Premiumisation in the Indian Luxury Watch Market Industry

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Abstract

The luxury goods segment in India has seen tremendous growth in recent years, with several international luxury brands entering the Indian market. Luxury goods are a niche market segment, wherein the consumers desire exclusivity and are willing to pay heavily for it. Thus, luxury brands are priced at a premium, to maintain their exclusivity. Obviously, the more unique and exclusive a luxury brand is, the higher its expected brand premium.

The present study uses dummy variable regression to estimate the premia associated with luxury watch brands and product features. The results of the study indicate statistically significant brand premia, using which the brands can be grouped into distinct segments, and statistically significant product feature premia, including for gold-plated casing and titanium and ceramic straps, and for several special functional features such as world time and chronograph.

The results of the study support the exclusivity hypothesis, that the exclusivity of luxury brands is the fundamental basis for luxury brand premium, through greater diversity of product variants in higher price range, using unique casing and strap materials and innovative functional features. This reflects the strategy of "premiumisation" of pricing of luxury watches, with greater emphasis on value-add features and complexity (total number of complications and moving parts).

Keywords: Luxury Goods, Brands, Product Features, Premia, Dummy Variable Regression

Introduction

Consumer awareness about luxury brands has increased in India in recent years. According to Nielsen's Global Luxury Brands Study (2008), India is among the third most brand-conscious countries in the world. It is the high net worth consumers alone that can afford to buy luxury brands, for personal use as well as for gifting purposes (Doval & Batra, 2010). This segment of consumers uses luxury brands mainly to differentiate themselves from others (Vigneron & Johnson, 1999). Luxury brands target this segment through advertising campaigns and personalised shopping experiences to enhance sales. However, the number of luxury brands that have entered India so far is very minuscule. The major constraint for luxury brands not being available in all cities is infrastructure.

Consumers purchase luxury goods not just to satisfy their material needs, but also their social needs, viz. for self-expression and prestige (Eagly & Chaiken, 1993; Vigneron & Johnson, 1999; O'Cass & Frost, 2002). To build exclusivity of their products, luxury brands have two possible strategies. One possibility is to limit the production quantity. The other is to take legal action to restrict the availability of the product, by making the product available only in exclusive stores - e.g. Christian Dior sued supermarkets for carrying its products. Unlike other segments, luxury consumers believe that when a product that belongs to luxury segment is available in mass channels the brand becomes less valuable. For the same reason, luxury consumers would be expected to be more brand-loyal than non-luxury consumers.

Research has shown that the rarity of products could possibly increase the perceived value of the product, even for such products as cookies, which is unlikely to be considered as luxury (Vigneron & Johnson, 1999). Luxury brands charge the luxury consumer high prices for the exclusivity that the brand has maintained to bring

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in the perception of luxury (Jackson & Haid, 2002). The luxury market is peculiar in the sense that, with increased penetration, the demand for the luxury brand falls, as its exclusivity decreases; i.e. the emergence of imitators erodes the exclusivity value of the brand. For instance, a luxury consumer wouldn't buy a BMW car if it was available en masse, as the element of exclusivity would be eliminated - they would turn to a car that is not available to all in order to grab the attention of the crowd. On the other hand, as the price of a luxury brand increases, its demand among the luxury segment increases (Vigneron & Johnson, 2004). Thus, there are two competing social needs amongst the luxury consumers, one of them being the need for exclusivity/uniqueness, while the other is the need for conformity/similarity. This provides the psychological perspective as to how the hierarchy of needs could possibly influence the luxury consumers' choice pattern (Berry, 1994).

