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TIFFANY AND SWATCH: LESSONS FROM AN INTERNATIONAL STRATEGIC ALLIANCE[1]

Vanessa C. Hasse wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

On November 23, 2018, the US jewellery maker Tiffany & Co. (Tiffany) received notice from the Supreme Court of the Netherlands. It was the final decision after a years-long legal battle with the Swiss watchmaker The Swatch Group Ltd. (Swatch) regarding a strategic alliance the two companies had formed in 2007. The decision stated that an earlier verdict that had required Tiffany to pay Swatch about CHF480 million[2] in damages (plus additional legal fees) was upheld, and with this, all rights of appeal had been exhausted.

This final outcome was a far cry from the excitement and hope for a successful future that were apparent when the two companies announced the formation of their strategic alliance on December 2, 2007. The goal of the alliance had been to design, manufacture, market, and distribute luxury watches under Tiffany's brand name, utilizing Swatch's watchmaking capabilities and vast distribution network.

In the announcement, Michael (Mike) J. Kowalski (Tiffany's chairman and chief executive officer [CEO]) had stated: "I am delighted that these discussions have led to this historic agreement. Swatch Group is the best conceivable strategic partner for Tiffany's long-planned re-entry into watch distribution. It is the leader in the high-end watch business with unparalleled distribution capabilities and experience in the luxury segment of the watch business." Similarly, Nicolas G. Hayek (Swatch's chairman and co-founder) had noted: "This agreement is a pathbreaking strategic move. . . . It allows without any financial capital transaction the maximum utilization of manufacturing and distribution resources of both partners." [3]

It thus came as a surprise to many that just less than four years later, the optimism was all but gone. On September 12, 2011, Swatch released the following statement:

> Today Swatch Group terminated its cooperation contracts with Tiffany & Co. This action became necessary following Tiffany & Co's systematic efforts to block and delay development of the business. . . . [The strategic alliance] will be permitted to wind down current business over the course of two years following effective termination of the cooperation contracts. Swatch Group and [the strategic alliance] will press claims for damages against Tiffany . . . in compensation for the loss of planned long-term future business.[4]

Tiffany's response was swift. The same day, a press release was published, stating:

> It has become increasingly clear that Swatch is unwilling to honor the terms of our agreement, make the necessary commitments and work cooperatively to develop the business for TIFFANY & CO. watches in the luxury space. Despite assurances to the contrary made in 2007, Swatch has failed to provide appropriate distribution for TIFFANY & CO. brand watches, with the result that our current business forecasts do not include any meaningful increase in watch sales or royalty income. Tiffany has honored its obligations under the agreement, and insisted that Swatch honor its own obligations, particularly its obligation to respect Tiffany's rights regarding brand-management and product design. Tiffany & Co. is confident that its position will be vindicated in the pending arbitral proceedings in relation to this matter and Swatch's misconduct.[5]

How could this "historic agreement" and "pathbreaking strategic move" have turned into such bitter statements, followed by a prolonged legal battle and substantial financial consequences? What had gone wrong, and was there any way in which Kowalski or Hayek could have foreseen or even prevented this outcome? Most importantly, reflecting in 2018, what lessons were learned that could benefit either company in the formation and operation of future strategic alliances?

TIFFANY & CO (TIFFANY)

In 1837, during an era of high economic growth in the United States, 25-year old jewellers Charles Lewis Tiffany and John B. Young opened the first Tiffany store in New York City. At the time, much of the competition was in Europe, where the focus was on opulent and ceremonial designs. To distinguish its brand, Tiffany focused on simple and harmonic designs inspired by nature. In 1845, Tiffany first published its annual catalogue, the Tiffany Blue Book, which by 1878 had started featuring the signature blue colour that eventually became the company's trademark and most recognizable marketing feature.[6]

Soon, Tiffany had built a reputation for excellence in craftsmanship, demonstrated by being the first American company to receive the grand prize for silver craftsmanship at the 1867 world's fair in Paris. In 1878, Tiffany presented the Tiffany Yellow Diamond, one of the largest yellow diamonds ever discovered. It was cut into 82 facets by Tiffany's gemmologist Dr. George Frederick Kunz, making it particularly reflective of light. Another milestone was the introduction of the solitaire six-prong setting for engagement rings in 1886 (trademarked as the "Tiffany Setting"), at a time when diamond rings were typically set in bezels. This laid the foundation for the company's dominant reputation in the engagement ring business.[7]

