

Building “CEE-made luxury” Image – Case of Czech Republic

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Abstract

Despite its gaining reputation of becoming attractive for the global luxury influx, the Central and Eastern Europe (CEE) is, in fact, quite poor when it comes to proprietary luxury brands. Therefore, selling luxury and shaping particular marketing approaches for the CEE markets has become the challenge of a kind.

Although the Iron Curtin fell more than 20 years ago this area is still missing proper strategic approaches in marketeering luxury products.

Initially, where the product was produced, i.e. its country of origin (COO) was perceived equivalent to “made – in” label. As a result, the effect of COO in the CEE markets had suffered from the lack of perceiving luxury properly. Thus, the heritage of the past regime grounded its luxury brand development.

However, the changes of today’s consumers pushed for further considerations. Today, COO is association, perception, expectation, and a promise incorporated in a brand.

By connecting the theory of country of origin (COO) with the concept of luxury branding paper offers a point of view in this direction.

Moreover, the paper tries to initiate further thinking by raising the issue: *is there a future for autochthonous luxury brands from Central and Eastern Europe, namely Czech Republic?*

We introduce the case of Prim - Czech luxury watch maker to support the argument.

Key words: Country of Origin, Luxury Product, Czech Republic

Introduction

Luxury is about perception. Introducing the luxury brand to the market is like introducing one person to another. One initially, wants to know the whereabouts, the origins of a person. In order to build on its value and perception of value a luxury brand must reflect upon the strongest feature it can offer, its product. Building bridges in mind is the key as the greatest products are often discovered, not advertized.

Usually, potential consumers are caught by surprise with true luxury brand. In turn, they not only show a desire to buy but often are interested from where the product is. In luxury, the roots originate from strong traditional ties, bearing the promise of quality and heritage therefore, profiting from the value of origin is essential. What happens when the country of origin has blurry past?

Most of the post-communist countries are the countries with a blurry past. The scars that stayed from the previous regime spoiled the image of the Central Eastern European countries (CEE). Image and country perception take a great deal of time to build and have long term impact on what a country, its citizens and economy represent.

However, as the regime changed more than 20 year ago today, this part of Europe gained the momentum to grow on its hierarchy of needs and start looking into proprietary luxury product development.

Background

Paradox is that with rapidly changing global business and different cross-country customer cultures, luxury can be understood as a special transnational type of culture. It represents a system of tangible as well as intangible components comprising ideals, expected behaviors, and beliefs in a group specific value system. In a global marketplace, there is no understanding of luxury conceivable which is nationally or regionally bound.

However, it has to be stated that ethnocentrism and the country-of-origin effects always interfere. Concerned with the question of which countries' luxury products are more or less accepted, the COO concept is a critical information key, that plays a major role in having the product accepted in different world markets. However, it does not impact the basic dimensions of luxury value perceptions.

Given that most products originating from the Central Eastern European countries are subject to country stereotyping or image effects, it is important for marketers and retailers to understand and manage the potential impact of these effects.

One approach, for instance, is through so called soft factors of competitiveness, influenced through marketing activity of a company. These factors may create a specific image of the product with added value to the consumer, such as special product features, brand, reputation and others. These are often decisive factors of purchasing decision, as objective factors and qualities in increasing competitive offer hard to compare. (Kral et al., 2010)

In addition, another possible solution of this problem could be to connect the company's brand with another already well-known brand, as with the "brand" of the country that the company originates from. (Kral et al., 2010) Some research suggested that when a strong favourable match exists between country and product image then COO will positively influence product evaluation and willingness to buy. Conversely, when an unfavourable mismatch is evident COO would negatively influence consumers' product evaluations and willingness to buy. (Dagger, Raciti, 2011)

Luxury Context and Country of Origin Effect

Luxury attracts clients from around the world and fresh entrepreneurs willing to understand the importance of somewhat different rules that are applied by this industry. The phenomenon of luxury started to reshape to face the changes of today's environment. Thus, new luxury brands or aspirants will always appear and will most probably come from non-luxury oriented countries.

From an economic perspective, as a dimension of luxury brand is understood when the 'ratio of functional utility to price is low while the ratio of intangible and situational utility to price is high' (Nueno and Quelch, 1998, p. 62). Situational utility derives from the existence of a specific set of conditions or circumstances. One in particular sticking notion of luxury is the visible nature of its logos and brands.

