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Abstract

Shopping centers are among the most significant places to sell luxury goods in East Asia. However, the relations between retail networks of luxury companies and access to land and real estate still need to be addressed. On the one hand, an extensive literature highlights how the turn to luxury industry since the 1990s has enabled some European countries to maintain their comparative advantage on the global market and at the same time to keep a significant part of their production non-globalized. Yet, an issue that remains to be addressed is the way European luxury companies are able to enter and expand their sales networks in emerging countries. On the other hand, while real estate has become a major economic circuit in East Asia, there is still a lack of works about the property industry and companies' concrete strategies and business models. This article is hence an exploratory study that tackles the issue of real estate within the strategies of the main actors of the Swiss watch industry, namely Swatch Group, Richemont and LVMH, which have massively invested in their retail network in China and East Asia since the 1990s. While these three companies went through local retailers until late 1990s, they managed to expand their sales networks by increasingly controlling the retail spaces in China and in some Southeast Asia countries, such as Hong Kong, Singapore, Malaysia, Thailand, and Taiwan, increasingly influenced by Chinese consumers. For these countries which now represent a major part of their respective market shares, the Swiss watch groups rarely invest directly in large-scale real estate projects like shopping malls. They however have various strategies of control and integration between retail and the commercial real estate industry.

Key words: Swiss luxury watch companies, China and Southeast Asia, retail real estate

JEL Classification: L81, L85, N85, R3.

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Introduction

A new geography of retailing has appeared since the early 1990s with transnational companies as the 'movers and shapers' of the global economy who often facilitate changes in market structures (Lowe and Wrigley, 1996; Wrigley et al., 2005). As a result of both a saturation of home markets and the liberalization process and opening of borders in various countries, Asia and China in particular have been the most attractive markets for large retail groups, notably from the Western countries.

The internationalization of retailing in Asia has been increasingly documented by scholars (Dawson et al. 2003; Wang 2009; Coe and Bok 2014). The motivation and modes of market entry are the first issue that must be faced (Wrigley et al. 2005). Then retail companies face a complex process to stabilize their operation which can take place over four phases: stability, consolidation, control, and dominance (Dawson 2003). However, success is not guaranteed and many firms may withdraw from the market at some stage. Business historians have stressed in this perspective that firm-specific advantages (e.g. brand concept and operating format) are decisive factors to keep international competitiveness in the retail industry since the 1980s (Godley and Hang, 2012). Yet, the strategies adopted by Western luxury companies to build their distribution network in East Asia have not been studied (Coe and Bok 2014). This article is hence an exploratory study that focuses on luxury companies which have massively invested in their retail network in Asia since the 1990s. This expansion is linked with the issue of real estate, and more specifically with the business relations luxury corporations have with commercial property development companies to access retail spaces in Asia. Access to land and real estate is also an understudied key issue of the consolidation and control over distribution channels for retail groups (Meyer-Ohle, 2014).

On the one hand, an extensive literature highlights how the turn to luxury industry since the 1990s has enabled some European countries to maintain their comparative advantage on the global market and at the same time to keep a significant part of their production non-globalized. This 'success' is altogether a result of an industrial reorganization, the construction and control of global production chains, and specific strategies to enter markets in emerging countries, specifically in Asia. A key factor is the control of the distribution channel, which means a verticalization of the distribution and retail networks. However, an issue that remains to be addressed is the way European luxury companies are able to enter and expand their sales networks in emerging countries. On the other hand, the property industry has become a major economic circuit in many countries. In Asia, real estate companies could benefit from active urbanization strategies by governments to develop their business. However, there is still a lack of works about the property industry and companies' concrete strategies and business models. Real estate companies indeed function as key intermediaries and long-term partners for retail groups, and in the case of shopping center development, strategic alliances are made between large retail groups and large property development companies (Wang et al. 2006; Wang 2009).

In order to deal with the issue of real estate in relation with the expansion of luxury retailers in East Asia, this article tackles the strategies of the main actors of the Swiss watch industry, namely Swatch Group, Richemont and LVMH. While these three companies went through local retailers until the late 1990s – mid-2000s, they managed to expand their sales networks by increasingly controlling retail spaces in China and in some Southeast Asia countries, such as Hong Kong, Singapore, Malaysia, Thailand, and Taiwan, all increasingly influenced by Chinese consumers. For these countries which now represent a major part of their respective market shares, the Swiss watch groups rarely invest directly in large-scale real estate projects like shopping malls. They however have various strategies of control and integration between retail and the commercial real estate industry.

This article is divided in three sections. We first present literature related to luxury business and property development, to stress the lack of links between both. The second section presents the strategies of the three groups. Third, we propose an understanding of the ways Swiss luxury watch companies access shopping spaces. Finally, we conclude the paper with several suggestions for future research.

1 The distribution of Swiss luxury watches and the issue of access to shopping spaces in East Asia

This section introduces the major changes experienced by the Swiss luxury watch industry in Switzerland since the 1980s and emphasizes the challenge of accessing Asian markets. It also underlines the lack of research to understand the issue of real estate strategy in the luxury business.

1.1 The shift of the Swiss watch industry to luxury

After a decade of crisis due to its lack of competitiveness against Japanese watch companies (Donzé 2012), the Swiss watch industry undertook during the 1980s-1990s a twofold process of rationalizing its production system and up-scaling its products, typical of the European luxury industry at that time (Bonin 2012; Merlo 2012; Donzé 2014). The industrial reorganization took the form of a high concentration of the number of firms and the relocation of low value-added activities abroad, mostly in East Asia.

