

# COULD THERE BE A LUXURY BRAND ORIGINATING FROM THE CZECH REPUBLIC? THE CASE OF CZECH WATCHMAKER MANUFACTURE PRIM 1949

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Central Europe, due to its history, is not perceived as a region from which a luxury brand could originate, rather luxury is traditionally connected to Western European countries (such as France, Italy or Switzerland). Country of origin (COO) plays an important role in the perception of any brand but for luxury brands the COO is usually even more important than for mainstream brands because it is an important part of the brand's heritage. But despite their unfavorable origin, in the last few years, we can observe that brands which originate from the CEE region have positioned themselves in the luxury market. The goal of this article is to investigate the COO effect for a luxury brand originating in the Czech Republic – namely the watchmaker Prim – and its impact on the marketing strategy of this brand. The main research method used in this article is the case study method which combines the findings of in-depth interviewing and observations together with findings of secondary research. The managerial implications mainly target brand managers of luxury or premium market brands originating from the Czech Republic and other CEE countries. The investigated brand case of Czech watchmaker Manufacture Prim 1949 proved that it is possible to build a luxury brand originating in the Czech Republic and also successfully enter foreign markets with this brand. However, for foreign markets, the marketing strategy (mainly the communication) strategy needs to be adapted as the COO does not bring any additional value for customers in those markets and it needs to be replaced by other values (such as the long tradition of the brand, interesting story of the brand, etc.). Overseas, the COO could be used as a positive value by stressing the European origin instead of the Czech one. Targeting also needs to be adapted as local patriotism would not work for the brand.

JEL classification: M31

Keywords: Country of origin; marketing; luxury; branding.

## Introduction

Czech Republic is traditionally not perceived as a favorable country of origin for luxury brands. However, looking back into history, one could find several examples of industries that positioned their products into the luxury segment of the market, such as porcelain and glass production in Western and Northern Bohemia or the famous Bohemia crystal.

During the communist era, the potential of many Czech brands to appeal to high-class customers and compete within the luxury business was virtually destroyed as companies were required to produce products mainly for the mass market and for less developed socialist countries. That is why luxury as a category had to be re-established from the very beginning in the early 1990s with Western luxury brands almost exclusively serving this market.

At that time, Czech consumers did not prefer national products but preferred Western products instead as they perceived them to be of higher quality and more trendy (Král, 2012); this was also the case of luxury brands.

But interestingly, some of the old traditional brands recovered at the beginning of the new millennium including some brands in the luxury segment. Also, few new brands in this segment were created and started to compete with established global luxury brands. Marketing of luxury brands, therefore, became interesting for marketers and brand managers of other Czech brands. On the other hand, this development still did not motivate academics or researchers to investigate the luxury market from the perspective of a CEE luxury brand. A literature review showed that there are no articles related to this topic in academic journals and just a limited number of articles have been published in the business press.

Nor does a simple Google search bring any relevant results. When searching for “Czech luxury” the search results relate mainly to luxury hotels in the Czech Republic or to the websites of different luxury magazines despite the fact that Czech luxury brands exist, for example, Moser – the luxury crystal brand whose truly luxurious position was confirmed in 2011 by membership in the famous Comité Colbert (as one of only six non-French brands) (Comité Colbert, 2013) or Superb – the flagship model of Czech car maker Skoda which was in 2009 selected as luxury car of the year by BBC Top Gear magazine (Škoda, 2013).

The goal of this article is therefore to fill-in this gap by investigating the COO effect for a luxury brand originating in the Czech Republic – namely the watch-maker Manufacture Prim 1949 – and its impact on the marketing strategy of this brand.

