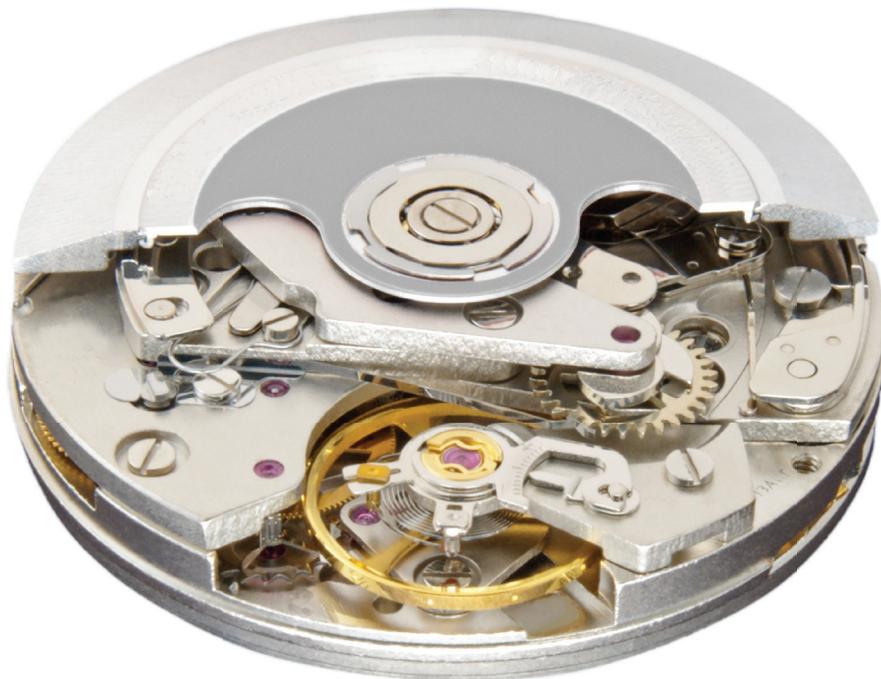


The Deloitte
Swiss Watch Industry Study 2013
Time for the future



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About the Deloitte Watch Industry Study

The Deloitte Swiss Watch Industry Study 2013 is based on personal interviews with executives or an online survey. The online survey was conducted in June and July 2013. A total of 53 watch executives participated: 28 participants work for component manufacturers, 17 for a brand and eight for companies across the value chain. Half of the companies that participated sell watches at a retail price of over CHF 5,000, the other half below. Due to rounding, percentages in some of the charts may not add up to 100.

Deloitte in Switzerland

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Foreword

Welcome to the second Deloitte Watch Industry Study. Building on last year's success, more than 50 senior industry executives participated in this year's survey which was based on personal interviews or an online survey.

The study highlights the views of watch company executives on the key challenges and opportunities facing the Swiss watch industry at an important time in its history. After several years of extraordinary growth, fuelled by rapidly increasing demand from new markets, particularly China, Swiss watch exports have entered a period of slower growth. Yet the fundamental growth drivers for the Swiss watch industry remain in place: increasing demand from emerging markets, new customers from some mature markets, as well as sales to foreign tourists eager to buy watches in Switzerland and other European countries.

Key features of this year's survey show industry executives being the most optimistic for growth at the high-end of the watch market. Support for the Swiss Made legislation has become even stronger. Innovation, notably in product design, distribution and marketing, is expected to continue to be a key focus. The survey also shows a shift away from concerns about demand and the strong Swiss Franc towards supply-side risks, primarily the shortage of skilled labour and availability of components, which many expect to create significant challenges, particularly for the small independent brands.

However, the main sentiment from Swiss watch executives is that of confidence that their industry will continue its extraordinary success story.

I wish you an interesting read and welcome your feedback and comments.



Howard da Silva
Consumer Business Leader

Executive summary

The Deloitte Swiss Watch Industry Study 2013

Swiss watch executives continue to have an optimistic business outlook, despite slowing export growth. Demand from emerging markets and North America is expected to grow as is demand from tourists visiting Switzerland and other European countries to shop. The continuing strong global market for high-end watches and the Swiss Made legislation are also seen as factors supporting future growth.



65%

Growth

Sixty-five per cent of watch executives have a positive outlook for the Swiss watch industry over the next 12 months. Although export sales to China are slowing, demand from other emerging markets and North America is expected to hold up well, as is demand from tourists visiting Switzerland and other European countries to shop.



46%

Moderate risks

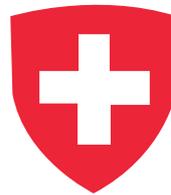
Forty-six per cent see a shortage of qualified labour as the most highly perceived risk. In the 2012 study, 70% considered the strength of the Swiss Franc as the highest risk, while this year only 34% do.