First, the number of watch companies dropped from 1’169 in 1975 to 572 in 1990. The number stabilized and remained at an average of 589 for the years 2000-2013. Besides, the average number of workers by company increased at the same time (59.3 in 1990, 64.9 in 2000 and 100.2 in 2014) (Convention patronale, 2014). Likewise, most of these companies were gathered by large holding companies and groups, the most known being Swatch Group (founded in 1983, hereafter: SG) and Compagnie financière Richemont (1988, hereafter: Richemont), while French luxury big business launched in watchmaking through the merger of Swiss companies, as did LVMH (1999) and Kering (1999). Table 1 shows both the high concentration which exists today in the global watch industry and the domination of companies established in Switzerland. The three largest companies, all Swiss, control nearly half of world markets (47.5%). Of the ten largest companies, accounting for 72.6% of market share, all except Seiko and Casio base their production subsidiaries in Switzerland.

INSERT TABLE 1

Second, Swiss watch companies adopted a strategy of relocating low value-added activities, particularly the manufacture of external parts (cases, straps, dials, etc.), in low wages countries, like Thailand and China. Although the roots of this strategy go back to the 1960s (Blanc, 1988), it experienced a dramatic development since the end of the 1980s and takes several forms. Some companies carried out direct investments and opened wholly-owned subsidiaries, as SG did in Thailand (1986), Malaysia (1991) and China (1996). Moreover, Swiss watchmakers also used independent subcontractors to outsource some businesses. The evolution of the share of Swiss watches equipped with foreign-made cases illustrates perfectly this growing international division of labor: this index went from 21% in 1990 to more than 60% since 2000.

Yet, not all of the production of watches has been transferred abroad, mainly due to an institutional measure aiming at keeping employment in Switzerland and ensuring the good quality of Swiss watches: the "Swiss Made" law, adopted by the federal government in 1971.[1] According to this text, the companies which want to use the "Swiss Made" label must produce at least half of the parts of the movement (value) and realize the final assembly of the product in Switzerland. Hence, the Swiss watch industry was only "half-globalized" but succeeded to cut production costs and to regain competitiveness against Japanese rivals. This institutional measure became during the 1990s one of the most important competitive advantages of Swiss watch companies, which followed at that time a new strategy of repositioning towards luxury. While the volume of watches exported by Switzerland declined from 43.7 million in 1995 to 31.9 million in 2010, their value increased in the same time from 6.8 billion CHF to 15.3 billion CHF.[2] Many authors tackled this transformation, emphasizing that the new competitiveness of the Swiss watch industry relied on marketing strategy, called by some authors "non-technological innovation" (Jeannerat & Crevoisier 2011) which made it possible to increase largely value-added of the products (Kebir & Crevoisier 2008; Raffaelli 2013; Donzé 2014).

Moreover, the repositioning towards luxury went together with the verticalization of distribution, as can be observed since the 1990s in other sectors of luxury and fashion (Moore & Birtwistle 2004; Moore, Doherty & Doyle 2010). In the watch industry, the vertical integration of wholesale and retail has proceeded since the late 1990s, with the twofold aim to maintain tighter control over the sale of products and to internalize earnings from this activity. The idea is to improve the quality of distribution rather than to increase the number of sales outlets. Accordingly, the Omega distribution network was restructured in 2005-06 on the German, British and Japanese markets, where the number of sales outlets was reduced by 20 to 25 per cent. In the same time, groups started to create new sales subsidiaries around the world. SG had 23 such units in 1998, but their number had virtually tripled to 65 by 2009 (Donzé 2014). Among them, a large amount were opened in emerging countries after 2000, as for example India (2001), Mexico (2001), Russia (2002), Thailand (2002), Poland (2004), Taiwan (2004), United Arab Emirates (2006) and South Africa (2009).

In addition, a reference should be made to the engagement in retailing. Since 2000, SG, Richemont and independent companies like Rolex and Patek Philippe developed their own network of flagship stores. The number of Richemont's mono-brand stores went from 320 in 1995 to 719 in 2000 and 1'370 in 2009. In 2009, the company directly held 797 stores (58.2% of the total), the remaining 573 being managed by local partners. The number of Richemont's directly owned stores grew to 1'056 stores in 2014.[3] This will to control retail also led SG to take interests in retail firms, in particular in Thailand (2002), in the United Arab Emirates (2008) and in Saudi Arabia (2010).

Finally, one must mention that the repositioning of Swiss watch companies towards luxury and the fast-development of this business relied on the emergence and the growth of new markets in East Asia (Donze and Fujioka 2015). Trade statistics show the key position occupied by Hong Kong, due to tourists (Japanese in the 1980s and 1990s, Chinese since 2000) and to re-export, with an average share of 16.4% of Swiss watch exports in 1990-2014. Japan was a key market during the years 1990-2003 (average of 9%), then slightly declined, but was still the no. 4 outlet in 2014 (6%). As for China, which had been constantly below 1% until 2002, it emerged in the mid-2000s, and peaked at 8.5% in 2011 (6.3% in 2014). Altogether, Hong Kong, Japan and China had a cumulative market share of 19.6% in 1980, 26.1% in 1990, 23.3% in 2000, 31.4% in 2010 and 30.8% in 2014.

[1] *Ordinance related to the use of the label "Swiss" for watches*, 23 December 1971.

[2] Federation of the Swiss Watch Industry.

[3] Source: Annual reports. No more data since 2009.

Consequently, literature on the repositioning of the Swiss watch industry towards luxury has exposed in great detail the process of this change in Switzerland (concentration of firms, relocation of production), as well as the driving forces of this evolution (new marketing strategy, verticalization of distribution and retail, Asian markets). Yet an issue that remains to be addressed is the way Swiss watch companies were able to access new markets and new customers. We must question the nature of the links between the distribution strategy and East Asian markets. The real estate business appears to have been a key intermediary in this process.