The brand Prim (even though the correct trademark is Manufacture Prim 1949) was among those which were labeled as luxury brands by Czech marketers in the research study “Czechs and luxury brands” conducted by Mather Communications in 2010 (Mather, 2010). The study analyzed the perception of Czech luxury brands among Czech marketers. The main result of the study was that more than half of the respondents (53 percent) did not label any Czech brand as a luxury one (Mather, 2010). But on the other hand, the remaining respondents identified several brands that could be labeled as luxury brands and the brand Prim was mentioned most frequently (21 percent of all respondents) followed by the beer brand Pilsner Urquell (14 percent) and traditional glass and crystal brands Moser (11 percent), Bohemia Crystal (7 percent) and Český granát (4 percent) (Mather, 2010). Given the long tradition and special position of glass and crystal producers and the questionable positioning of Pilsner Urquell (which is rather a premium brand than a luxury one), the brand Prim seems to be a good example of a luxury brand for further analysis. Another brand which was considered for analysis in the Central European context was the East-German watch brand A. Lange und Söhne. This brand, which was established in the mid- 18<sup>th</sup> century, was abandoned in 1948 after the eastern part of Germany became a part of the soviet bloc. After the political changes, the brand was re-established in 1990 and successfully managed to enter the luxury market segment; today it is a respected producer in this market segment (A. Lange und Söhne, 2013). Even though this brand is probably the only one originating from the former eastern bloc that has entered the luxury market on a global scale, it was not considered for further analysis for a simple reason. The COO of

this brand (Germany) plays a very important part in the brand’s heritage and is positively perceived all around the world. But this positive effect of the COO is not relevant for any other country in CEE region.

In the first part of the article, the role of COO effect in luxury branding will be analyzed using the existing literature on luxury branding and on the COO effect and its impact on brand-building. The second part of the article presents the results of the primary research conducted and deals with the marketing strategy of the Czech luxury watch brand Prim. Based on the results of the primary research, the conclusions and managerial implications are derived which are then presented in the concluding part of the article.

### Methodology

The main research method used in this article is an exploratory case study (Yin, 2003). Yin (1994) defines the case study as an empirical enquiry that investigates the contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident. The case study will be based on one case which is a relevant approach in situations when the case studied is unique (Remenyi, 2012).

The theoretical part of the case study is based on a literature review of the existing academic literature on luxury branding and COO and also on a review of articles in business journals concerned with Czech luxury brands. The core of the case study summarizes the results of secondary and primary research conducted. The secondary data were collected from the company’s website and articles in the business press. After collection of the secondary data, primary research was conducted in order to confirm or contradict the secondary research data and to expand them. The methods used in this part were an in-depth structured interview with the general manager of the analyzed company and mystery shopping in the flagship-store of the company located in the center of Prague.

### Luxury and the Country of Origin

The impact of the country of origin on a brand’s perception is already well described in academic literature related to international marketing (e.g. Dinnie, 2003). Country of origin can serve as an important indicator of the quality of the product for consumers. Han and Terpstra (1988) even suggest that the country of origin may be more important than a brand name for consumers evaluating foreign products (Han, Terpstra, 1988). Aaker and Joachimsthaler (2000) identified country of origin as

a part of brand identity and also Keller (2003) suggests that the associations with a certain country or geographic area could serve as one of the ways to build a new brand. Also Kapferer (1994), in his brand identity prism, states that one of the dimensions of brand identity is the culture which is linked, among other factors, also to the culture of the country, the region or the city where the brand developed.

Other researchers suggest that COO not only influences the brand's perception but also the price that the consumers are willing to pay. Koschate-Fischer, Diamantopoulos and Oldenkotte (2012) found that consumers not only prefer and assign higher value to branded products from a COO with a favorable country image but are also willing to spend more money to obtain them. They sum up their findings with the statement that the COO could even represent a unique selling proposition for which consumers are willing to pay (Koschate-Fischer, Diamantopoulos and Oldenkotte, 2012).

The impact of the COO is obviously relevant also for luxury brands. Koschate-Fischer, Diamantopoulos and Oldenkotte (2012) proved that their research results were equally relevant for both low and high involvement products (which include luxury products as well). Kapferer and Bastien (2009) even suggest that one of the strong sources of the scarification of luxury brands stems from their ability to be ambassadors of national virtues. Generally speaking, luxury is about perception, about the appealing story of the brand (or the brand's founder) or/and history of the brand, which means that the emotional part of the brand's identity creates the most important part of the brand's assets. This is also reflected in definitions of luxury. Nueno and Quelch (1998) state that one of the dimensions of a luxury brand is that the ratio of functional utility to price is low while the ratio of intangible and situational utility to price is high. According to Chevalier and Mazzalovo (2008), a luxury brand is one that is selective and exclusive, and which has an additional creative and emotional value for consumers. The emotional value in both cases obviously also contains the value originating from a favorable COO.