The company's growing reputation had earned it an appointment as the Royal Jeweller to European monarchs, the Ottoman Emperor, and the Czar of Russia. It counted US presidents and other prominent members of American and international society as its customers, and it designed and manufactured historic artefacts such as the Great Seal of the United States (depicted on the US dollar bill), the Congressional Medal of Honor (the United States' highest military award), and the Vince Lombardi Trophy for the NFL's Super Bowl championship.[8]

Tiffany had been active in the watch business since the middle of the nineteenth century and was one of the first foreign companies to establish a manufacturing base in Geneva, as early as the 1860s and 1870s. This continued until World War II, after which other products were prioritized.[9] By the late 1980s, watches were contributing about 9–10 per cent of sales, when the strategic decision was made to largely abandon the complex and costly manufacturing of watches and focus on the jewellery business (particularly engagement rings) instead.[10] This led to the arrangement that Tiffany's brand watches were sourced from various third-party Swiss manufacturers,[11] contributing only about 2 per cent of Tiffany's net sales by 2007. In contrast, although Tiffany had sold its first watch 30 years before Cartier and 130 years before Bulgari, competitors such as these now had a much larger watch business (about 30–35 per cent of sales[12]). This evident gap eventually led the company to consider wholesale distribution as an opportunity for rekindling its watch business, as Tiffany's James (Jim) Fernandez (executive vice-president and chief financial officer) described:

> We have been very successful in design grade watches. But with 200 store distributions in only our stores, it's just never going to add up to the big part of our business. . . . If you look at some of our luxury competitors, their watch businesses can represent anywhere from 30 per cent to 50 per cent of their business. So there is definitely an opportunity here for us.[13]

At the time the strategic alliance with Swatch was announced, Tiffany was a thriving multinational enterprise (MNE) (see Exhibit 1). By a large margin, jewellery constituted Tiffany's main business segment at about 86 per cent of net sales, while tableware, timepieces (including wrist watches), and other products contributed the remaining amount. The company's shares were mostly held by a range of institutional owners (for a total of at least 87 per cent).[14]

Tiffany was headed in 2007 by Wharton- and Harvard-educated Kowalski, who had joined the company in 1983 as director of Planning and became CEO in 1999, and then chairman in 2003. An avid environmentalist, Kowalski emphasized the importance of embracing a bigger perspective—a notion that was reflective of Tiffany's organizational culture overall: "You find a lot of humility here—this management team, although we have been here over 20 years together, we know we were dealt a good hand. It is not about us." This was mirrored by Tiffany's president, James (Jim) Quinn: "There is only one star in this company, and it is Tiffany. It is not about me or Mike or us, it is about the brand. . . . We have married the product into our culture—the pursuit of excellence through the quality, value, and integrity of the product without elitism, but with Tiffany being part of our people and part of our customers' lives."[15]

THE SWATCH GROUP LTD. (SWATCH)

Swatch was the result of a merger between Swiss watchmaking companies ASUAG and SSIH, initiated by Hayek in 1983. ASUAG was founded in 1931 and possessed strong watch movement manufacturing capabilities along with brands such as Rado and Longines, while SSIH originated in 1930 and produced high-quality watches under brand names such as Omega and Tissot. Both companies, however, experienced severe financial difficulties due to a lack of strategy,[16] the repercussions of a recession, the "quartz crisis" in the Swiss watch industry (i.e., the replacement of mechanical watches by digital watches), and increasing competition from Asia. Hayek, at the time CEO of Hayek Engineering, was tasked with developing a strategy for turning the two companies around, and his recommendations ultimately led to the merger (with the resulting company being called SMH Group) as well as his nomination as CEO. Five years later, the company was the most valuable watchmaker in the world.[17]