1.2 The property development industry: a major partner for the retail industry

Since the late 1980s, an extensive literature has opened the 'secondary circuit of capital' (Harvey 1982 and 1985), i.e. the built environment required for economic production (factories, roads, etc.) and consumption (shops, homes, etc.). Whether this be from an institutionalist perspective (Ball 1998; Guy and Henneberry 2000; Healey 1991, 1999; Keogh and D'Arcy 1999) or a Marxist perspective (Beauregard 1994; Fainstein 1994; Haila 1991), this examination of the intrinsic dynamic of real estate markets emphasized the players, institutions and processes at work in real estate market operations. The specific role of real estate development companies as entrepreneurs was highlighted from the beginning. Property development companies do have strategies to respond to existing demand, as well as to compete effectively with new products on the market. In this regard, Charney (2001) indicates three areas on which entrepreneurs play to create supply. They can specialize by combining location, sector (residential, retail, industrial or offices) and property (new or existing buildings).

In various countries, the influence of the property development industry on urban development has been boosted by entrepreneurial and property-led urban policies (Harvey 1989; Leitner 1990; Fainstein 1994 and 2001). The contemporary transformation of the urban landscape, especially by means of large-scale urban projects, has constituted a favoured instrument within new and more "entrepreneurial/neoliberal" urban policies resulting from growing local decisional competencies and featured by the priority given to economic growth (Fainstein 2008; Swyngedouw et al. 2002). Debates regarding the (new and more neoliberal) forms of urbanism and urban governance thus addressed the change to the role of the State within the framework of an accentuated market logic, the intervention of private actors in public policies and also the restructuring of spatial scales in the definition and regulation of public policies (Peck et al. 2009).

In Asia, Hong Kong and Singapore (Haila 2000 and 2015; Smart and Lee 2003), as well as China (Hsing 2010; Wu 2015) are emblematic examples of property-led States. In these three countries, the property industry has been boosted since the 1980s and early 1990s by the privatization of land and the active growth and urbanization policies' strategy. In other Southeast Asian countries, the property industry also benefitted from urban policies based on growth objectives and even played a key role as urban planner for large-scale urban projects and transportation infrastructures (Shatkin 2008). In most countries, this has led to a consolidation in the property industry. For instance, in Hong Kong a dozen of companies control the property market, some of which like Cheung Kong, Swire or Henderson are part of multinational conglomerates in various sectors (industry, retail, trade or finance) (Tang and Liu 2001).

The role of retailers is very important as far as commercial property development is concerned. Tasan-Kok (2006) is one of the rare authors who showed that international retailers in peripheral economies are key partners of property development companies. This materializes in large-scale shopping complexes which can be seen as global urban forms since they all have similar physical characteristics (location, size, shape, use of space, architectural style, etc.). The production of new urban forms in China and Southeast Asian countries, such as hypermarkets, department stores or shopping malls as new consumption places compared to traditional shops and wet markets, has not been addressed yet through the perspective of commercial property companies' strategies and business models, or in relation to retail groups. Some main features can however be highlighted from the retailer's literature.

The access to the "right" location is a core factor to enter a market and to overcome territorial complexity and achieve embeddedness (Wrigley et al., 2005). In Southeast Asia, this in most cases goes along with partnerships with some local companies, which can also be enforced by governments in order to restrict unfair trade practices and to encourage local retailers to upgrade by learning from foreign firms (Coe and Bok 2014). For instance, large Japanese retail groups such as Uniqlo, Muji or Seven Eleven partnered or joint ventured with local companies which are often part of conglomerates that have interests in not only retail, distribution or logistics, but also in real estate, finance or manufacturing (Meyer-Ohle 2014). Moreover, since the mid-2000s, the location of international specialty brand stores has almost exclusively taken the form of large-scale shopping malls, either in city centers or in more suburban areas.

In China, large commercial property companies are key intermediaries between retail groups and cities. They first build the shopping centres or malls, and remain long-term partners for retailers as commercial managers and property investors. Contrary to some Western countries where shopping centres can belong either to retail groups or to property funds and other institutional investors like insurances or pension funds (Theurillat 2011), large commercial property developers in China are indeed landowners of retail areas where large retailers are among the main anchors and economic drivers of shopping centres/malls. These long-term relations can be based on mutual strategies. For instance, to expand its sales' networks in the 2000s, Wal-Mart formed strategic alliances with two major Chinese commercial property developers, Shenzhen International Trust & Investment Corporation (SZITIC) and Wanda Group (Wang 2009). The retail market in China has become increasingly competitive since the mid-1990s, with the development of numerous shopping centers in large cities. For instance, the control of retail spaces in Shanghai has witnessed an intensive competition between overseas, mainly Asian, and domestic developers with different models of key anchors, such as department stores or hypermarket, as well as different positioning, from mid to luxury shopping centers (Wang et al. 2006).

The strategies of international retail groups to enter the various markets in Southeast Asia and China have been documented by scholars. However, the focus so far has been put on retail groups in the food sector and other mid-range brands (Coe and Bok 2014). The luxury retail corporate strategies still need to be addressed, and in particular with regard to the access to shopping spaces.

2 The real estate strategy of the three largest Swiss luxury watch companies in Asia

This section highlights the real estate strategies of the three major Swiss watch luxury groups – Swatch Group, Richemont and LVMH – to develop their sales networks in the main markets in East Asia, namely China, Hong Kong, Malaysia, Singapore, Taiwan and Thailand.

This qualitative exploratory research (Creswell 2007) is based primarily on fifteen interviews. In order to deal with the issue of distribution and sales, interviews were made both with managers of Swiss watch luxury groups regional subsidiaries in China and Southeast Asia, and with managers of the main regional distributors and retailers (Hengdeli, Hour Glass and Emperor Watch). The retailers' perspective was furthermore compared with the perspective of developers. To understand the specific business relations of Swiss watch luxury retailers, interviews were made with managers of major commercial property development companies in China, Hong Kong and Singapore (Hong Kong Land, Capitaland, Swire Properties, Sun Hung Kai, Shui On Land and Hang Lung) that specialized in building and investing in luxury shopping malls in which luxury groups are key tenants. These interviews took place in 2014 and 2015 in China, Hong Kong, Singapore and Taiwan. Secondly, the point of views of these main players in both industries were elaborated through extensive analysis of companies annual reports, a close reading of materials from corporate websites and economic press, and site visits in Shanghai, Hong Kong, Singapore and Taipei.