Furthermore, Nueno and Quelch identified certain characteristics that luxury brands share, including consistent delivery of premium quality across product lines, a heritage of craftsmanship, a recognizable style or design, a limited production to ensure exclusivity, a marketing program that combines emotional appeal and product excellence, a global reputation, an element of uniqueness to each product, the personality and values of its creator and association

with a country of origin that has a strong reputation in a specific industry (for example Italian fashion, Swiss watches).

In line with this, the image of the COO is defined as:

“...the picture, the reputation, the stereotype that businessmen and customers attach to products of specific country. The image is created by such variables as representative products, national characteristics, economic and political background, history and traditions.” (Nagashima, 1970, p.68)

Also, the country image is viewed like:

“... overall perception consumer form of product from particular country based on their prior perception of the country’s production and marketing strengths and weaknesses. (Roth, Romeo, 1992, p. 479).”

When it comes to luxury, in product quality assessment, the COO effect tends to have greater impacts. This holds in particular when consuming luxury brands as status symbols where the consumption for display is relevant. On the other hand, the CEE luxury brands could deliberately position as provocative luxury used to transmit a statement (David Cerny and his provocative art pieces). Thus, owning a luxury item becomes the equivalent of personal statement. Moreover, with discretionary luxury consumption trend the statements of power are hidden in the knowledge of a connoisseurs. Luxury is, therefore, becoming the distinctive sign of one own rarity.

Building the COO effect in the Central Eastern Europe can be done by promoting its most appreciated local, high-end brands. By investing in their stories and the nostalgic branding philosophy but in luxury context the probability to raise the awareness and the effect of the COO, increases. It is more about giving the soul and the meaning to the product in limited editions. If one can think of the impact that, for instance Bohemian crystal generates in the minds of international consumers why wouldn’t other producers use this strength to develop its luxury base?

In addition, the COO represents an important symbol or brand. Strength of the country’s brand and its image depends on different factors. For luxury brands, that are having strong self dimension drivers reflected through self actualization, self perception and lifestyle, the brand personality/image of particular luxury product is what counts the most.

Brand equity on which the luxury brands heavily base their reputation significantly looks into brand personality/image variable as the most sensitive of the brand equity elements. Therefore, when developing a corporate image for luxury product the brand personality/image factor has to be elicited - among other factors - by the COO effect.

Some researchers have defined so called national image hexagon, which describes six most important factors influencing countries "brand "image. Most of these factors are directly or indirectly connected to personal experience with the country. In case of small countries, such as the Czech Republic, the personal experience with country is relatively small, which of course influences countries brand equity, not only by relatively weak and unclear image, but also through low brand (country) awareness (knowledge). (Kral et al., 2010)

To narrow down the ambiguous impact for the Czech-made luxury product there are several points to note. The importance of the origin of the country shapes the purchasing intentions for luxury products. Some authors argue that when consumers are making the decision on buying the luxury product if the importance of two countries is similarly positive, only the more positive one will prevail. (Piron, 2000) However, purchasing intention will be in some cases higher when there is no COO information provided then when having moderate impression. This confirms tricky nature the COO effect. When deciding to buy luxury product looking at its COO is an extra piece of information that helps in finalizing the decision. Therefore, the businesses and managers in recently developed countries when dealing with national origin effect for the luxury product should considered: One, to stress only positive COO on the asset for the particular product category (stating Prague or by Bohemia like crystal manufacturers do) On, the other had avoid giving the consumers COO clue when it is not the most positive (e.g. labelling the product EU made).

Watchmaker Prim as an example of Czech luxury brand

The Czech watchmaker Prim could be used as an example of a CEE brand that successfully entered the luxury market just few years ago. The brand that was established in 1949 in the former Czechoslovakia by nationalization of local producers of watches and clocks enjoyed almost monopolistic position on the Czechoslovak market till the Velvet Revolution in 1989. In that time Prim was a mainstream brand producing not only wrist watches, but also household

clocks and alarm clock. The production reached almost half million watches in the year 1989 (Idnes 2009).