Several distinguishing features contributed to this success story. First, Swatch emphasized the importance of keeping production in high-wage Switzerland and being vertically integrated throughout the watchmaking value chain. This differentiated Swatch from many of its peers and allowed it to maintain control, create synergies, and gather extensive knowledge. Another key aspect was the then recent development of injection-moulding machines for the automation of plastic watch manufacturing, which allowed for significantly reduced production costs. The first watch made with this technique was launched by the SMH Group in March 1983 under the newly created Swatch brand name. The name Swatch stood for "second watch" and resembled the idea that watches could be replaceable fashion accessories at an affordable price point (CHF50 for the first several years). The colourful designs led customers to pick different Swatch watches for different outfits ("watch wardrobing") and collectors to invest in special editions. Notable designs included a transparent watch (the “Jellyfish”); watches with furry straps (e.g., “Fury” or “Frozen Tears”); a watch with scented straps (“Granita di Frutta”); and watches designed to look like vegetables, which were sold at farmers markets (“Swatchetables”).[18] However, the company aimed to offer more than just a fashion style, as Hayek explained:

> We are offering [people] . . . a strong, exciting, distinct, authentic message that tells people who you are and why you do what you do. There are many elements that make up the Swatch message. High quality. Low cost. Provocative. Joy of life. But the most important element . . . is the hardest for others to copy. Ultimately, we are not just offering watches. We are offering our personal culture.[19]

As a result of these features, demand for Swatch watches soared quickly (from US$3 million in 1984 to US$105 million in 1985). In 1998, SMH Group was renamed The Swatch Group Ltd., after its most prominent brand. Over time, the company expanded its portfolio and categorized brands into different ranges, whereby Swatch and Flik Flak made up the foundation in the basic range. Brands such as Tissot, ck watch & jewelry, Balmain, Hamilton, Certina, and Mido made up the middle range, while Longines, Rado, and Union Glashütte constituted the high range, and Breguet, Blancpain, Glashütte Original, Jaquet Droz, Léon Hatot, and Omega were brands in the prestige/luxury range. Brands largely maintained sovereignty, keeping management, buildings, and brand development separate from each other.[20]

At the time the strategic alliance with Tiffany was announced, Swatch was a successful MNE (see Exhibit 2). Swatch’s main business was in the watches and jewellery category, followed by the production of watch parts sold to original equipment manufacturer brands, and electronic systems. Over time, several of Hayek’s family members had become involved in the company through top management team positions and equity stakes. His daughter Nayla Hayek had been a board member since 1995 and became chairwoman in 2010, while his son Nick Hayek Jr. had been the CEO since 2003 and became a board member in 2010. Hayek’s grandson, Marc A. Hayek, became a member of the Executive Group Management Board in 2005. The “Hayek Pool”, a conglomeration of companies, institutions, and individuals (including family members) connected to Hayek, controlled 39.1 per cent of the shares in 2007.[21]

In 2007, Swatch was still headed by co-founder and chairman Hayek, who had by then earned honorary doctorates and other distinctions for his achievements in the watchmaking industry, such as the “Grosses Ehrenzeichen mit Stern” from the government of Austria, the “Officier de la Légion d’honneur” from the government of France, and the Swiss Lifetime Award.[22] Hayek described himself as “a provocateur, [trying] to initiate change through provocation, irony or violent criticism, and also, if necessary, through logical explanation,”[23] and the statement “modesty is hypocrisy for the successful” was cited as his belief.[24] His daughter Nayla Hayek portrayed her father as “someone who went against the tide and loved freedom; a man of very strong character who liked to assert himself, sometimes very bluntly; a person with inexhaustible curiosity and energy.”[25]

THE GLOBAL LUXURY WATCH INDUSTRY IN 2007

On the production side, the global watchmaking industry was centralized in three areas: Switzerland, Japan, and Hong Kong. Watch movements (micromechanical and electronic components) were only built in Switzerland and Japan.[26] Switzerland in particular possessed a country-specific advantage in the watchmaking industry, with a tradition dating back to the sixteenth century and generations of families working in the industry’s factories. Several innovations (such as the balance spring, self-winding mechanisms, chronographs, and perpetual calendars) had led to the country’s renown for high-quality watchmaking “made in Switzerland”. By 1945, Swiss watchmakers controlled 87.2 per cent of the world’s watch production,[27] and 90 per cent of the 2,500 companies were small, with fewer than 50 employees.[28] This changed with the influx of inexpensive watches from Asia, and by the late 1960s, the Swiss watch industry's global market share had fallen to 41 per cent. When Japanese watchmakers started becoming successful with quartz watches in the 1970s, Swiss watchmakers reacted by retreating towards the high end, adding more gold and diamonds and increasing prices, but failing to introduce any significant innovations.[29]