2.1 Swatch Group: control of distribution network and local partnerships

Swatch Group (SG) experienced rapid growth during the last fifteen years, with gross sales going from 4.3 billion CHF in 2000 to 9.2 billion CHF in 2014. Asia played a key role in this expansion. Its market share increased during these years from 29% to 58% of gross sales. Moreover, the share of the Greater China region (mainland China, Hong Kong, Macau and Taiwan), known since 2008, grew from 23% of gross sales that year to 37% in 2014.[4] SG's strategy to enter East-Asian markets and control its distribution in these countries has three main characteristics.

First, this group did not internalize the real estate function. It does not wholly hold any subsidiary active in this business outside Switzerland and has only invested directly in three projects around the world (Nicolas G. Hayek Center in Tokyo, 2007; Swatch Art Peace Hotel in Shanghai, 2010; and Grieder-Haus in Zurich, 2014). However, even if these three buildings include shops of SG's luxury brands, like Omega, they are not really a part of a developed strategy to enter markets. They are more like communication and advertising tools.

Second, SG holds a tight network of sales subsidiaries throughout East-Asia. In 2014, it had, outside China and Hong Kong, subsidiaries in Indonesia, Japan, Malaysia, South Korea, Taiwan and Thailand. Even if the roots of most these companies go back to the first part of the 20th century, they experienced a major change after 2000, when SG's management decided to take direct control over distribution and sales.

For example, in Singapore and Malaysia, SG used to work closely with the Amarasuriya family, who has been active in the retail of watches and jewelry in Singapore since the interwar years and who holds Omega's agency in this city since 1936 (Richon 1998, p. 358). A joint venture between SG (51%) and Amarasuriya (49%) was established in 1995 to lead watch distribution in Malaysia. The objective was to centralize imports and logistic for all brands of SG in this region, the Amarasuriyas being in charge of selling watches in their network of shops. This relationship lasted until 2004, when SG decided to take control of sales and purchased the shares of its partner. Consequently, SG split this business in two wholly-owned subsidiaries, one in Singapore and one in Malaysia, and made new connections with local partners active in real estate development rather than retailing. In 2006, a new joint venture, Swiss Luxury Watch & Jewelry, was founded by SG Malaysia (51%) and Sapura Group (49%), a large diversified Malaysian business group, active in real estate development among other things. Hence, in the following years, SG opened around 30 stores throughout the country and a watchmaking school in Kuala Lumpur in 2008 to train watch repairers.

[4] Swatch Group, *Annual report*, 2000-2014.

The situation was similar elsewhere in South-East Asia. In 2002, SG founded new sales subsidiaries in Thailand and in Taiwan, so as to no longer rely on local retailers and to control more tightly its own network of stores. The number of points of sale was reduced and the company engaged in the creation of mono-brand stores. Hence, since 2000, various local companies are responsible for securing shopping spaces in the new projects established by real estate developers. Connections at the local level are the way SG accesses the market.

Third, SG set up a special partnership in China with the largest retailer of the country, Xinyu Hengdeli Holdings. Other watch companies, like LVMH, Richemont, or Rolex work also with Hengdeli to distribute their watches in China, but SG is the only one to have a member in the board of directors and to have founded joint ventures with this Chinese partner. Hengdeli is a former State-owned company, purchased in 1997 by the Zhang family, active in the trade of watches in Hong Kong since the 1980s. It dominates watch distribution retail business in China, and became after 2000 SG's local partner to enter the Chinese market. Both companies co-founded two major joint ventures for the exclusive distribution of Omega and Rado watches (2003) and SG took a stake in Hengdeli, which amounted to 6% of Hengdeli's capital in 2006 and 9.1% in 2010 (Donzé 2014). This partnership is very important in the twofold context of the fast growth of the Chinese market and SG's will to control retailing. Hengdeli's growth sales increased from 1.5 billion RMB in 2004 to 14.8 billion RMB in 2014. This development is based essentially on retailing, while Hengdeli had specialized in wholesale until then. The number of stores managed by Hengdeli went from 65 in 2005 to 513 in 2014. Hence, the share of retailing in gross sales grew from 34.9% in 2004 to 71.9% in 2014.[5] To set up these shops, Hengdeli partners, based on a case-by-case strategy, with local Chinese developers (tier 3 and 4 cities) and large developers from Hong Kong and China (tier 1 and 2 cities).

In 2007, SG and Hengdeli companies founded an equally-owned subsidiary to take charge of retail business in China. At this occasion, Zhang Yu Ping, chairman of Hengdeli Holdings, argued that *"this agreement establishes a closer bond between Xinyu Hengdeli and the Swatch Group, as the two parties fully utilize their resources to strengthen their relationship in the China retail market."*[6] Yet, such a strategy requires an involvement in real estate business, to secure stores in the new shopping malls. Consequently, in 2010, SG took a 50% stake in Beijing Xin Yu Heng Rui Watch & Clock Co., a subsidiary of Hengdeli specialized in real estate in China.[7]

2.2 Richemont: internalization and centralization of access control to shopping places

The expansion of Richemont on the luxury watch market in Asia has been mostly based on its brand Cartier. It was used to make synergies for other brands (IWC, Jaeger LeCoultre, Lange & Söhne, Montblanc, Piaget, Roger Dubuis, and Vacheron Constantin), especially regarding the development of its retail network. This group has experienced rapid growth since the mid-1990s. Gross sales of the company, including divisions outside watches (fashion and jewelry), went from 1.8 billion euro in 1996 to 2.9 billion euro in 2000 and 10.6 billion euro in 2014. This expansion also relies especially on Asian markets (38.1% of gross sales in 2000 and 48.1% in 2014).