The global luxury watch market is growing at 10-15% annually. The Indian luxury watch industry was transformed by the liberalisation in 1992, opening up to foreign brands such as Tissot, Swatch, Omega, and several others, and is currently growing at approximately 16.7% (Ken Research, 2013). Of course, the luxury watch market is most highly concentrated in metropolitan cities, such as New Delhi and Mumbai, followed by new metropolitan cities such as Bangalore. The presence of luxury consumers is most skewed in the Delhi/NCR, mainly because of the availability of stores and because of gifting by politicians and dignitaries. However, the current trend in the Indian watch market shows a shift in the demographics of the luxury segment (Bothra, 2013). It is no longer just the elite group that prefer luxury watches; increasingly, the higher-income middle class youth, e.g. the "nouveau riche," are attracted to luxury watches, believing that buying an expensive watch reflects their personality. This is a basic reason for the increased growth of luxury watch market. Other reasons could be increasing income, aspirations and awareness of international trends. The luxury consumers are not just spending for themselves but also they are open to the fact of gifting luxury watches to others, a significant percentage of which is in the form of corporate gifts (Bothra, 2013).

Bernstein Research's (2010) report on European luxury goods identifies six distinct luxury watch segments. The "established" segments include the high-end segment, with the brands Breguet, Piaget, Patek Phillipe, and Vacheron Constantin, the mega-brands, including Cartier, Rolex, TAG Heuer, and Omega, and the premium segment, comprising the brands Baume & Mercier and Longines. The "new-entrant" segments include the specialist brands, and the "outsider" brands- the luxury goods outsiders and the licensing outsiders. The report stresses the "premiumisation" of pricing of luxury watches, with greater emphasis on value-add features and complexity (total number of complications and moving parts). The Swiss-made precious metal (high-end) watch segment has grown at approximately 10%, and increasing average prices and dramatic widening of price ranges- through the introduction of ultra-complicated limited edition watch models. In contrast, in the mega-brand segment, Cartier increased prices to reinforce its brand, TAG Heuer and Omega increased prices to distinguish themselves from premium segment models, with consistent use of case materials and watch complications not found in premium segment models. The report concluded that watch premium pricing was strongly and directly related with product features: complications were the key determinants for high-end and premium segments, while case materials were more important for mega-brands.

Some of the principal effects relating to luxury consumption are as follows (Vigneron & Johnson, 1999). The *Veblen effect* relates to perceived conspicuous value, wherein price is attributed as an indicator of prestige, and the primary objective of Veblen consumers is to impress others. The *snob effect* relates to perceived unique value, wherein price is attributed as an indicator of exclusivity, avoiding popular brands and experimenting with inner-directed consumption. The *bandwagon effect* relates to perceived social value, wherein the importance of price as an indicator of prestige is given less importance, and the effect that luxury consumption has on others is given greater emphasis. The *Hedonic effect* relates to perceived emotional value, wherein Hedonic consumers is more interested in their own thoughts and feelings, and ascribes less importance to price. The *perfectionist effect* relates to perceived quality value, wherein quality is of primary importance, and price may be perceived as an indicator of quality. These effects can be synthesised into a single hypothesis, that the exclusivity of luxury brands is the fundamental basis for luxury brand premium.

Methodology

The objective of the study is to assess the premia associated with each of the luxury watch brands available in India. The data used for the study consisted of a sample of 112 luxury watches, selected through a stratified sampling design within each brand and price range: if the segment was small (five varieties or less), all varieties were taken in the sample, while if the segment was relatively large, a random sample of about 20% of the segment size was selected.

A dummy variable regression model was used to estimate the premia associated with each of the luxury watch brands and the premia associated with each of the product features, as follows: $y = a_1B_1 + \cdots + a_kB_k + b_1F_1 + \ldots + b_lF_l + \epsilon$, where $a_1, \ldots a_k$ represent the brand premia, $b_1, \ldots b_l$ represent the product feature premia, $B_1, \ldots B_k$ represent the brand dummy variables, and $F_1, \ldots F_l$ represent the product feature dummy variables. The model is specified without a constant term in order to estimate each of the brand premia individually, rather than relative to a benchmark brand.

The brand premia obtained from the dummy variable regression were in turn investigated in terms of the number of its exclusive outlets, which reflects the availability/accessibility of the brand to the mass consumer, and the number of product variants, which reflects the brand's product diversity. The exclusivity hypothesis would suggest that greater availability would erode a brand's premium. Product diversity, on the other hand, could have an erosion effect, but could also attract a wider range of luxury consumers, reinforcing the brand premium. The impact of availability and product diversity on brand premium was analysed through multiple linear regression.