61%

More time

Sixty-one per cent think a transition period of at least five years would be necessary to switch to alternative supplies of parts and movements, supporting the recent decision of the COMCO Secretariat to slow the transition down.



92%

Swiss

Ninety-two per cent support the Swiss Made legislation and most support higher thresholds, at least for mechanical watches.

External business risks such as the strong Swiss Franc have declined sharply with this year's biggest perceived risk being the shortage of skilled labour. This and other supply-side concerns, and the vertical integration of the watch industry, look set to continue. Mono-brand stores, group flagship stores and e-boutiques continue to gain in importance. At the same time, social media is becoming an even more crucial marketing channel.



Innovation

Innovation is seen as an opportunity, not a threat. Ninety-one per cent see introducing new products as a top business priority. Fifty-nine per cent do not consider smartwatches, a potentially disruptive new product category, as a threat.



Vertical integration

Seventy-nine per cent expect vertical integration to continue. This is not a surprise given that the drivers for acquisitions – alleviating sourcing problems and labour shortages – are still in place and likely to increase following the Swiss Made legislation and ongoing negotiations with COMCO.



Marketing and distribution

Sixty-three per cent continue to see authorised dealers as an important sales channel, while mono-brand stores, group flagship stores and e-boutiques are rapidly gaining in importance. More than two-thirds see the trend towards vertical integration at distribution level as a threat to both smaller brands and distributors.



Social media

Eighty-eight per cent see social media as important for the watch industry. Many companies are actively participating on popular social networks and integrating links into their websites.

Industry outlook

Growth expected to continue



65% of watch executives have a positive outlook for the Swiss watch industry.

On balance Swiss watch company executives have become more optimistic in their outlook for the Swiss economy, export markets and the Swiss watch industry. They are also more optimistic for their own industry, with more than two-thirds having a positive outlook (Chart 1). Remarkably, considering the plateau in growth over the first half of 2013, only a small minority had a negative outlook. Watch executives expect the overall growth story of the Swiss watch industry to continue.

Chart 1. Economic outlook

How do you judge the outlook for the Swiss economy, export markets and the Swiss watch industry? Percentage of respondents having a positive/negative outlook

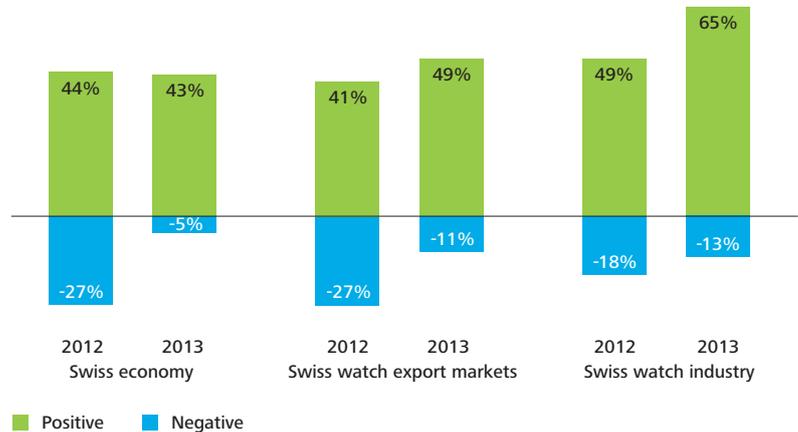
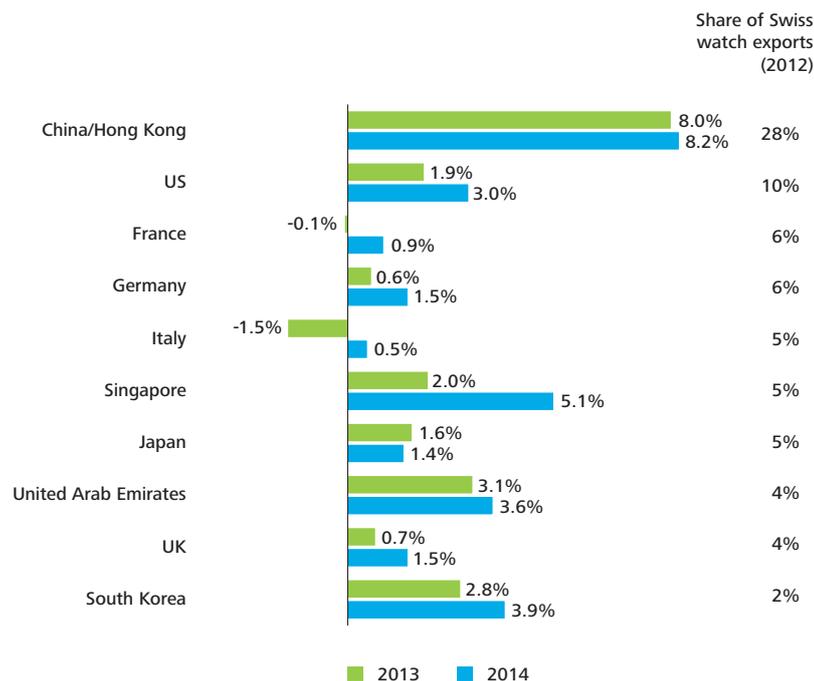