[5] Hengdeli Holdings, *Annual report*, 2004-2014.

[6] http://www.hmdatalink.com/PDF/C01700/e03389%2860%29.pdf

[7] SG, *Annual report*, 2010 and Hengdeli, *Annual report*, 2013.

A major characteristic of this growth is the shift from wholesales to independent retailers to retailing by Richemont itself. The share of retail in gross sales evolved from 1996 to 2014. This index went from 31.1% to 54.9% between these two years. Moreover, an important change can be observed in 2008-2009. While retail had a very stable share in 2002-2008 (average of 41.3%), it started to grow rapidly in 2009, together with gross sales. Obviously, Richemont decided in the mid-2000s to take a closer control on retail and sales. The number of stores owned by the group increased from 444 in 2000 to 1'056 in 2014.

This expansion relied both on the opening of new shops and on the purchase of mono-brand boutiques run by independent retailing companies, such as the Singapore-based Hour Glass Co. For example, Richemont took over 45 Montblanc boutiques in China (2006) and broke the contract it had with Hour Glass for the management of four boutiques Montblanc in Australia and one Lange & Söhne mono-brand store in Tokyo (2011).[8] In 2012, Hour Glass explained in its annual report that Richemont *"reported an excellent set of results for FY2012 where their retail push over the past several years has begun paying handsome dividends. Contributions from their group retail division grew 50% faster than their wholesale distribution unit."*[9]

The core strategy of Richemont was to internalize and centralize negotiation regarding access to shopping places. This was carried out autonomously by each brand until the early 2000s. A major consequence of this centralization is that all brands can benefit from Cartier's strong bargaining power to extend their sales network. In Asia, the wholly-owned subsidiary Richemont Asia Pacific Ltd. (Hong Kong) plays a key role in carrying such negotiations. In 2014, its managing director Alain Li was actively involved in the real estate business in Hong Kong.[10] His predecessor Francis Gouten, managing director between 2000 and 2006, used his experience and networks to launch his own firm, Gouten Consulting, particularly involved in the development of retail and shopping malls in China. Moreover, in 2003, Richemont appointed Simon Murray as non-executive director and member of the board of directors.[11] This British citizen is a magnate of finance and real estate in Hong Kong and South-East Asia, and was a key person to facilitate Richemont engaging in this business.

In his 2014 annual report, Richemont wrote that *"the central Real Estate function supported the Maisons in their acquisition of boutiques."*[12] For the watch companies owned by Richemont, being a member of a large multinational is an important opportunity to expand their own network of mono-brand stores. In 2015, Jean-Marc Pontroué, CEO of Roger Dubuis, declared in a Swiss business newspaper that he *"benefited from all the marketing research and surveys of the Richemont group which mastered the real estate evolution of international metropolises"*[13]. A few weeks later, Jaeger-LeCoultre's CEO stated exactly the same.[14]

[8] Richemont, *Annual report*, 2006 and Hour Glass, *Annual report*, 2011.

[9] Hour Glass, *Annual report*, 2012, p. 14.

[10] He was a member of the jury of MIPIM Asia Awards, the largest fair for real estate in Asia, according to PR Newswire (http://finance.yahoo.com/news/mipim-asia-awards-2014-winners-013200167.html).

[11] http://www.ckh.com.hk/eng/about_boardofdirector.html#list2_6 (accessed January 27, 2015) and Richemont, *Annual Report*, 2003.

[12] Richemont, *Annual Report*, 2014, p. 14.

[13] *L'Agefi*, 15 January 2015.

[14] *L'Agefi*, February 2015.

2.3 LVMH: creation of two investment companies

The French conglomerate Moët-Hennessy Louis Vuitton (LVMH) is the world's largest luxury enterprise and the fifth biggest watch group. It invested late in watchmaking, through the takeover of a few Swiss companies in 1999, especially TAG Heuer and Zenith, followed by other acquisitions in the following years. The gross sales of the watch and jewelry division increased from 561 billion euro in 1999 to 2.8 billion euro in 2014. This growth relied principally on Asian markets. Their share grew from 23% in 2001 to 39% in 2014.

The extension of the network of stores is a driving force of this development. The number of stores in the watch and jewelry division went from 40 in 2002 to 380 in 2014. Although annual reports have very little detailed data about the geographical breakdown, some estimations make it possible to emphasize that most of these shops were opened in Asia. According to the store locators of Bulgari, this LVMH company had in 2015 a total number of 44 stores in Greater China, 35 in Japan, 18 in South Korea and 23 in South-East Asia, compared to only 16 in the US and 49 throughout the European Union.[15] As for Hublot, an LVMH watch company, it had 73 mono-brand stores in May 2015, among which 16 were in Greater China, 4 in South-East Asia and 1 in Japan, that is, 28.9% of the network in East Asia.[16] As for Zenith, it had at the same time a total of 20 mono-brand stores in the world, of which 11 were in East Asia.[17]

LVMH is the luxury company which seems to have most internalized the real estate function. It controls in particular two investment companies which carry out business in partnership with Chinese and Asian property developers. The most important is L Capital Asia (LCA), a company specialized in private equity business, but which is also engaged in real estate. For example, in 2008 LCA purchased a wholesale and retail watch company in Singapore, Sincere Watch, and sold it back four years later for more than twice the price of its acquisition. Yet, beyond the short-term financial profit made by LCA, the fourth-year integration in LVMH group was the opportunity to develop this retailer, which is one of its partners in Asia. According to a manager of LCA, Sincere Watch was especially able, during this time to *"lease prime locations in malls such as ION Orchard, Scotts Square and Marina Bay Sands in Singapore as well as properties such as Starhill Gallery in Kuala Lumpur."*[18]