Therefore it is not surprising that luxury brands often originate from just a limited number of countries and that favorable country of origin plays an important role in the brand's identity (such as Italian or French fashion). This geographic concentration also appears in the luxury watch market which could be divided into three main segments – the combination/upscale watch segment, the jewelry and specialty segment and the fashion and mood watch segment (Chevalier, Mazzalovo, 2008) – while all those segments are clearly dominated by Swiss brands.

Eight of Top10 producers on the combination/upscale watch market (watch with an average wholesale price starting at 5 000 EUR) are Swiss, one of the brands is German and one American; on the jewelry and specialty watch market (wholesale price starts at 900 EUR), six of the Top10 brands originate from Switzerland, one from France, one from Germany and two other brands are cross-border brands with a partly Swiss origin and on the fashion and mood watch market, four brands among the Top9 are Swiss, two are American, one British, one Italian and one has a cross-border Swiss-Italian origin (Chevalier, Mazzalovo, 2008).

Given all this, entering the luxury market seems to be a challenging task for marketing managers of the brands that originate from Central European countries as well as from other emerging markets. The already well established competitors have the advantage of global recognition of their brands, global distribution and also a favorable image of the COO which they also partly helped to create in the past.

#### **Case Study of the Brand Manufacture Prim 1949**

The brand Prim was firstly used for a watch produced by the national company Chronotechna in the year 1949 but the watchmakers' tradition in Eastern Bohemia dates back to the 19<sup>th</sup> century when smaller workshops produced watches and clocks of different types. Those smaller producers were nationalized and the newly created company concentrated the production of watches and clocks under one new brand Prim, which enjoyed almost a monopolistic position in the former Czechoslovakia until the Velvet Revolution in 1989.

But the Velvet Revolution brought dramatic changes into the market and the position of the brand. Consumers who were "forced" to buy Prim watches for five decades wanted to try other brands as well and the market was taken over by foreign producers – the lower segments by Asian producers of cheap quartz watches and the upper segment by established (mainly Western European) premium and luxury brands. Prim tried to respond to the changes and started to compete mainly in the lower segments of the market, but due to its cost structure and consumers' negative attitude towards domestic brands at that time, this strategy was not successful at all.

In 2000, ELTON hodinářská a.s. (the owner of the brand Prim) decided that the strategy of the brand had to be changed totally in order to survive on the market. The reasons for this change were of two kinds. Firstly, the old strategy of competing in lower market segments proved to be unsuccessful. Secondly, consumer attitudes towards Czech brands changed dramatically compared

to the 1990s. While in 1990s Czech consumers preferred foreign brands over local ones, at the beginning of the new millennium, consumers re-discovered almost forgotten Czech brands and started buying them again. Probably the most successful re-launch of this time is the brand Kofola which re-entered the market in 2000 after 10 years of almost no market presence (now, more than 10 years later, the brand is the second biggest player in the beverage market in the Czech Republic, i.e. close to the market leader Coca-Cola).

The new strategy for the brand has been complicated by the fact that the brand Prim was sold in 2001 by its owner (successor of one of the watch-producers that were formerly part of the national company Chronotechna) to the company MPM Quality. The company MPM Quality targets the lower segment with quartz watches produced in China. At that time, Elton hodinářská and MPM Quality started several legal disputes which have not yet been resolved. For this reason, in 2003 Elton hodinářská registered the trademark Manufacture Prim 1949 to protect its products until the dispute is resolved. But even though these legal disputes could potentially damage the perception of the brand, the Prim brand is perceived today as a luxury one, as confirmed also by the Mather's study (Mather, 2010) quoted earlier in this article (for this reason, the short brand name Prim will be used instead of the official trademark Manufacture Prim 1949).

In the new strategy, Prim decided to move itself upwards into the luxury segment and target a totally different and much smaller target group than before. The strategy was to make Prim a truly luxury brand even though in the company's whole history, the brand always targeted the mainstream market. The cornerstones of the new strategy were firstly the still very high brand awareness in the former Czechoslovakia (because for almost all consumers Prim was the brand of the first watch that they had ever possessed); secondly, the brand's ability to produce a high-quality watch entirely in Europe (which is no longer the case for most of the existing watch brands that mainly just assemble watches from components that are delivered from all over the world); and thirdly, the brand's story and relatively long history. The new strategy proved to be successful and is still used today with the necessary regular updates caused by changes in the market environment.