Chart 2. GDP growth outlook of top-10 export markets of the Swiss watch industry



In recent years China has been the leading export market for many industries. This is particularly true for the Swiss watch industry, with about a third of exports being bought by China and Hong Kong.

As we reported in last year's edition of Deloitte's Watch Industry Study, cracks in demand from China started to appear in the second half of 2012. They have grown more pronounced since, with watch exports to China falling in the first six months of 2013.

For 2013-14 the International Monetary Fund has forecast modest but improving economic growth rates (Chart 2). But the spectre of a renewed (euro) crisis seems to have abated at least for now. While growth expectations in new markets have fallen compared to the past, they remain significantly ahead of traditional developed markets.

China/HK GDP growth is given as mainland China figures only
Source: Swiss Customs Office, International Monetary Fund

Industry outlook

Increased tourist demand and new growth markets

Growth expected in North America, Asia and Latin America

Adding to the economic slowdown in China has been a more frugal attitude to gift-giving and buying this year across many markets, which has been hitting luxury goods such as Swiss watches. Doubts about China have affected watch executives' growth expectations for export markets over the next 12 months as well, with 40% expecting stagnating exports to China and 6% even seeing a reduction (Chart 3). But the overall export picture is still fairly positive, with just over half expecting continued growth. The new free trade agreement between China and Switzerland which was signed on 6 July 2013, probably helped in this regard, although its direct impact on prices will be minimal.

Executives are most optimistic for the North American market, followed by non-Chinese Asia and Latin America. This highlights the fact that despite China's importance, it is not the only growth market for Swiss watches.

A majority of watch executives expect stagnating exports to Europe, Africa and Oceania. While executives are confident about their medium- to long-term growth prospects, they are cautious about the next 12 months, in line with the stable growth achieved in H2 2012 and H1 2013.

Chart 4. Outlook for sales in Europe to tourists

What do you think is the outlook for sales in Europe to tourists from Asia, South America or Russia, over the next 12 months?

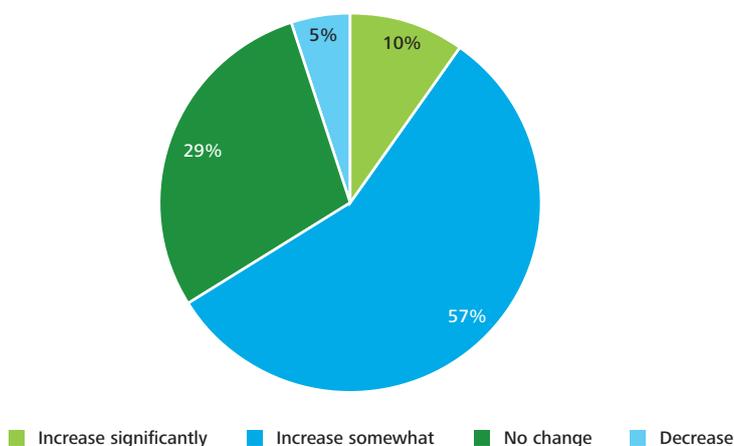
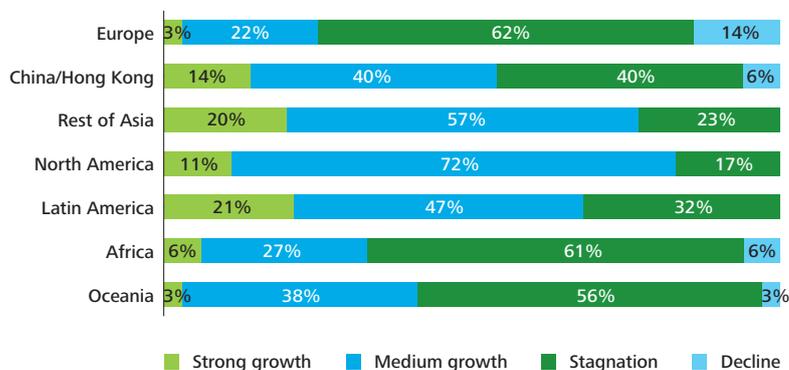


Chart 3. Most important growth regions

What are your growth expectations for the following regions in the next 12 months?