Moreover, in 2010, LCA signed a strategic agreement with Emperor Watch & Jewellery, one of the largest retailers in China after Hengdeli, which held 88 stores in Greater China and Singapore in 2014.[19] This cooperation was very important to support the growth of Emperor's retail network. Christina Teo, who oversees LCA's investments in South-East Asia and Pacific, declared that her company "*has since helped the firm to open more than 40 outlets in China."*[20] She added that LVMH's *"good relationships with landlords can help it stake out better locations for the companies it backs."*[21]

The second investment company which supported the growth of LVMH's subsidiaries is L Real Estate (LRE). Its actual activities are not known in detail. LRE invested in major shopping mall projects through joint ventures created with a Chinese financial tycoon. For example, in 2011, it created

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[15] http://www.bulgari.com/en-jp/storelocator/ (accessed 27 May 2015).

[16] http://www.hublot.com/fr/boutique/world/ (accessed 27 May 2015).

[17] http://www.zenith-watches.com/fr_fr/shoplocator.html (accessed 27 May 2015).

[18] *The Edge Singapore*, 9 April 2012.

[19] *Annual Report*, 2014.

[20] *The Strait Times Singapore*, 3 May 2014.

[21] Ibidem.

Shanghai Luxchina Property Development, together with a company controlled by Stanley Ho, in order to build and manage the center L'Avenue, at Shanghai, which became one of the largest luxury malls in the world. LRE made a second investment with Stanley Ho group in Shenyang to develop another L'Avenue shopping mall.

Although as investment funds the purpose seems to invest for a short period (5-8 years) based on an exit (sale) strategy, LCA and LRE have both enabled support, either by investing in companies or in shopping malls, for the expansion of some of the largest watch retailers in Greater China, and hence the sales of their own products.

3 Access and control of retail spaces

The expansion strategies of the three watchmaking groups developed in the previous section highlight the absence of direct links between the retail networks' control and investment in real estate projects. All the groups have to cooperate, directly or indirectly through local retailers, and generally speaking, on a case-by-case basis with the main property groups specialized in the construction of shopping spaces.

There are various kinds of shopping spaces for the sale of luxury products in East Asia, such as street boutiques, department stores, duty free shops, shops in high-end hotels, etc. This section first focuses on luxury shopping malls that are today symbolic sales places for luxury goods in Asia. It secondly gives an overall view about the relations between the Swiss watch luxury groups and the commercial property industry to access the shopping malls in China and in the main Southeast Asian markets.

3.1 Commercial property development industry and luxury brands

Large Japanese retail groups were the first to develop department stores and shopping centers for luxury goods in Southeast Asia in the 1980s and 1990s. This strategy was based on a specific business model (introduction of luxury products to Asian consumers, Fujioka 2013) which could be implemented in a favorable economic context such as the liberalization of foreign investment in Asia and the economic boom and cheap access to capital in Japan, as well as the emergence of high-income Japanese tourism over all Southeast Asian countries. For instance, Sogo successively opened large department stores in Bangkok (1984), Hong Kong (1985), Taipei (1986), Jakarta (1990) and Kuala Lumpur (1994) (Satou 1994). Mitsukoshi opened stores in Shanghai (1989) and Taipei (1991), while Isetan went to Singapore (1983), Kuala Lumpur (1990), Bangkok (1992) and Tianjin (1993).[22]

Since the mid-1990s, shopping malls have become the new concept of large urban shopping places. They first appeared in Hong Kong and Singapore and then expanded all over East Asia to become today's emblematic places for Western luxury goods. Table 2 shows the property owners and investors of the main luxury malls in several large cities in Southeast Asia and China, most of them belonging to property companies. Two characteristics must be underlined. First, in most cases, investors are local property companies (Bangkok, Kuala Lumpur and Taipei), which are also large conglomerates with businesses in various national economic sectors and which are close to national governments (Colpan, Hikino and Lincoln 2010). For instance, Berjaya Group, which built Berjaya Times Square in Kuala Lumpur, is a company active in real estate, finance, trading, food, leisure

[22] http://www.imhds.co.jp/company/department_overseas.html

activities, etc.[23] The Breeze Group, which owns one of the largest luxury malls in Taipei, was founded by Paul Liao, a Taiwanese businessman who has also invested in metal and wood trading, as well as hotels.[24]

Secondly, Hong Kong developers are particularly active in the sense that they have a cross-national strategy, investing massively in China, and to a lesser extent in Singapore. In China, Hong Kong companies have become major partners for Western luxury brands that seek partners knowledgeable about the various Chinese cities markets and their needs. They have comparative advantages over Chinese developers in terms of quality of construction, commercial management but above all in terms of commercial concept and shopping attractiveness (through marketing and various events for instance). Furthermore, some main Hong Kong property companies specialized in building high-end shopping malls such as Swire, Sun Hung Kai and Hang Lung, have been expanding over the country, from first tier cities (Beijing and Shanghai), to second tier cities such as Chengdu and Chongqing, in particular where they have the support of local governments that want to attract big international brands. In that way, the construction of luxury malls in these new cities correspond to both luxury retailers and Hong Kong developers strategies to position themselves well in their respective 'high-end' markets.

INSERT TABLE 2

On the whole, in East Asian countries developers, having either a national or inter-regional strategy, are core partners for the luxury industry. Depending on the country, they fulfill two key functions. They are first a way to access property in some countries where direct foreign investment in land and/or real estate is forbidden (e.g. in Thailand and in Indonesia) or restrictive (e.g. China and Taiwan). Second, besides regulation purposes, these developers are strong local partners that enable 'embeddedness' in various cities' markets (Wrigley et al. 2005). They bring specific and often tacit knowledge of the local real estate markets, and in particular they have interpersonal relationships with local governments.