The target groups for the strategy of luxury brand are obviously high-income groups such as top-managers and celebrities but also politicians. Another important target group consists of corporate customers who buy the watch as a present for their business partners. This target group includes public institutions in the Czech Republic

as well, such as the president's office and the government. Thanks to the cooperation with these institutions, the brand's products are possessed by important politicians, such as US president Obama, German chancellor Merkel or former French president Sarkozy. The last but very important target group is watch collectors.

The key elements of the strategy are the products which are entirely developed and produced in Europe. Thanks to this fact, it is possible for the brand to customize the watch depending on the individual wishes of its customers. The production of quartz watches was minimized and the brand offers mainly mechanical watches which underline the long tradition of watch-making and the know-how of the workers in the production.

The products of the brand could be grouped into two groups, which both target the luxury segment of the market. The standard collection offers products which are based on historical models that the company offered several decades ago and which now have been redesigned to correspond with the needs of today's customers. The standard collection also presents models that have been developed recently in cooperation with carefully selected designers. All models from the standard collection can be customized, which means that the customer could select the material that the watch will be made of (including gold, silver or platinum), the color and material of the watch strap and can even order to have his or her monogram on the watch.

Besides the standard collection the company offers tailor-made watches which are entirely produced according to customer's individual wishes. The customer could suggest his/her own design of the watch, which is then transformed into a unique watch in cooperation with the company's designers. This tailor-made production was enabled by a recent investment into technology, which made it possible for the company to produce one single individual piece if the order is placed; this is a unique competitive advantage for the company even on the global scale.

The customized watch from the standard collection or the tailor-made watch are delivered in a special box with an individual certificate. The customers can also order life-long assistance for the watch, which guarantees regular checks and small repairs for the whole life of the watch. To keep the interest of its customers, Prim regularly introduces limited editions of its new models and also prepares special editions for special occasions, such as the 2012 Olympic edition which was introduced in cooperation with the Czech Olympic team.

The pricing strategy logically corresponds to the product strategy, the luxury positioning of the brand and to the



expectations of the target group. The prices of the standard collection start at approximately 1 400 EUR for basic mechanical models with no customization, while the most expensive models from the standard collection can be purchased for prices that start at 4 000 EUR. The most expensive model, which is entirely made of platinum, is priced at 40 000 EUR.

The prices of tailor-made watches depend on the materials that should be used for production and on other wishes of the customers and are therefore virtually unlimited, while the cheapest models are offered for prices which are a slightly higher than the prices of the most expensive models from the standard collection.

In terms of distribution, the brand uses an exclusive approach. The sales representatives who take the orders and discuss the customization or individual requirements directly with customers represent the main distribution channel. Another distribution channel consists of carefully selected luxury and jewelry stores, which must fulfill strict quality requirements. In order to confirm its luxury positioning, in 2011, Prim opened its first flagship store in Prague on Na Příkopě street. This prestigious location is among the Top30 most expensive shopping streets in the world (Lidovky, 2012).

The flagship store also plays a very important part in the communication strategy. The new models of the brand are introduced there to the journalists, corporate events are organized there and the VIP customers are individually invited to the store by the sales representatives to present the brand's product portfolio to them and to explain the story of the brand in a special environment.

The communication strategy uses an individual approach. The brand does not advertise in the mass-media, but uses sales representatives, the flagship-store, corporate events and public relations instead. The message is based on the story of the brand and its long tradition, on the quality of the production and the possibility to get a product which is truly personalized. In the Czech Republic and Slovakia, the COO represents an important element of the message, while in other parts of the world, this part of the message would not be able to attract customers to the brand nor does the brand stress the "Czech made" label in its communication. But conversely, in non-European countries, the brand stresses the fact that production is located in Europe and that the whole product is manufactured in Europe.

In the Czech Republic, the company also uses famous celebrities as brand ambassadors but not for mass advertising purposes. This cooperation works rather on an individual basis; celebrities (including politicians and business men) endorse the brand individually among potential customers.

### **The Impact of the Country of Origin on the Strategy of Prim**

As already mentioned, the COO plays an important role in communication in the Czech and Slovak market. In these two countries, the brand is well known as a Czech brand and the "Czech made" label is perceived as a quality promise. On the other hand, in other European markets, the Czech origin of the brand would not be perceived that positively and therefore the brand stresses other values in its communication, such as its long history, the high quality hand-made products, the story of the brand and its individual approach to customers.

Overseas, the COO effect is used in the communication strategy but differently than in former Czechoslovakia. The brand stresses its European origin and European heritage instead of communicating its Czech roots.