Demand from tourists to increase

Foreign demand does not only manifest itself through exports to the respective countries. Sales to tourists visiting Switzerland and other European countries are also contributing. Watch executives are optimistic in this regard, with a broad majority expecting increased tourist sales in Europe over the next 12 months (Chart 4).

Switzerland itself remains a strong market as the desire to purchase a Swiss watch on Swiss soil remains a must for many tourists. Interlaken and Lucerne are favoured locations as is Zurich's Bahnhofstrasse, where numerous watch boutiques have opened over the last years. The number of Chinese tourists visiting Switzerland grew by 25% in 2012 to reach around 840,000. Switzerland Tourism estimates that this number could quadruple by 2020.

Industry outlook

High-end market to drive growth

High-end fastest growing segment

Industry executives remain the most optimistic for growth at the high-end of the watch market. Two-thirds of participants expect the strongest growth over the next 12 months to be for watches costing more than CHF 5,000 (Chart 5). This is despite the fact that during the first six months of 2013 it was the low-end of the market that saw growth, both in terms of value and volume.

Chart 5. Sales growth per segment

From which segment do you expect the strongest sales growth in the next 12 months? (Retail price in CHF)

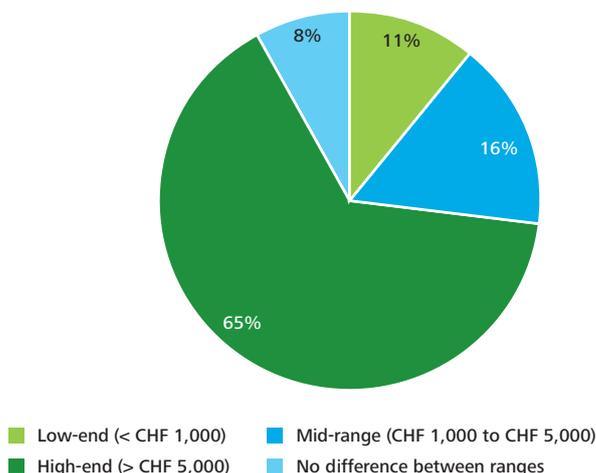
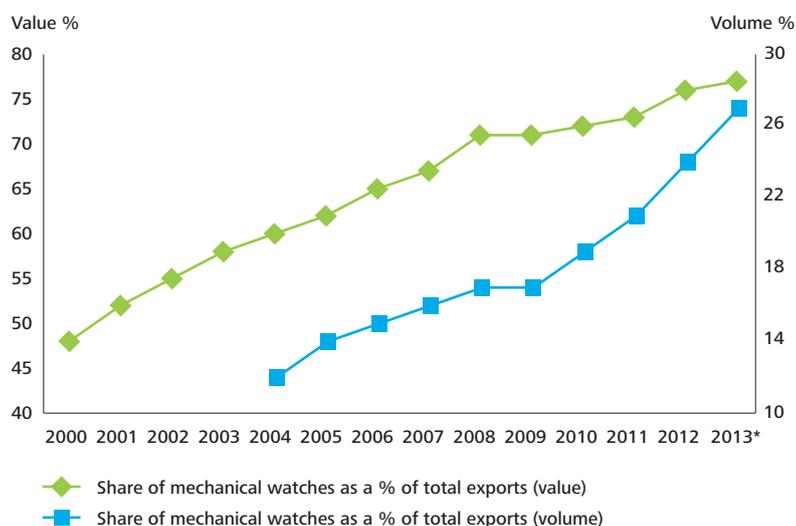


Chart 6. Export share of mechanical watches

% of total Swiss watch exports



2013: First six months only

Source: Federation of the Swiss Watch Industry FH

Mechanical watches win export share

In 2012 exports of Swiss wristwatches reached a new record at CHF 20.2 billion, representing a 15% increase in value terms. This was despite a slight decline (-2.2%) in volume. The discrepancy between value and volume was mainly due to strong growth in mechanical watches (12% by volume while quartz watches decreased by 6%) and a higher proportion of gold watches which resulted in an increase in the average price. Mechanical watches represent 77% of exports in terms of value, but only 27% in volume (Chart 6). Mechanical watches are on average about ten times as expensive as exported quartz watches (CHF 2,217 in 2012 versus CHF 219).

For the first six months of this year, mechanical watches have continued to grow in volume, up 6%, compared to a 11% decrease for quartz watches. This results in a total growth in value of 1.5% over this period while the overall volume decreased by 7.4%.

Challenges and risks

External risks decrease



see a shortage of qualified labour as a significant business risk.