The result was a significant contraction of export volume by 1983, from 83 million to 30 million watches. Employment plummeted from 90,000 to 34,000 jobs and almost two-thirds of the Swiss watchmaking companies had to close down.[30] The formation of the SMH Group in 1983 with its focus on the basic range of the market was thus a much-needed reinvigoration of Swiss horology.

By 2007, the global luxury goods industry was booming. Among the largest companies in the hard luxury business (watches, jewellery, stationary[31]) were Richemont, Swatch, Tiffany, and LVMH. Largely driven by expansion into emerging markets like China, the industry had experienced a compound annual growth rate (CAGR[32]) of 8 per cent since 2004 (compared to a CAGR of 3 per cent with regards to the worldwide real gross domestic product in the same time frame) and was valued at €170 billion[33] by the end of 2007.[34] Nick Hayek Jr. reported: "At this moment, our business is fantastic. [November 2007 sales have been the] best ever."[35] It was in this context that the strategic alliance between Tiffany and Swatch had been conceived.

THE STRATEGIC ALLIANCE—STRATEGIC RATIONALE

Tiffany and Swatch had explored collaboration possibilities for more than a year prior to the announcement in December 2007.[36] Each partner had a clear strategic rationale for allying with the other. Swatch was looking to expand its prestige/luxury range with an operational mode that did not require as much capital investment as buying a brand through mergers or acquisitions. As Nick Hayek Jr. noted, "We have no need to invest . . . in buying another brand. But what we are doing is pushing Tiffany forward."[37] Moreover, Swatch was interested in expanding into the jewellery business. The strategic alliance with Tiffany would allow for this by opening its own stores to sell watches, along with a significant Tiffany jewellery collection (30–40 per cent of products), boosting Swatch's revenue. As Nick Hayek Jr. noted, "This is an additional possibility to enter the jewelry market with a very, very strong and professional partner."[38]

Tiffany, on the other hand, had a strong need for improving its wholesale distribution. Kowalski explained:

> We did reach the conclusion actually several years ago that at some point wholesale distribution was essential so that we clearly wanted to look for a partner who could provide us with that. . . . Swatch can do that. We also felt that if we were to be a major player in the watch business, we needed a degree of vertical integration much like we've achieved in diamond sourcing and jewelry. Since we were not willing to become a major primary watch manufacturer or component manufacturer we thought that the most logical partner was the most significant movement and . . . quality watch manufacturer in the world. So it kind of let us very naturally to Swatch.[39]

Moreover, Fernandez echoed Swatch's preference for allying over organic growth or acquisitions, saying, "For us to establish a wholesale distribution network around the world and try to do that competitively, we didn't think was a real possibility . . . within a 10 year period. It would just be too expensive and the sales would come too slow."[40] Indeed, Tiffany's strategy was not to build a watch business as large as competing brands, but to focus on being a jeweller first and effectively outsourcing the watch business to a trusted industry partner.[41] Thus, it saw benefits in gaining profits at lower costs through the strategic alliance's profit-sharing arrangement, as well as additional marketing support.[42] Moreover, the alliance allowed Tiffany to gain access to Swatch's expertise and dominant position in the Swiss network of watch manufacturing.[43]

THE STRATEGIC ALLIANCE—OPERATIONAL DESIGN

Legally, the alliance was designed as a wholly-owned subsidiary of Swatch, which would then enter a 20-year license and distribution agreement with Tiffany. The license agreement allowed Swatch to use selected Tiffany trademarks as well as carry the Tiffany name in the subsidiary's title.[44] The capital invested in the subsidiary was CHF20 million.[45]

