

The Consummate Opportunities of Cross-Cluster Collaboration



By L. Felipe Monteiro , INSEAD Affiliate Professor of Strategy

When a Swiss watchmaker visited Silicon Valley seeking help to create a luxury smart watch, it brought with it intangible benefits.

Industries working in clusters share linkages, synergies and other self-reinforcing mechanisms which can help them become a global reference point for their specific product. Much has been written about the benefits of cooperative research, competitive striving and sharing of information which speeds up innovation, creating a smarter, more efficient industry. The challenge comes when cluster members are forced to look outside their sphere of expertise and the industry they know so well, in order to improve the value of their product.

As the world changes, industries can't remain isolated. To remain sustainable, gain a competitive edge and identify new opportunities, firms need to look outwards. Companies that make the effort and bridge cluster

demarcations can find a whole new level of innovation, particularly when both sides have something to share.

Since the onset of the digital revolution, industries in many sectors have turned to Silicon Valley, seeking technical know-how to drive value in their business. While the focus has been on what others can gain from the technology epi-centre, what is often forgotten is that Silicon Valley too has a lot to learn in terms of value maximisation.

Breaking into the luxury markets

For some time now, technical giants like Apple have been trying to break into the luxury sector to understand more about the intangible value of brands such as Louis Vuitton, Prada and Rolex.

The connection between digital and luxury is a tricky one. While digital autocrats are often blinded by technical features, purveyors of luxury prefer to talk about art and emotions. So, how do you bring exclusivity to the digital space? Apple has tried to move into this elusive, high-value sector by creating the illusion of scarcity to increase demand. But, despite its best efforts, including attempts to **poach** employees from high-end Swiss watchmakers and successfully luring TAG Heuer's sales director onto its iWatch launch team, its products still remain at a much lower price point than its luxury competitors. (The iWatch launched at a starting price of **US\$299 compared to US\$1,500 for the TAG Heuer Connected.**)

The comparison between Apple and TAG Heuer highlights the different logic between the digital and luxury markets. Success for Swiss watchmakers is about producing a watch that is a piece of art. Over generations they cultivated their image as organisations capable of producing quality at the highest level. Their products derive their value not only from their superior workmanship but from their artistic technique and other intangibles inherent to luxury brands.

When TAG Heuer approached Silicon Valley to access the technology it needed to create its first luxury smart watch, it didn't go empty-handed. It brought with it its ability to capture these intangible qualities and charge more than \$100,000 for a device that tells the time. From TAG Heuer, companies in the Valley could learn a lot about brand positioning and gain an understanding of how consumers value luxury. In short, this partnership between the digital and luxury sectors was mutually beneficial.

Smart leadership

As highlighted in my recent case study, “[The TAG Heuer Carrera Connected Watch: Swiss Avant-Garde in the Digital Age](#)”, TAG Heuer’s push into the smart watch market was driven by two remarkable men: Jean-Claude Biver, President of TAG Heuer, and Guy Sémon, former Technical Director and Head of Product Development and now TAG’s General Manager.

Biver had helped save the Swiss watch industry when quartz watches largely replaced mechanical watches in the 1970s and 1980s. In 2004, he became CEO of Hublot, a niche brand which turned into a 100 million Swiss franc business within two years and was bought by LVMH in 2008. When he was made President of TAG Heuer in 2014, he immediately replaced the ‘old guard’ with a new era of management. He had a start-up mentality, recognising the need for agility and speed.

While the Swiss watch industry was divided as to how the market would react to the launch of the Apple iWatch, at TAG Heuer under Biver and Sémon, plans for a luxury competitor began to take shape.

It was Sémon, a R&D guru in the watch industry, who recognised that TAG Heuer lacked the technology to fully develop the connected watch and would have to find external partners. He was also convinced it would be a transformational project for the company. Biver saw the onset of smart watches as both an opportunity and a threat.

Need for speed

In the industry, both Biver and Sémon, were considered disruptive “insiders”. The two men moved forward with the project without market research. Contrary to the general consensus that the digital space is data driven, they worked based on gut feeling, adopting the philosophy that time is of the essence if you want to capture something new.

To ensure access to technology that would not quickly become obsolete, Sémon flew to Silicon Valley to talk with the leader in microprocessors, Intel. As Sémon later noted, Intel was “excited” to meet a watchmaking engineer. That CEO Brian Krzanich, on introduction, pulled up his sleeve to show his own TAG Heuer watch – a graduation gift from his parents – was testament to his understanding of the power of creating a luxury brand.

The next step was to find an operating system. By connecting with Google's Android, TAG Heuer would be linking with thousands of app developers around the world. Aligning with Google and Intel would bring marketing benefits as well as complementary technical know-how.

Mutual benefits

When the partnership between the Silicon Valley giants and TAG Heuer was announced in March 2015, industry experts noted the mutual benefits of this union between the luxury and digital segments. *The Financial Times* **observed** that the partnership left "no doubt as to Google's determination to follow Apple into the high-end segment of wearable technology".

The launch of the TAG Heuer Connected watch – the first "Luxury Android wear" – later that year attracted massive media coverage. The product sold out in the United States within 48 hours, with a price tag of US\$1,500 per piece. Biver noted in a presentation in May 2017, "These customers told us they were buying not just the technology but the exclusivity, status and prestige."

Is it the start of something more?

The coming together of Swiss watchmaking and Silicon Valley was a marriage of tech innovation with watchmaking credibility. As Biver said in a statement after the launch, "Our collaboration provides a rich host of synergies, forming a win-win partnership; the potential for our three companies is enormous."

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