There are significant changes in the risk assessments of watch executives compared to last year (Chart 7). In 2012 the most significant risks were the strong Swiss Franc and weaker foreign demand. This year executives are more worried about the shortage of qualified labour. As highlighted in the previous section, foreign demand is expected to remain strong this year, despite some doubts over China. And the Swiss Franc has remained broadly stable. Concerns over the price of raw materials, especially gold, have also receded. While gold prices have been volatile, they fell significantly in the first half of 2013.

The Swiss Franc has weakened slightly in recent months and the exchange rate floor introduced by the Swiss National Bank two years ago has effectively limited further strengthening beyond EUR/CHF 1.20. Watch companies have had more time to adapt to a stronger Franc and traditionally are less affected. For example, they might be able to bill in Swiss Francs when selling abroad, shifting the exchange rate risk to customers. Companies could also increase prices since luxury watches have a low price sensitivity, or cater only to the Swiss market and thus have no exchange rate risk when selling (currently an advantage when sourcing abroad).

Chart 7. External risks decrease, but risk of labour shortage increases

Which of the following factors are likely to pose a significant risk to your business over the next 12 months? (Multiple answers possible)

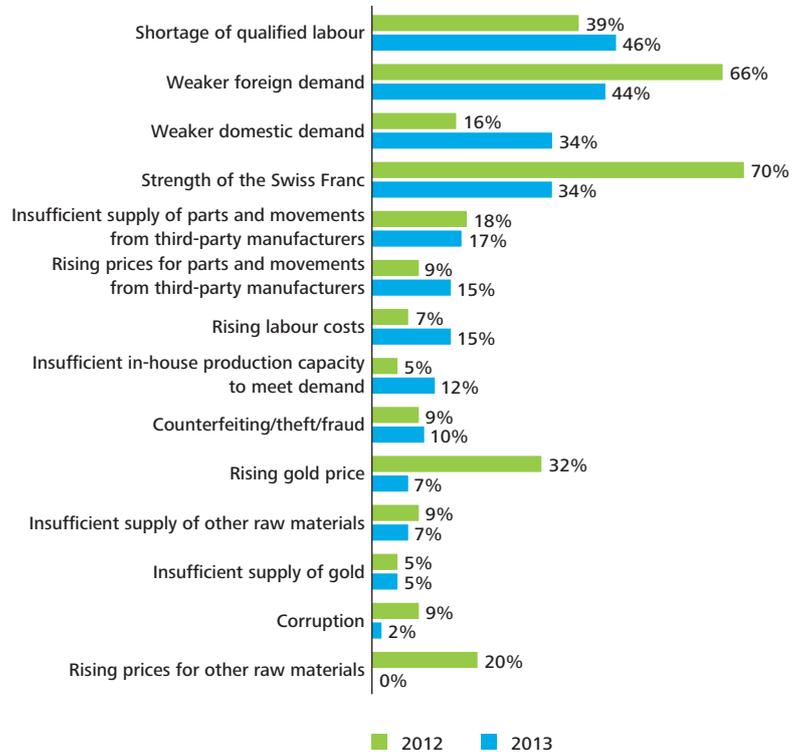
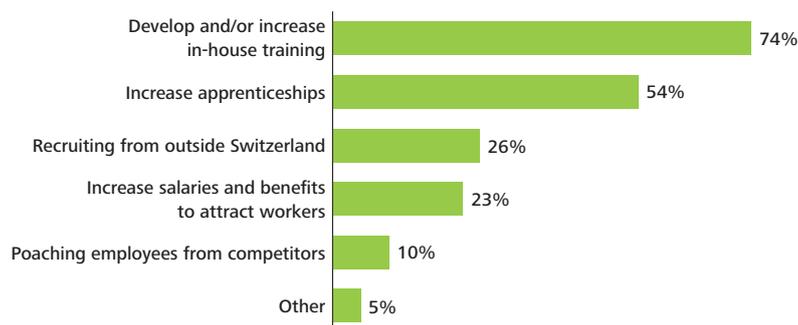


Chart 8. Measures to increase the supply of qualified labour

What measures are you currently implementing to increase the availability of qualified labour? (Multiple answers possible)



In 2012 watch industry executives were worried about a shortage of qualified labour, and this year it is seen as the most significant risk. Watch companies are undertaking a range of measures to increase the supply of labour. The most important measures will have the effect of increasing the overall labour supply in Switzerland. Executives most often cited the development or extension of in-house training and increasing the number of apprenticeships. Poaching staff from other companies, a measure which would not increase the overall labour supply, was mentioned the least.

Challenges and risks

Supply-side concerns – the COMCO decision

 **61%**

think a transition period of less than three years is sufficient to switch to alternative supplies of parts and movements.