The revenue model was such that retailers and watch distributors would purchase watches from the alliance and both partners would partake in profit sharing[46] (according to an undisclosed percentage distribution schedule). The resulting operating earnings, essentially a royalty revenue, would be recorded by Tiffany as sales with no cost. Tiffany stores would be able to purchase watches directly from the alliance without an intermediate distributor[47] at lower margins (wholesale prices).[48]

As for the performance goals of the strategic alliance, Fernandez stated, "If we could get to 5 per cent to 10 per cent [of Tiffany's sales coming from watch sales], I'd be happy. And if worldwide distribution . . . became a total of US$300 million or US$400 million, I think we'd all be thrilled with it because that means the marketing impact would be dramatic."[49]

The board of directors was comprised of four people representing the Swatch group and Fernandez representing Tiffany, with a focus on performance oversight. Nayla Hayek assumed operational leadership as the president of the new venture. The headquarters of this new venture was in Biel, Switzerland, where Swatch had acquired a prestigious villa in a historic part of the city.[50]

The strategic alliance was tasked with the design, manufacturing, marketing, distribution, and service of Tiffany watches.[51] The design committee was staffed with two Swatch representatives and two Tiffany representatives (senior vice-president of Merchandising and senior vice-president of Marketing).[52] Swatch then was to contribute its expertise in watch design to propose extensions of the already successful Tiffany watch collections (Mark, Atlas, and Grand), as well as introduce new designs.[53] The representatives from Tiffany in turn ensured that the designs were in line with the brand's identity.[54] The manufacturing of the watches was done through Swatch's production capacities in Switzerland.

The two Tiffany representatives on the design committee also represented the company on the marketing committee, joined by two Swatch representatives. Besides approving advertising plans and campaigns to advance watch sales, the committee also ensured that the advertising supported the global recognition of the Tiffany brand as a whole. The marketing budget was about 10 per cent of sales. Tiffany's responsibility was further to promote the watches by displaying them prominently in its stores.[55]

A core part of the deal, and a novelty for Tiffany, was the focus on wholesale distribution. As Nick Hayek Jr. emphasized, the distribution network was crucially important: "You can have nice brands, but if you don't have . . . control over the distribution, how your product is presented to the final consumer, it's not very helpful."[56] Swatch's distribution network dated back to the early 1990s, when Hayek lessened the company's dependence on local distributors by setting up wholesale subsidiaries in each major market. While each of those subsidiaries was led by a country manager and housed their own sales and marketing organization for each major brand, they also shared back-office tasks across other brands. This setting ensured the ability to be both locally responsive through country-level strategies and globally integrated through a coherent design and marketing approach.[57] From this global network, the watches could then also be handed over to third-party distributors, often in connection with an advertisement commitment made by the respective retailer. Tiffany would be able to buy its watches from the strategic alliance directly, without an intermediate distributor,[58] and Swatch would also distribute the watches in its high-end stores, such as the Tourbillon Boutique.[59]

On January 22, 2008, the companies officially incorporated their strategic alliance under the name Tiffany Watch Co. Ltd. With the establishment of this alliance, Tiffany significantly reduced its existing in-house watch business, resulting in a pre-tax charge of US$19,212,000 within cost of sales.[60]

THE STRATEGIC ALLIANCE—PERFORMANCE

The year 2008 was considered a transition and set-up period. As Tiffany's Mark Aaron (vice-president of Investor Relations) reported, "We are making excellent progress in [the] partnership with The Swatch Group to develop a global Tiffany & Co. watch business."[61]

Sales were soft that year[62] but clear signs of progress were expected to show by 2009.[63] The first widely visible outcome from the strategic alliance was a collection of luxury timepieces that extended existing Tiffany watch designs. Most notable were designs that were part of the heritage-rich Atlas collection, inspired by the Atlas clock above Tiffany's New York flagship store entrance on 5th Avenue, made up of a round dial and large Roman numerals.[64] Moreover, the strategic alliance introduced, among other models, a chronograph made of stainless steel (Tiffany Mark), a classic design (Tiffany Grand), a watch targeted at women (Tiffany Tesoro), and an oval diamond-studded timepiece (the Cocktail Oval). These collections were debuted at Baselworld 2009,[65] the industry's most important trade show. The products hit the shelves around the holidays[66] and the first markets to receive them were the United States, the Middle East, and Asia (China, Hong Kong, and Japan).[67]