After the political changes the market situation changed dramatically for Prim. The brand lost its monopolistic position leaving the lower segment of the market to no-name cheap products originating from Asia and the upper segments to luxury producers, mainly originating from Switzerland. In 1990th the brand was losing its market share and was not able to develop a successful marketing strategy.

But in 2000, the company changed its strategy and decided to enter the luxury watch segment instead of competing with the mass production coming mainly from Asia. Even though we stated in the previous part of this paper that the COO effect does not play such important role on the luxury market, in case of watch it is very obvious that Swiss producers dominate this market. Eight of Top10 producers on the upscale watch market (watch with an average wholesale price starting at 5.000 EUR) are Swiss, while 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 partly Swiss origin (Chevalier, Mazzalovo, 2008, pp. 74-75).

The Prim's new strategy was based on its relatively long tradition and also on the fact that almost all components of the watch are produced by a European producer, which is rather an exception today. The pricing strategy underlines the new positioning of high quality hand made products. The prices range from almost 600 EUR for a watch from the standard collection to almost 40.000 EUR for the highest model offered.

With this new strategy Prim introduced new collections of watches that were prepared in cooperation with carefully selected designers with the respect to the tradition of the brand. All watches can be adjusted to the wishes of the individual customer including the possibility of bearing the monogram of the individual customer.

The shift towards a tailor-made production subsequently changed the distribution channels that the company uses. Products are no longer distributed through mass distribution channels but directly through exclusive network of specialized stores and the website where customers are able to specify their wishes regarding the quality and personality of their watch.

In communication, the brand does not use mass media advertising but communicates rather on a personal basis. The main communication tool is the website of the brand where customers can find all information about the products offered, can adjust the products to their wishes and place an order. For communication with the broader public, the brand uses mainly PR activities such as articles in newspapers and celebrity endorsement. One of the main ambassadors of the brand today is the president of the Czech Republic Vaclav Klaus, a traditional supporter of the brands produced in the Czech Republic, who wears the individualized platinum watch from the limited collection (just 50 pieces were produced). In 2005 he received the watch during a small ceremony at Prague Castle that was covered by almost all media in the country.

The brand cooperates also with the government office and thus the Prim watch is given as a present to important state visitors. So, for example, French President Sarkozy and American President Obama were presented with Prim watches. The brand naturally uses those prominent customers in its communication.

Also the COO plays an important role in the brand's strategy. All watches produced by Prim bear the "Czech made" sign and the year 1949 when the brand was founded. Together with the communication strategy that stresses the fact that the production is solely based in the Czech Republic and not somewhere in Asia, this proves that the COO is one of the crucial factors in the brand's new positioning.

The new strategy that shifted Prim from a mainstream market into the luxury market seems to be successful. Today 70 percent of the brand's turnover comes from individual tailor-made watches, 25 percent from the standard collection and just five percent from the production of simple quartz watches (Prim 2011). This makes Prim one of the few brands from CEE that successfully entered the luxury market.

Conclusions

Country of origin is among the important factors that generally influence the purchasing decision. But, on the other hand, for luxury products the COO effect is rather smaller compared to other product categories. However even in some luxury categories the market is clearly dominated by brands originating from one country (such as a luxury watch market which is dominated by the Swiss).

CEE countries in general are not perceived as producers of upscale or even luxury products. The marketing strategy of the Czech watchmaker Prim that we examined in this paper could be therefore seen as inspiring example for other producers originating from this region that plan to make the shift from mass produced mainstream products to upper segments of the market. In this case the COO effect is just a part of the strategy which mainly stresses the originality, quality, tradition and design.

To conclude, the Czech Republic should in developing its autonomous luxury brands play more on promoting its devotion, orientation to quality and engineering, precision as well as long tradition in music, movie- making, photography, culture, craft of fine glass and porcelain making. Also the local talents should be promoted abroad to raise the awareness. Image of the nation is significant and when it comes to luxury product necessary element but research of consumer perceptions and country of origin showed that consumers place the COO effect below to quality and reliability. Today local companies therefore will have to work more with the tradition, quality and reliability rather than with the positive COO effect which is not yet strong enough. Besides Prim we could see also other examples of Czech companies that successfully operate the luxury market, such as Moser with its luxury glass or the carmaker Skoda with its flagship model Superb.

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