Partnerships may have changed over time. In China, watch distributors and retailers like Hengdeli that wanted to expand in the whole country first collaborated with local developers that were not specialized in the construction of luxury shopping malls. The original focus was to be in the cities' markets. These last years, since the Global financial crisis of 2008-2009, the commercial property industry seems to have entered a second and more competitive phase with more Chinese and Asian developers building new shopping centers (Mingtiandi 2015). In this context, all three watch groups have been in search, directly or through independent distributors, of developers who are able to build high quality luxury shopping malls that correspond to the groups' marketing positioning in luxury, such as high-end commercial development property corporations from Hong Kong.

3.2 Four models of relations between Swiss watch luxury groups and the commercial property industry in East Asia

Until the early 1990s, Swiss watch groups had not internalized retail and used a 'traditional' model: they used to go through independent wholesale distributors (e.g. Cosa-Lieberman, Siber Hegner) that had business relations with independent retailers (e.g. Cortina, Hour Glass) to reach customers worldwide. They consequently could not hold any control over the shopping environment of their

[23] http://www.berjaya.com/

[24] *Taiwan News*, 22 May 2015.

products. Four main models of access to shopping malls in East Asia and of relations between Swiss watch luxury groups and commercial property corporations since the mid-1990s, respectively as key anchors and property owners and investors, emerge from our study. Swiss luxury watches can be sold within mono-brand or multi-brand shops, depending on the brands marketing strategy and on the significance of the locations.

First, a watchmakers' group can negotiate directly with property corporations where they lease shopping areas in the shopping malls. This model, used on a case-by-case basis and to various extents by the three watch groups, requires close relationships with the real estate industry in the various countries.

Secondly, the link between retail and real estate can be strengthened. Some real estate arms can be created within the group, and direct real estate investment can be made in partnerships with property development companies. This active strategy which enables better access and control over shopping areas requires, however, besides various skills related to the real estate business, large capital investments. This model has been observed in the case of LVMH, especially through its investment funds L-Real Estate. This may be related to the fact that LVMH is a generalist luxury group which has a large and various portfolio of luxury products, including high fashion, which can make possible and profitable direct investment in a shopping mall.

Thirdly, watch groups can continue going through key regional retailers they have had long-term relations with and consequently access shopping malls indirectly. These retailers have their own network of commercial property business. Here however luxury watch groups cannot have direct control over the selection of the 'right location' for the shopping mall and position within it. Retailers such as Emperor and Hengdeli have been major partners for all groups, especially in Hong Kong and China.

Fourthly, watch groups and local retailers can make property joint-ventures. This model has been used in the case of Swatch Group, which co-founded with Hengdeli the company Beijing Xin Yu Heng Rui Watch & Clock Co. However, the concrete activities of this company could not be clarified.[25]

INSERT FIGURE 1

Conclusion

This exploratory research emphasizes the major role of real estate for Swiss luxury watch groups in their expansion in East Asia since the late 1990s. This went along with the emergence of luxury malls as a new form of shopping space. That corresponded to the strategies of both watchmakers and developers. First, for watchmakers, the internalization of distribution and retailing led to new forms of relations with commercial property developers, as they wanted to better control sales of products and to internalize earnings from this activity. Second, luxury malls were a way for some developers to innovate and to build new kinds of commercial outlets which could compete against department

[25] According to SG, this is a real estate company (*Annual Report*, 2014, p. 203), while Hengdeli Holdings mentioned a property management and leasing company (*Annual Report*, 2014, p. 150).

stores and mid-range shopping malls. Hence, we highlight four forms of relations between both actors.

In terms of literature implication, this article fills two research gaps regarding the retail transitions in Asia (Coe and Bok 2014). First, it goes beyond the food sector and other mid-range brands usually studied by scholars, by focusing on the strategy of luxury watch groups to enter the various markets in Southeast Asia and China. Second, the scope of this study covers different countries, while most of literature is focused on single national markets. The regional scale is meaningful, as several important actors like Hong Kong developers do not limit their action to one market. Third, this article points out the lack of works about property development industry strategies and business models, in Asia and China, while there is a quite extensive literature on these subjects concerning Western countries.

Finally, this paper opens new prospects for future research. At first, it appears necessary to analyze more deeply the sales strategy of watch groups in Asia. Luxury malls are one of the major shopping spaces, among various others like duty free stores, online shopping and shops on street. Their respective functions are still unstudied. Moreover, the strategies adopted by the major retailers who used to be key intermediaries of Swiss watch companies and needed to adapt their business model. For instance, some of them have turned to independent luxury watchmakers, like Patek Philippe and emerging artisans. The process of this mutation is however unclear in terms of distribution, access to customers and negotiations with developers. In addition, the strategy carried out for luxury goods other than watches, especially culturally embedded products like alcohol and cosmetics, could be discussed in comparison with the cases offered here. These goods belong to generalist luxury groups like LVMH and to more specialized and smaller companies, which have limited financial means and economic scale. Lastly, the construction of shopping malls throughout East Asia must be further studied to shed light specifically on access to land, financing and local property markets (e.g. finding local partners, relations to local governments, and profitability). The property industry in East Asia has been changing these last two decades, resulting from urbanization, economic development as well as internationalization of real estate. These changes have had consequences on property companies in Asia, which often belong to conglomerates, in terms of sectors (buildings: housing vs non-housing; infrastructures) and urban models (e.g. mixed-use), positioning and business models. This can be done through in-depth studies that consider the various corporations' spatial and institutional embeddedness.