Interest from the media and industry experts was significant, and global orders were in line with expectations.[68] However, although Swatch considered the new designs a success[69] and Tiffany also deemed the watches "beautiful,"[70] not all observers agreed. As one industry expert, Ariel Adams, put it: "Tiffany & Co. Watches were not as elegant and classy as they should have been. . . . [Swatch] did not produce the watches Tiffany . . . envisioned for itself, and they were not similar enough to the previous generation of . . . watches that existed before the Swatch Group relationship."[71] Overall, watch sales fluctuated in 2009 but the alliance introduced new designs in their US stores and ran marketing campaigns, including advertisements in *The New York Times* and *The Wall Street Journal* for the Atlas Dome watch, targeted at male customers.[72]

By then, the global financial crisis was in full force and the luxury watch industry was particularly hit hard: CAGR between 2007 and 2009 was −9 per cent. As the global economy contracted and market uncertainty increased, consumers stayed away from purchasing luxury goods, especially in the hard luxury sector. "Luxury shame" manifested, whereby visible luxury goods (such as watches or jewels) become less socially acceptable during times of economic crises.[73] Despite these external circumstances, the strategic alliance continued its launch. In February 2010, Nick Hayek Jr. reviewed how the process had gone thus far:

> We told this already in March that 2009 will be—it's not a very good year to launch full-fledged. So we didn't launch in many countries. We launched in our own network. Of course, Tiffany launched in their stores, but not in all countries. Mainly in the United States, and the United States is a little bit weak. So the first results of the sell out of Tiffany are very good. It's mainly female,

> and female[s] are buying much more than men we have discovered in these times, even in crisis times. And yes, we stick to it that in a range of three to five years we should be able to achieve CHF300 million to CHF500 million. But it will not be 2010.[74]

New models were added in 2010, including the Tiffany Gemea and 5th Avenue (5AV) models, the Grand Collection, and an expansion of the Atlas collection. These watches were presented at Baselworld 2010, where the alliance set up a "Breakfast at Tiffany's"-themed coffee shop to welcome customers.[75] Fernandez commented in June 2010:

> We introduced the new Grand Collection in Basel this year, had very good reception. That product will probably hit the shelves in September. But it's going to be a few years before we build up a large collection. . . . But we're all pleased with it, with the progress. Sales in our stores are about 2 per cent of sales. So I think they can only go up. We'd like it to be a more meaningful business.[76]

On June 28, 2010, Swatch experienced a shock when its co-founder and chairman Hayek passed away from heart failure at age 82 while working in his office. Newspapers around the world reported on his legacy, calling him a "savior of the Swiss watch industry"[77] and the king in "the court of watchmaking."[78] Nayla Hayek was elected by unanimous vote as chairwoman on June 30, 2010.[79]

Watch sales for the alliance increased in 2010, though mainly in Tiffany's own stores (by about 30 per cent). Fernandez commented in August 2010, "We are pleased with customer response to new watches in our stores, and we look forward to a significant expansion of wholesale distribution."[80] The alliance ramped up its marketing efforts in the second half of 2010, with VIP cocktail receptions for retailers at several locations worldwide, a new advertising campaign, and an expansion to the retail network.[81] Products were also introduced to several new locations, such as Belgium, Spain, Italy, Canada, Colombia, Mexico, South Africa, and other countries, where they were received well. Also, by the end of 2010, the worldwide luxury industry had started to show signs of recovery.