Controversial COMCO decision

Watch executives are also concerned about the availability of third-party parts and movements with 17% perceiving it a risk (Chart 7). Government actions can influence the availability, notably by the decision of the Swiss competition watchdog (COMCO) to allow Swatch Group to restrict supply of movements and parts. Although the decision was recently set aside for further negotiation, it could increase supply concerns. COMCO's decision is viewed differently by brands and component manufacturers. All the component manufacturers considered the decision as positive for their business, while executives from various brands expressed a more mixed view, with roughly a third rating it as positive and a quarter as negative.

Supply difficulties could provide a further incentive for vertical integration. Smaller brands, especially those that cannot build production capacity, could face supply problems notably in the low to mid-range. For these brands, the fact that alternatives to Swatch Group are usually more expensive will put added pressure on their margins.

Chart 9. COMCO decision

How do you judge the decision of COMCO to allow Swatch Group to reduce the provision of movements and parts to third parties?

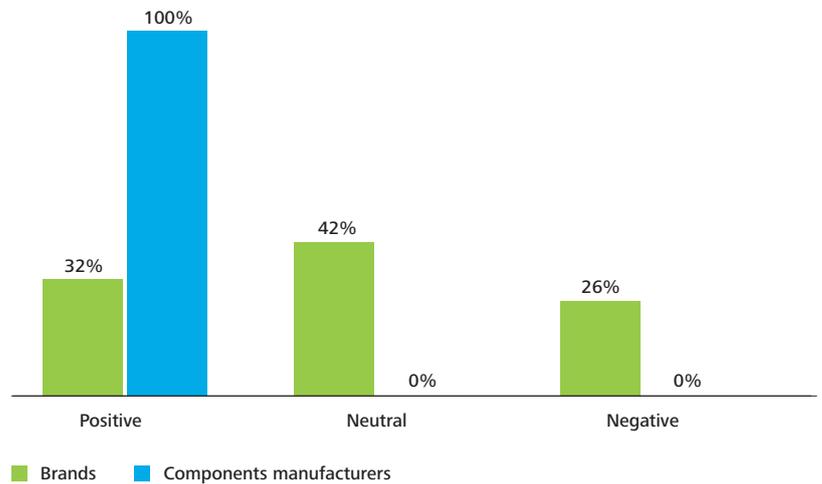
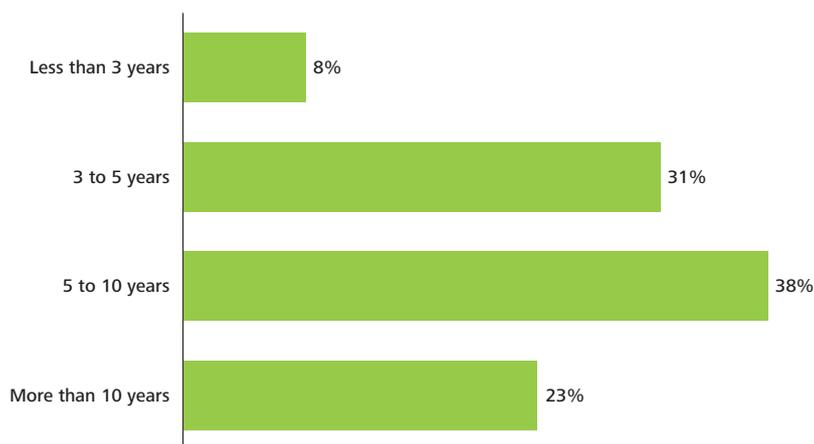


Chart 10. Time frame for transition

In your view, over what period of time should this reduction (of movements and parts supplied by Swatch Group) take place/be effective to allow the industry to develop alternatives?



Long transition periods preferred

Given the potential supply problems, it is hardly surprising that the vast majority of executives prefer a longer transition period before new rules apply. Only 8% think a transition period of less than three years is sufficient, while more than a fifth would prefer more than 10 years.

COMCO's recent rejection of the original agreement struck between its Secretariat and Swatch Group should give more time to the industry to develop alternatives, especially for components whose supply has been heavily reliant on Swatch.

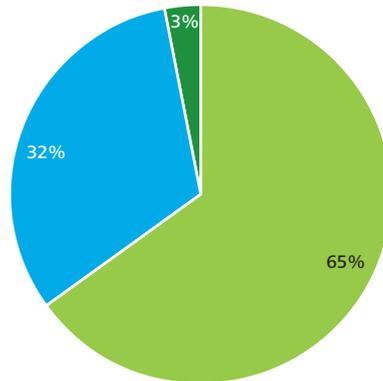
COMCO agreed in principle that Swatch Group should be able to reduce the delivery of mechanical movements gradually and approved a further reduction of 10% in 2014 (after the 15% reduction based on 2010 levels authorised in 2012 and the status quo of 2013). However, it felt that there was too little development of alternatives for escapement parts (which form the essential components of a mechanical movement), and therefore considered it premature to allow further reduction in this area (after the 5% reduction based on 2010 levels authorised in 2012 and the status quo of 2013). As a result Swatch Group will have to revert back to 100% of 2010 levels in this area in 2014.

