



HOW A FAMILY CAN GUARD
A LUXURY BRAND
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By Joachim Schwass, Denise Kenyon-Rouvinez and Anne-Catrin Glemser – May 2014

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Patek Philippe, the Swiss luxury watchmaker, recently turned 175 years old. The company is Geneva's oldest independent family-owned watch manufacturer, and its long-term perspective is reflected in its iconic advertising: *"You never actually own a Patek Philippe, you merely look after it for the next generation"*.

The brothers Charles and Jean Stern, producers of watch dials, acquired the business in 1932, almost a hundred years after it was founded in 1839. The Stern family, which has now owned and managed Patek Philippe for four generations, has a similar view of its own role in protecting and developing the brand.

Thierry Stern, the President since 2009, says: "We are the guardian of the brand, and are looking after it for a few moments in time. We were not the founder, the brand had existed before our family acquired it, and we never tried to make it our own."

Nevertheless, the family has made its mark on Patek Philippe in three distinctive ways that contain useful lessons for other family businesses.

Clear brand positioning: quality, not quantity

The Swiss watch industry is highly competitive. It includes about 600 different companies, many of which target the luxury segment where watches cost more than CHF 3,000. The Stern family is determined to keep Patek Philippe at the very top of this luxury segment as a "meta-luxury"ⁱ brand, distinguished by its excellence, heritage, pricing and highly selective distribution to high net worth customers.

For some Patek Philippe models, these customers must apply to buy the watch and sometimes need to wait a couple of years before receiving it. In 2013 Patek Philippe sold about 55,000 watches, 2.5% more than in 2012, through 450 specialty dealers across 70 countries.

"We are not interested in volume but rather value growth and are limiting our annual sales," Mr Stern says.

The number of so-called "centa-millionaires," with more than US\$100 million in assets, increased by 29% worldwide between 2006 and 2012 and is forecast to grow strongly over the coming yearsⁱⁱ. But Mr Stern says Patek Philippe does not want to pursue faster short-term growth. Nor does he want to risk diluting the value of the Patek Philippe brand by introducing brand extensions and licensing ventures.

Direct involvement in the business

The Stern family has always been personally involved in the business—not only as CEOs, Chairmen and board members, but also on the operating side. Mr Stern's wife Sandrine has worked for Patek Philippe since 1996 and now leads the creation department, while his sister works at the company's flagship store in Geneva.

Mr Stern himself has technical watch expertise and is closely involved in developing and designing the company's products. These are among the world's most intricate watches; a Patek Philippe "Grande Complication" can have up to 705 pieces as for the Sky Moon Tourbillonⁱⁱⁱ. He carefully defines which materials to use, where to be innovative and when to draw a line and protect the brand from introducing what he considers to be "gadgets". And, like his father Philippe Stern, the former President of Patek Philippe who decided to reintroduce the minute repeater^{iv} in 1989, Mr Stern personally approves every single minute repeater before it leaves the workshops of the company's "manufacture" in Plan-les-Ouates in the canton of Geneva.

Family members build the brand by meeting frequently with customers, retailers and employees, and going to company events and trade shows. Mr Stern has appeared with his father in advertisements and image campaigns for the brand. And the Sterns invested in the Patek Philippe Museum, which opened in 2001 in Geneva with the goal of showcasing the brand, its heritage and the history of watchmaking.

“You can only lead if you know the business and can walk the talk. You have to really live it, not just pretend to do so,” Mr Stern says.

Not rushing the next generation

Besides playing a highly public and visible role in the business, the Stern family occasionally ventures into the media. Recently there was a dispute with the Geneva tax authorities, when the company threatened to move out of the canton because of its “stifling” wealth tax policies.^v

All this has implications for the family’s privacy. The Stern family has historically passed its watchmaking tradition down through the generations by combining entrepreneurial storytelling with the transmission of technical skills. But Mr Stern, who has children aged 10 and 11, does not want to expose the next generation to the business too early.

He wants his sons and their cousins to embrace his own passion for the watchmaking business before deciding on their future role in guarding the Patek Philippe brand.

“My role as a father is to teach them the right values, but it needs to be their decision to get involved,” he says.

Perhaps you never own a family business after all. You merely look after it for the next generation.

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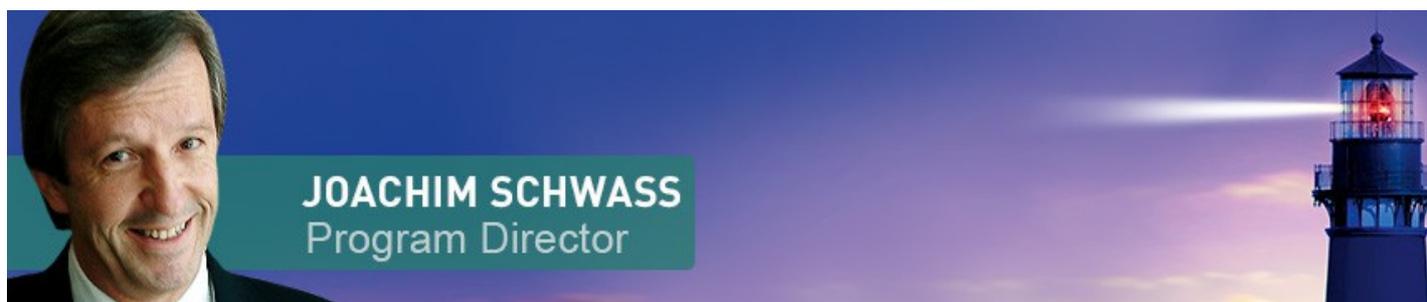
ii The Wealth Report 2012; <http://www.thewealthreport.net/#sthash.i6xJTnz3.dpbs>

iii Ref 6002

iv A repeater is a part in a mechanical watch that chimes the time on demand. Small steel hammers strike the time on differently tuned gongs. Assembling a minute repeater will take a highly skilled watchmaker 200 to 300 hours. Source: <http://www.patek.com/contents/default/en/whatisaminuterepeater.html>

v http://www.letemps.ch/Page/Uuid/3723d0d6-b2bb-11e3-b8dd-83bfd64f0e25/La_charge_fiscale_que_Patek_Philippe_doit_assumer_est_%C3%A9touffante

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