Also the Czech businessmen, celebrities and politicians who are used as brand ambassadors in the Czech Republic cannot be used abroad and therefore the target group in foreign countries differs from the one that the company serves in the home market. In foreign countries, the core target groups include watch collectors who value the quality and tradition of the brand and also "watch-fans" who value the brand's story and the possibility to purchase fully individualized products. In the USA and in Canada, another special target group consists of customers with Czech roots. For them, the strategy used is similar to the one performed in the home country.

### **Conclusions, Discussion and Managerial Implications**

The goal of this article was to investigate the impact of COO on a strategy of a luxury brand originating from the Czech Republic. The literature review proved that COO plays an important role in consumers' perceptions of brands originating from foreign countries and that it has an impact on their willingness to pay for those products as well.

The case study of Czech watch brand Manufacture Prim 1949, which decided to follow a luxury branding strategy in 2000, confirmed these statements from the practical marketing perspective. The brand's marketing strategy needs to be different for foreign markets. While the Czech Republic is perceived as a favorable COO by Czech consumers and also in Slovakia, in other countries the impact of the COO in this product category is rather neutral. In foreign countries, the COO does not have a negative impact on the perception of the brand but it does not create any additional value for potential buyers because the Czech Republic as a country is not associated with luxury products.

In the Czech market, the company stresses its COO in all communication and all products have the “Czech made” label. The prominent customers of the brand also frequently stated that the Czech origin is one of the reasons why they wear a Prim watch (such as the former Czech president Václav Klaus). Conversely the company must communicate brand values other than a COO while marketing its products on foreign markets, such as the quality of products or the tradition of the brand.

The COO effect has an impact on a target group as well. In the Czech Republic, the target group is relatively wide compared to foreign markets, and includes also business people, corporate customers and public institutions. For these target groups, the brand represents a part of the national heritage and the purchase of its products is also perceived as a claim of national pride and patriotism.

In foreign countries, the brand has not yet been able to establish its presence in these market segments and concentrates its efforts mainly on watch collectors and watch “lovers.” On the other hand, the Czech origin is not hidden for these markets and all products sold anywhere in the world bear the “Czech made” label, but the difference from the home market is that this label is not used in the marketing strategy as a motivation for purchase. In this respect, the research results confirm the findings of other researchers who suggest that if the brand is linked to a less favorable COO image, the firm should highlight other product attributes rather than the COO in its communication strategy (Verlegh, Steenkamp, Meulenbergh, 2005).

The answer to the research question that was stated in the article’s title, i.e. whether there could be a luxury brand originating from the Czech Republic, is therefore positive. The conducted research proved that the Prim brand managed to enter the luxury market successfully. Today, seventy percent of the company’s turnover is generated by tailor-made watches, 25 percent by the standard collection and the simple quartz watch accounts only for five percent of the total turnover (interview with the general director of Elton hodinářská a.s. conducted in January 2012).

There are obviously several limitations for generalization of the results of this study. The studied case of the Prim brand is unique and therefore the results for other Czech luxury brands may be different. The research is concentrated just on one country – the Czech Republic – and the results in other countries, even within the Central European region, may differ as well. Further research efforts should therefore concentrate on other brands and further countries.

From a managerial perspective, the results of this study may be useful in several ways. Firstly, the study proved that despite the less favorable image of the COO of all

Central European countries, it is possible to build a truly luxury brand which could also expand internationally. But for foreign markets, the marketing strategy of the brand should be adapted. The brand does not have to hide its real origin but rather it should stress features of the product and brand other than COO in its communication strategy. Overseas, the brand could transform the COO message in a way that the product originates from Europe rather than stressing a concrete COO. However, it is not sufficient to build the brand on the COO effect only, even in the home market. The brand should offer more incentives for customers to purchase its products, such as the brand’s story, high-quality production and individual approach.

Secondly, the case of Prim proved that it is possible for a mainstream brand to enter the luxury market. This shift in strategy could potentially bring several benefits for the company which were identified in the interviews with the company’s top management. In the luxury market, the number of competitors is significantly lower than in the mainstream market. The prices are obviously higher as well as the profit margins. The company could build an independent brand with clearly defined positioning and target group, and such a brand is then less vulnerable to the changes of the market environment.

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project IGS VŠE Prague Nr. 3/2010.