Almost two-thirds of the watch executives rate ETA movements superior to alternatives, while only 3% hold the opposite opinion.

At the same time half find ETA alternatives hard to get, whereas only about a fifth find them readily available. Both quality and availability would have to be increased before alternatives can fully meet their expectations.

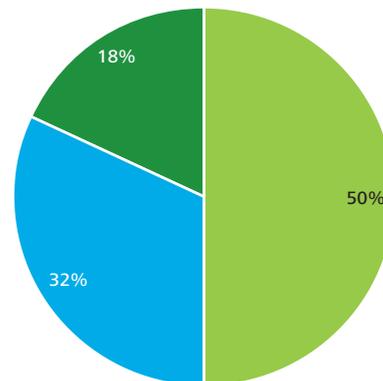
Chart 11. Supply situation of ETA alternatives

How would you rate the technical reliability and quality of ETA movements compared to alternative movements?



- ETA movements are superior
- No difference
- Alternatives are superior

How would you rate the availability of current alternatives to ETA movements?



- Hard to get
- Neutral
- Available

Challenges and risks

Supply-side concerns – Swiss Made



support the Swiss Made legislation and most would support higher thresholds at least for mechanical watches.

Strong support of Swiss Made legislation

Support for the Swiss Made regulation has further increased from last year's already very high level. The watch industry strongly favours strict requirements for the Swiss Made label and view it as a valuable trademark that must not be weakened. On 21 June 2013, the Swiss parliament brought six years of negotiations to an end by passing the "Swissness" bill. This new legal framework aims at increasing the threshold to obtain the Swiss Made label to 60% of the production costs.

Although the approval of the Swissness bill was only a prerequisite towards strengthening the Swiss Made label in the watch industry, this necessary step should now speed up the process.

Chart 12. Industry overwhelmingly supports Swiss Made legislation ...

To what extent will the proposed increase in the thresholds to obtain the Swiss Made designation be beneficial for the Swiss watch industry?

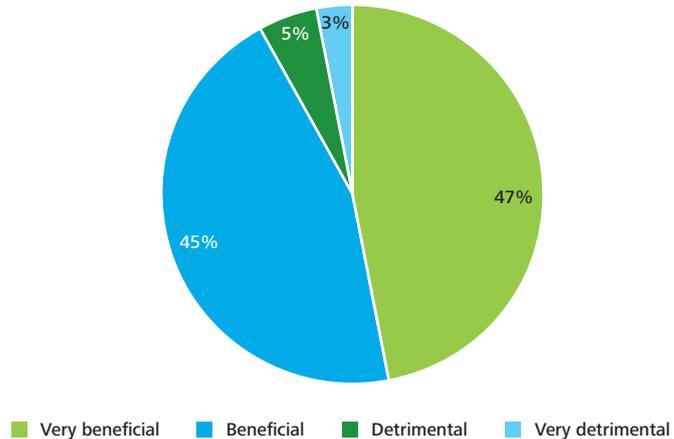
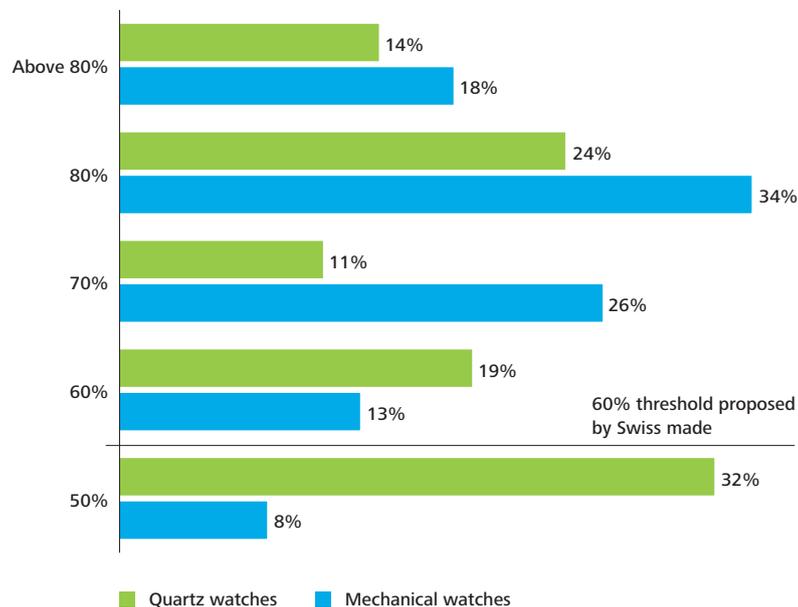


Chart 13. ... and would support higher thresholds to obtain the Swiss Made label

What % of production costs (including R&D costs) do you think would be realistic as a threshold to obtain the Swiss Made label for quartz watches and mechanical watches?