Findings

Dummy Variable Regression Model

The results of the dummy variable regression are presented in Table 1.

Table 1: Dummy Variable Regression Model for Luxury Watches

	coeff.	*std. error*	*beta*	*t Stat*	*p-value*
Baume and Mercier	1,93,174.30	28,934.37	0.2415	6.6763	0.0000
Carl F Bucherer	2,96,378.41	37,694.78	0.2736	7.8626	0.0000
Cartier	3,04,035.15	32,004.62	0.3624	9.4997	0.0000
Edox	1,03,311.33	44,859.55	0.0871	2.3030	0.0238
Frederique Constant	1,19,771.11	31,092.18	0.1277	3.8521	0.0002
Longines	1,38,133.05	29,148.49	0.1727	4.7389	0.0000
Omega	2,35,934.37	30,411.25	0.3206	7.7581	0.0000
Oris	89,555.24	31,489.72	0.1217	2.8440	0.0056
Rado	1,96,486.12	43,770.68	0.2222	4.4890	0.0000
Raymond Weil	1,07,986.72	29,638.00	0.1410	3.6435	0.0005
TAG Heuer	1,66,228.27	34,667.76	0.2078	4.7949	0.0000
Tissot	33,939.75	61,451.90	0.0181	0.5523	0.5822
Gold-plated casing	57,378.31	27,602.61	0.0749	2.0787	0.0407
Steel strap	2,296.21	21,523.58	0.0055	0.1067	0.9153
Titanium strap	1,15,324.05	38,342.01	0.1150	3.0078	0.0035
Two-tone strap	-12,794.44	33,532.90	-0.0145	-0.3815	0.7038
Ceramic	1,20,539.51	58,669.49	0.0909	2.0546	0.0431
Rubber strap	2,444.89	35,914.13	0.0026	0.0681	0.9459
Day	49,828.21	22,865.68	0.0840	2.1792	0.0322
Chronograph	80,023.70	19,180.08	0.1759	4.1722	0.0001
Tachymeter	41,890.72	43,632.91	0.0353	0.9601	0.3398
Moon phase	28,326.68	34,885.38	0.0282	0.8120	0.4191
Skeleton	41,228.27	41,507.15	0.0347	0.9933	0.3235
Power Reserve Indicator	86,376.88	50,056.40	0.0564	1.7256	0.0440
Helium Escape	73,937.56	50,365.40	0.0483	1.4680	0.1459
P3H	32,926.03	29,844.30	0.0372	1.1033	0.2731
World time	2,86,825.70	81,762.29	0.1081	3.5080	0.0007
Quartz	-79,265.40	22,276.27	-0.1268	-3.5583	0.0006

R^2 = 93.1%, F Stat = 40.023, p = 0.000**

The model was found to be statistically significant, explaining 93.1% of the variation in prices of the luxury watch varieties. All of the brand premia were found to be statistically significant except for Tissot, for which the brand premium estimate was the lowest. Oris, with a brand premium estimate lower than Rs. 1 lakh, was also found to be a relatively low-end brand, followed by Edox and Raymond Weil, with brand premium estimates slightly above Rs. 1 lakh. In the brand premium range between Rs. 1-2 lakh are Frederique Constant, followed by Longines, TAG Hauer, Baume & Mercier, and Rado. At the higher-end were the brands Omega and Carl F Bucherer, with brand premium range between Rs. 2-3 lakh, and the brand with highest brand premium was Cartier, above Rs. 3 lakh.

Several of the product feature premia were statistically significant. Gold-plated casing had statistically significant premium slightly above Rs. 55,000. Titanium and Ceramic straps had statistically significant premium slightly above Rs. 1 lakh. Also, several of the functional feature premia were statistically significant. World time had statistically significant premium slightly above Rs. 2,85,000. Power reserve indicator had statistically significant premium slightly above Rs. 85,000. Chronograph had statistically significant premium slightly above Rs. 80,000. Day had statistically significant premium slightly below Rs. 50,000. Finally, Quartz had statistically significant negative premium, slightly above Rs. 80,000.