By March 2011, however, it became apparent that the performance of the alliance was not developing as expected and there were signs of an ongoing conflict. As Kowalski reported, "While sales in Tiffany's-owned stores have been strong, we have been disappointed with the slower than expected rollout of wholesale watch distribution. . . . We are also hopeful that our differences with our watch partner can be resolved collaboratively and professionally."[82] Watch sales had contributed only about 1 per cent of Tiffany's worldwide sales in 2009 and 2010 (from 2 per cent in 2008) and royalty revenue had been insignificant (less than 1 per cent of Tiffany's net sales). Despite this, the alliance continued to showcase at Baselworld 2011, where it introduced the Art Deco-inspired Tiffany Gallery watch and further expansions to the Atlas collection.[83] Other marketing efforts continued as well, such as editorial breakfasts in locations worldwide. On June 16, 2011, Fernandez suggested,

> The one thing I think that we probably would like to see expand more rapidly is that wholesale distribution piece, which is a key part of our agreement. So, we're still working on that with [Swatch]. We both have different opinions, maybe, on how quick that pace should go, but we'll work through it. It's a long-term agreement, and Tiffany, as being the license holder, obviously we have certain points of control that we want to make sure that we keep in place in this agreement. And for Swatch, I think it's a new type of relationship. They're not used to having a license arrangement where they can't make 100 per cent of the decisions without possibly stopping for approval along the way.[84]

Just a few days later, on June 24, 2011, Swatch (and the alliance, as its wholly-owned subsidiary) started arbitration proceedings against Tiffany, alleging that Tiffany had exhibited "systematic efforts to block and delay development of the business."[85]

THE STRATEGIC ALLIANCE—ARBITRATION AND TERMINATION

The arbitration was held confidentially in front of a three-member arbitral panel at the Netherlands Arbitration Institute in the Netherlands. With the press releases on September 12, 2011, the matter became public. Swatch stated that any attempts at solving the dispute amicably had remained fruitless, noting that it sought full compensation for all losses accrued due to Tiffany's alleged breach of contract, including a claim for lost profits valued at CHF3.8 billion.[86]

Tiffany responded by filing a Statement of Defence and Counterclaim on March 9, 2012, declaring that Swatch's claim was without merit. Instead, Tiffany asserted counterclaims, alleging that Swatch had "failed to provide appropriate management, distribution, marketing and other resources for [Tiffany's] brand watches and to honor their contractual obligations to the Tiffany Parties regarding brand management," seeking compensation for damages in the range of CHF120 million–CHF540 million. The counterclaim also referred to Swatch's breach by making the notice of termination public on September 12, 2011.[87]

Swatch's reaction to Tiffany's counterclaim was that it had "no factual or legal basis and will be vigourously contested by Swatch."[88] An arbitration hearing was held in October 2012 before a three-member panel and the report was completed by mid-February 2013. The terms of the arbitration award considered the partnership terminated as of March 1, 2013, and while Tiffany was found to not have acted in bad faith, it was deemed to have breached its contractual terms (one of the panel members issued a Dissenting Opinion on this ruling).[89] Tiffany was ordered to pay damages of about CHF403 million plus interest, legal fees, and associated costs, for a total of about CHF480 million. Tiffany had deemed such an outcome improbable and had thus not established any accrual in its financial statements.[90]

Although Tiffany had paid the amount in full by January 2014, it filed a petition on March 31, 2014, in the District court of Amsterdam to have the arbitration award annulled. This was made possible by a provision in Dutch law allowing for the possibility to set arbitration awards aside (normally, arbitration awards are final). The claim was heard by a three-judge panel on January 19, 2015, which arrived at a decision in favour of Tiffany by March 4, 2015.

Swatch swiftly appealed this decision to set the arbitration award aside. On June 29, 2016, a three-judge panel at the Appellate Court of Amsterdam heard the appeal and issued a decision on April 25, 2017, in favour of Swatch, including an order for Tiffany to reimburse Swatch's additional legal costs (€6,340).

In response, Tiffany appealed this decision by the Appellate Court of Amsterdam and took the matter to the Supreme Court of the Netherlands. On November 23, 2018, the court dismissed the appeal and Tiffany had to once again reimburse Swatch for its additional legal costs. After this, all rights of appeal had been exhausted and the arbitration award was considered final.[91]

After a long and dramatic legal battle, this final decision thus marked the formal end of the strategic alliance, which Tiffany and Swatch had once called a "historic agreement" and "pathbreaking strategic move." What was left to do now, in 2018, was to reflect on what had caused this unfortunate chain of events and how it could have been predicted or even prevented. What were the lessons learned, so that future alliance endeavours could be more successful?

