brings us back to the watchmakers and their public outrage over *economiesuisse's* refusal to support the government's "Swiss" bill.

"The watch industry has acquired a lot of experience with this "authenticity" and "marketing" during the last 10 years," says Crevoisier.

"I think the watchmakers will get the regulation they want – probably a different standard than for other products. [In the meantime] they are very good at using this kind of episode to appear in the media as the true defenders of authenticity. They would never miss this kind of opportunity."

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