Competition Mapping of the Luxury Watch Segment

The luxury watch brands and the number of exclusive retail outlets that these brands have in India are presented in Table 2.

Table 2: Number of Exclusive Retail Outlets of Luxury Watch Brands (in India)

	# outlets
Baume & Mercier	10
Oris	25
TAG Heuer	43
Carl F Bucherer	7
Cartier	1
Omega	46
Longines	73
Rado	166
Raymond Weil	71
Edox	8
Frederique Constant	19
Tissot	197

The brands with the highest number of retail outlets were Tissot, followed by Rado, while the brands with the least number of retail outlets were Carl F Bucherer, followed by Edox and Baume & Mercier.

The brand competition mapping of the luxury watch market in terms of the number of product offerings of competitor brands in different price ranges is presented in Table 3. This is further analysed in Table 4 as a percentage of the number of varieties in each price range, and in Table 5 as a percentage of the number of varieties offered by each brand.

Table 3: Number of Varieties of Luxury Watch Brands (in different price ranges)

	P1	P2	P3	P4	P5	P6
Baume & Mercier	2	22	15	8	3	1
Oris	0	36	9	1	0	0
Tag Heuer	0	63	52	49	4	4
Carl F Bucherer	0	8	3	8	29	26
Cartier	0	7	8	11	16	38
Omega	0	36	84	68	72	56
Longines	298	106	32	4	1	1
Rado	187	152	6	4	4	0
Raymond Weil	113	67	20	6	0	0
Edox	95	16	8	0	0	0
Frederique Constant	67	29	5	0	0	0
Tissot	298	2	1	0	0	0

Table 4: **Price-clustering of Luxury Watch Brands (as a %age of varieties for each price range)**

	P1	P2	P3	P4	P5	P6
Baume & Mercier	0.19%	4.04%	6.17%	5.03%	2.33%	0.79%
Oris	0.00%	6.62%	3.70%	0.63%	0.00%	0.00%
Tag Heuer	0.00%	11.58%	21.40%	30.82%	3.10%	3.17%
Carl F Bucherer	0.00%	1.47%	1.23%	5.03%	22.48%	20.63%
Cartier	0.00%	1.29%	3.29%	6.92%	12.40%	30.16%
Omega	0.00%	6.62%	34.57%	42.77%	55.81%	44.44%
Longines	28.11%	19.49%	13.17%	2.52%	0.78%	0.79%
Rado	17.64%	27.94%	2.47%	2.52%	3.10%	0.00%
Raymond Weil	10.66%	12.32%	8.23%	3.77%	0.00%	0.00%
Edox	8.96%	2.94%	3.29%	0.00%	0.00%	0.00%
Frederique Constant	6.32%	5.33%	2.06%	0.00%	0.00%	0.00%
Tissot	28.11%	0.37%	0.41%	0.00%	0.00%	0.00%

Table 5: **Price-clustering of Luxury Watch Brands (as a %age of varieties for each brand)**

	P1	P2	P3	P4	P5	P6
Baume & Mercier	3.92%	43.14%	29.41%	15.69%	5.88%	1.96%
Oris	0.00%	78.26%	19.57%	2.17%	0.00%	0.00%
Tag Heuer	0.00%	36.63%	30.23%	28.49%	2.33%	2.33%
Carl F Bucherer	0.00%	10.81%	4.05%	10.81%	39.19%	35.14%
Cartier	0.00%	8.75%	10.00%	13.75%	20.00%	47.50%
Omega	0.00%	11.39%	26.58%	21.52%	22.78%	17.72%
Longines	67.42%	23.98%	7.24%	0.90%	0.23%	0.23%
Rado	52.97%	43.06%	1.70%	1.13%	1.13%	0.00%
Raymond Weil	54.85%	32.52%	9.71%	2.91%	0.00%	0.00%
Edox	79.83%	13.45%	6.72%	0.00%	0.00%	0.00%
Frederique Constant	66.34%	28.71%	4.95%	0.00%	0.00%	0.00%
Tissot	99.00%	0.66%	0.33%	0.00%	0.00%	0.00%