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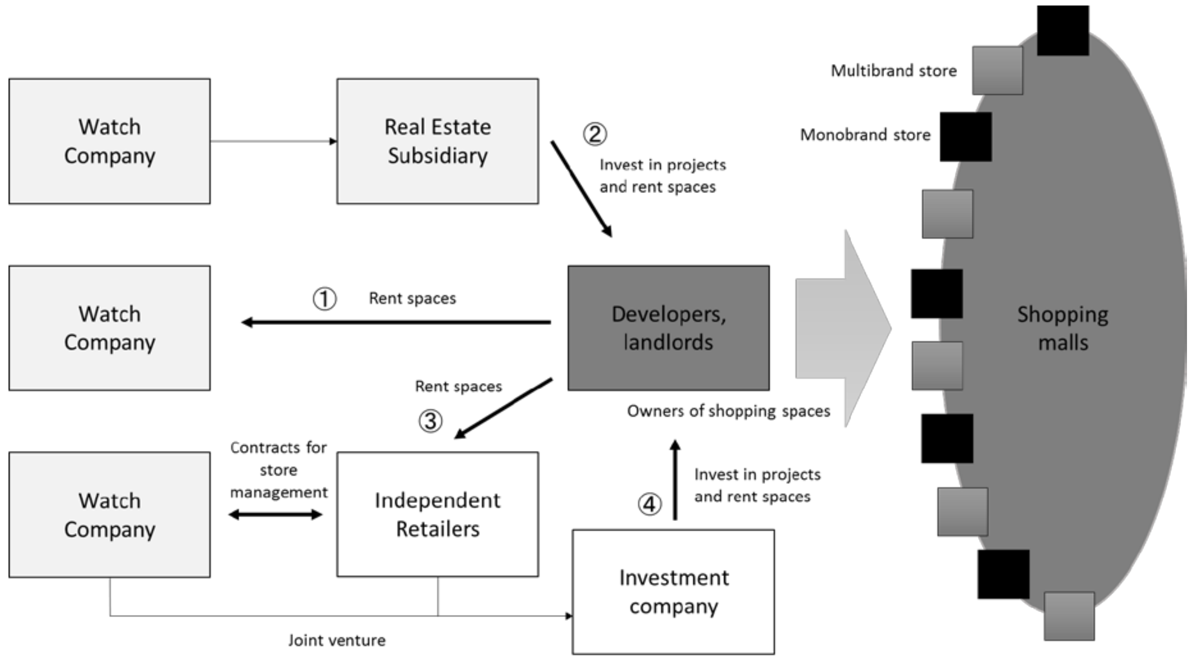
Figure 1: Relations between luxury watch companies and developers in Asia



Source: draft by the authors.

Table 1: Ten largest watch companies of the world, 2014

Company	Country	Watch sales (CHF million)	World market share (%)
Swatch Group	Switzerland	7’660	19.2
Richemont	Switzerland	6’520	16.3
Rolex	Switzerland	4’800	12
Fossil	USA	2’518	6.3
LVMH/Bulgari	France	1’720	4.3
Citizen	Japan	1’492	3.7
Seiko	Japan	1’348	3.4
Patek Philippe	Switzerland	1’280	3.2
Casio	Japan	950	2.4
Audemars Piguet	Switzerland	720	1.8

Source: *Vontobel Luxury Goods Shop – Watch Industry*, Zurich: Vontobel Equity Research, 2015, p. 16.

Note: figures for Rolex, Patek Philippe and Audemars Piguet are based on estimations, as these unlisted companies do not communicate their gross sales.

Table 2: Developers of the most important luxury malls in major East Asian cities

Beijing		Shanghai	
Mall	Developer	Mall	Developer
Beijing APM	Sun Hung Kai (HK)	L'Avenue	L Real Estate (F) & LAI (HK)
China World	Shimao (CI) & Kuok (SG)	IFC Mall	Sun Hung Kai (HK)
FuxingmenParkson	Parkson Group (MY)	Orient Shopping Center	Shanghai Bailan Group (CI)
Oriental Plaza	Whampao Hutchinson (HK)	Plaza 66	Hang Lung Properties (HK)
Shin Kong Place	Shin Kong Mitsukoshi (TW-JP) & Hualian Group (CI)	Times Square	Wharf Holdings (HK)
Xidan Joy City	COFCO (CI)		

Hong Kong		Taipei	
Mall	Developer	Mall	Developer
Elements	MTR (HK)	Bellavita	ChunYee (TW)
IFC Mall	Sun Hung Kai (HK)	Breeze Center	Breeze Group (TW)
Landmark	HK Land (HK)	Taipei 101 Mall	Taipei Financial Center (TW)
New World Tower	New World Development (HK)		
Pacific Place	Swire Properties (HK)		
Times Square	Wharf Holdings (HK)		

Singapore		Kuala Lumpur		Bangkok	
Mall	Developer	Mall	Developer	Mall	Developer
ION Orchard	Capital Land (SG) & Sun Hung Kai (HK)	Bangsar	BRDB Developments (MY)	Central World	Central Group (TH)
Paragon	SPH Reit (SG)	Berjaya Times Square	Berjaya Group (MY)	Emporium	The Mall Group (TH)
Suntec City Mall	Capital Land (SG)	Lot 10	YTL Land & Development (MY)	Siam Paragon	Siam Piwat (TH) & The Mall Group (TH)
Tangs	Tang family (SG)	Pavilion Kuala Lumpur	Pavilion Group (MY)		
Raffles City	Capital Land (SG)	Suria KLCC	KLCC Property Holdings Berhad (MY)		

Source: www.retailinasia.com; shopping malls were selected on the basis of the presence of Omega and/or Rolex boutique. CI = China; F = France; HK = Hong Kong; JP = Japan; MY = Malaysia; SG = Singapore; TH = Thailand; TW = Taiwan.