EXHIBIT 1: TIFFANY KEY INDICATORS

Fiscal year	2007	2008	2009	2010	2011
KEY INDICATORS					
Net sales (in US$ millions)	2,939	2,860	2,710	3,085	3,643
Operating profit (in US$ millions)	370	232	266	368	439
Number of employees	8,800	9,000	8,400	9,200	9,800
SALES BY PRODUCT SEGMENT (percentage of net sales)					
Jewellery (gemstone jewellery, diamond rings, wedding bands, gold or platinum jewellery, sterling silver jewellery)	86.3	86.7	90.2	91.0	91.3
Tableware, timepieces, and other (timepieces, sterling silver merchandise, trophies, key holders, picture frames and desk accessories, stainless steel flatware, crystal, glassware, china and other tableware, custom engraved stationery, writing instruments, eyewear and fashion accessories, wholesale of diamonds)	13.7	13.3	9.8	9.0	8.8
Proportion contributed by watches	~2	~2	~1	<1	~1
SALES BY GEOGRAPHY [percentage of net sales]					
Americas	59.9	55.5	52.1	51.0	49.6
Asia-Pacific	29.1	32.2	35.3	35.5	37.5
Europe	8.3	10.0	11.5	11.7	11.6
Other	2.8	2.3	1.1	1.8	1.4

Source: Created by the authors using data from company annual reports 2007–2011.

EXHIBIT 2: SWATCH KEY INDICATORS

Fiscal year	**2007**	**2008**	**2009**	**2010**	**2011**
KEY INDICATORS					
Net sales (in CHF millions)	5,646	5,677	5,142	6,108	6,764
Operating profit (in CHF millions)	1,236	1,202	903	1,436	1,614
Number of employees	23,577	24,270	23,562	25,197	28,028
SALES BY PRODUCT SEGMENT (percentage of net sales)					
Watches & jewellery	79	80	82	85	88
Proportion contributed by prestige and luxury watches (Breguet, Blancpain, Glashütte Original, Jaquet Droz, Léon Hatot, Omega, Tiffany & Co)	Estimate for Omega:* CHF1.5 billion	Estimate for Omega: CHF1.8 billion	Estimate for Omega: CHF1.5 billion	Estimate for Omega: CHF2.0 billion	Estimate not available
Production (ETA Manufacture Horlogère Suisse, Frédéric Piguet Valdar, Nivarox-FAR, Comadur, Rubattel & Weyermann, MOM Le Prélet, Deutsche Zifferblatt Manufaktur GmbH, Universo, Favre et Perret, Manufacture Ruedin, Lascor, Meco, Swatch Group Assembly)	11	11	11	8	7
Electronic systems (EM Microelectronic, Micro Crystal, Renata, Microcomponents, Michel Präzisionstechnik, Sokymat Automotive, Oscilloquartz, Lasag, Swiss Timing)	10	9	7	7	5
SALES BY GEOGRAPHY [percentage of net sales]					
Europe	47.9	47.4	45.2	39.5	36.4
Asia	39.2	40.9	44.2	50.7	54.0
America	10.7	9.6	8.3	7.8	7.9
Oceania	1.4	1.3	1.4	1.2	1.1
Africa	0.8	0.9	0.9	0.8	0.6

Note:* Rohit Deshpandé, Karol Misztal, and Daniela Beyersdorfer, *The Swatch Group*, (Boston, MA: Harvard Business School Publishing, January 15, 2014 (revised)), p. 13. Available from Ivey Publishing, product no. 512052.
Source: Created by the authors using data from company annual reports 2007–2011.

ENDNOTES

[1] This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Tiffany & Co, The Swatch Group Ltd., Tiffany Watch Co. Ltd., or any of their employees.
[2] CHF = Swiss franc; all currency is in CHF unless specified otherwise; average annual conversion rates (CHF/USD) relevant to the time frames in this case: US$1.200 (2007), US$1.083 (2008), US$1.088 (2009), US$1.043 (2010), US$0.888 (2011), US$0.938 (2012), US$0.978 (2018). Source: OECD Data, "Exchange Rates," accessed January 20, 2020, https://data.oecd.org/conversion/exchange-rates.htm.
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