Table 6: **Legend (price ranges)**

1000	**P1**	**below Rs. 1 lakh**
1000	**P2**	**Rs. 1 -2 lakh**
1000	**P3**	**Rs. 2 -3 lakh**
1000	**P4**	**Rs. 3 -4 lakh**
1000	**P5**	**Rs. 4 -5 lakh**
1000	**P6**	**above Rs. 5 lakh**

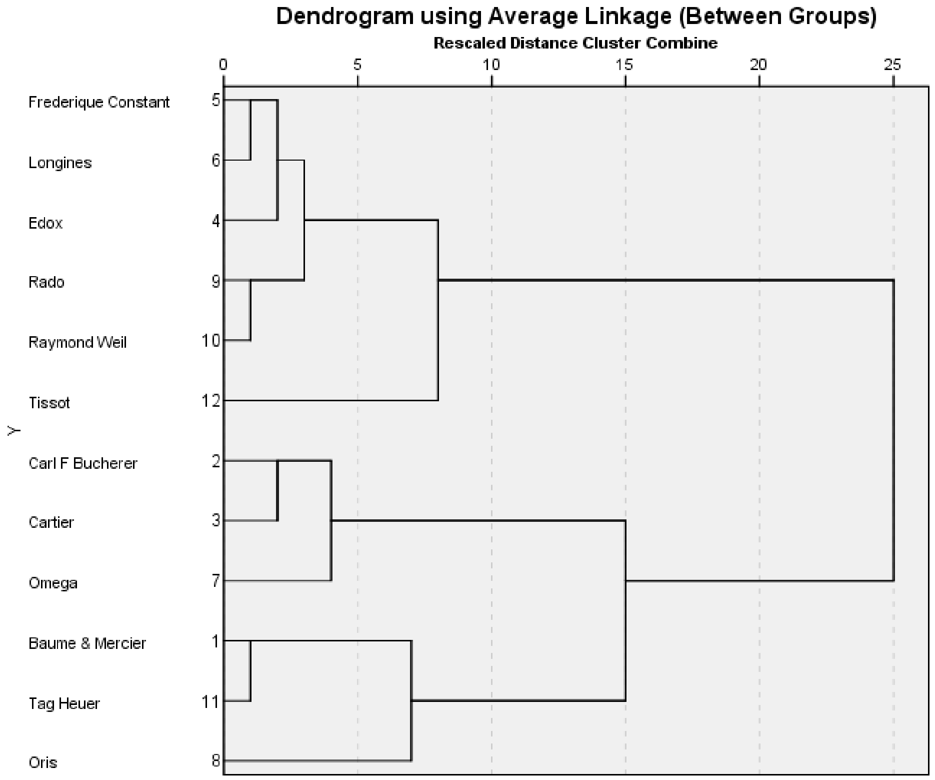

Fig. 1: Dendogram Using Average Linkage (Between Groups)

From Table 2, the brands seem to group into two broad clusters according to the product diversity in different price ranges. The first cluster is at the lower end of the price spectrum, comprising brands such as Tissot, Frederique Constant, and Edox, with a high presence in the price range up to Rs. 1 lakh, some varieties in the price range up to Rs. 2 lakh, and marginal presence in the price range Rs. 2 - 3 lakh, along with brands such as Raymond Weil, Longines, and Rado, with a similar spread of varieties, and also marginal presence also in the price range Rs. 3 - 4 lakh. The second cluster is starts in the middle of the price spectrum, comprising brands such as Oris, Baume & Mercier, and TAG Hauer, with a high presence in the price ranges Rs. 1 - 2 lakh and Rs. 2 - 3 lakh, and marginal presence in the price range Rs. 3 - 4 lakh, and above, along with brands at the high end of the price spectrum, such as Omega, Carl F Bucherer, and Cartier, with a high presence in the price ranges Rs. 3 - 4 lakh, Rs. 4 - 5 lakh, and above Rs. 5 lakh.

Tissot is the lowest-end brand, with offerings almost entirely concentrated in the low price range, below Rs. 1 lakh, with only two varieties in the Rs. 1-2 lakh price range, and one variety in the Rs. 2-3 lakh price range. This perhaps explains the low estimate of brand premium obtained for Tissot in Table 1. At the other extreme, Cartier is the highest-end brand, starting at Rs. 2.5 lakh, and concentrated in the high price ranges Rs. 4 - 5 lakh and above Rs. 5 lakh. Longines and Baume & Mercier have the widest price range variation in their offerings, with presence in all price ranges.

Brand Premium Model

The regression results of brand premia (from Table 1) on the number of exclusive retail outlets (from Table 2) and the variety in the lower and higher price ranges (from Tables 3 - 5) are presented in Table 7. In model I, the latter variables are taken in absolute terms, as the number of varieties of each brand in the lower price range (up to Rs. 2 lakh) and in the higher price range (above Rs. 2 lakh). In model II, this is expressed as a percentage of the number of varieties in the respective price range (refer Table 4). In model III, this is expressed as a percentage of the number of varieties for each brand (refer Table 5).

Table 7: Brand Premium Regression Results

	model I		model II		model III	
	coeff.	*p-value*	*coeff.*	*p-value*	*coeff.*	*p-value*
#exclusive retail outlets	-318.94	0.7551	-318.94	0.7551	12.42	0.9643
variety in lower price range	469.23	0.2989	7526.43	0.2989	942.77	0.0147
variety in higher price range	1271.89	0.0145	8356.29	0.0145	2845.46	0.0000
R^2	62.64%		62.64%		94.72%	
F Stat	5.0307		5.0307		53.7658	
p-value	0.0260		0.0260		0.0000	

The results of model I and model II indicate that the number of varieties in the higher price range has a statistically significant, positive impact on the brand premium, while the number of varieties in the lower price range does not have a statistically significant impact on the brand premium. However, the results of model III indicate that the percentage of the number of varieties of the brand in the higher price range has a statistically significant, positive impact on the brand premium, while the percentage of the number of varieties of the brand in the lower price range has a statistically significant, negative impact on the brand premium. In all three models, the number of exclusive brand retail outlets does not have a statistically significant impact on the brand premium.

Discussion

The study uses dummy variable regression to estimate the premia associated with luxury watch brands and product features. The brand premia were statistically significant except for Tissot, the lowest-end brand. The estimated premia yielded a rank-grouping of the brands, roughly in correspondence with the segments obtained via cluster analysis. Also, several product features were found to have statistically significant premia, including gold-plated casing and titanium and ceramic straps, and several special functional features such as world time and chronograph. This concurs with the findings of the Bernstein Research report (2010) relating to “premiumisation” of pricing of luxury watches, with greater emphasis on value-add features and complexity.

Further, the brand premia were related with their availability (in terms of the number of exclusive brand outlets) and variety (in terms of the number of watch variants in different price ranges). The results of the study suggest that higher diversity of the brand in the higher price range has a statistically significant, positive impact on the brand premium, while higher diversity of the brand in the lower price range has a statistically significant, negative impact on the brand premium. This supports the exclusivity hypothesis, that the exclusivity of luxury brands is the fundamental basis for luxury brand premium, through greater diversity of product variants in higher price range, using unique casing and strap materials and innovative functional features.

There are some limitations inherent in the study. The number of brands considered for the study was relatively small, particularly missing out a very important luxury watch brand, namely Rolex. However, the sample size was adequate for the regressions performed, and the model fit was quite high. Further studies may take into consideration other product features, and in particular examine the interactions between different features and between brands and product features. Also, a similar analysis may be carried out for other luxury goods.

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