Industry executives remain unanimous in the view that the international promotion and protection of the Swiss Made label by Swiss luxury watch companies and the Federation of the Swiss Watch Industry is essential to maintain Switzerland's pre-eminent position in the luxury watch market.

They would also support a much higher production threshold, especially for mechanical watches. Over 50% of watch executives would set the required threshold for mechanical watches at a minimum of 80%, while almost a third would rate a threshold of 50% as sufficient for quartz watches.

Challenges and risks

Supply-side concerns – Availability of parts and movements

Effects of COMCO and Swiss Made

Even though industry executives are broadly in favour of the COMCO decision and overwhelmingly support the Swiss Made legislation, they anticipate that both initiatives will have some negative impact on the supply-side.

In the case of the COMCO decision (Chart 14), 47% thought it likely that some brands will disappear due to supply problems. This is particularly true for small independent brands in the low to mid-price range where margins are under much more pressure. These companies cannot afford to vertically integrate the production of movements and are directly affected by the lower availability and higher prices of alternatives to Swatch Group. How much of an impact the decision will have will greatly depend on the next negotiating phase between COMCO and Swatch Group.

45% of respondents expect the Swiss Made legislation to reduce the availability of parts, and only 5% expect an increase (Chart 15). However, the fact that industry executives overwhelmingly support higher standards (Chart 12) illustrates that the brand value of the Swiss Made label outweighs the disadvantages of a potentially worsening supply situation.

Chart 14. Supply-side effects of the COMCO decision

Do you anticipate that some brands will disappear due to the lower availability and/or higher prices of mechanical movement alternatives to ETA?

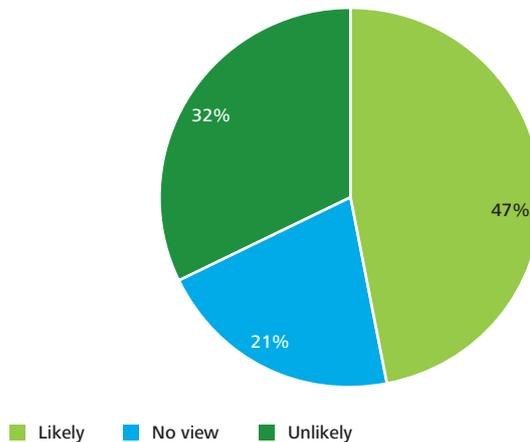


Chart 15. Supply-side effects of the Swiss Made legislation

How do you think the increased Swiss Made thresholds will change the availability of parts?

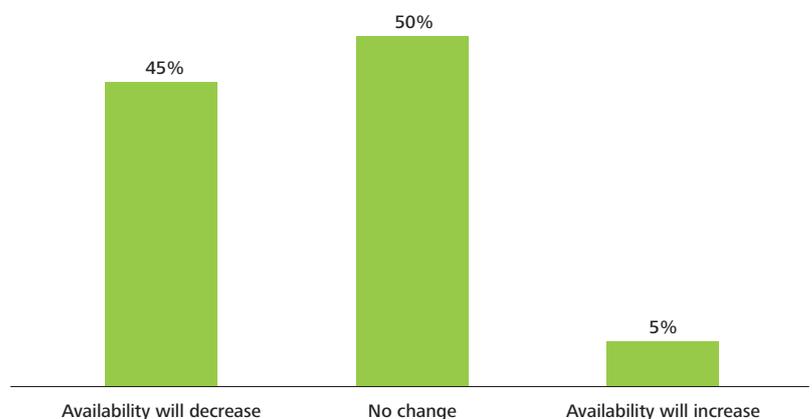


Chart 16. Procurement

In your view, what parts (internal and external) are the most difficult to procure? (1 = very difficult to procure, 2 = difficult to procure, 3 = not difficult to procure)



Difficulty to procure parts

For industry executives, straps and buckles are the least difficult to procure, with a range of other parts following close behind. However, mechanical movements and spirals are seen as the most difficult to procure. Swatch Group's current 15% reduction in deliveries over 2010 levels is already creating some bottlenecks in this area even though the overall sales volumes of the industry have softened. While supplies from certain companies like Sellita and Soprod are partially offsetting this risk, a further decrease of 10% in deliveries by Swatch Group in 2014 could have a strong impact on availability if alternatives stay the same and production volumes return to growth.

Business strategies

New products to drive the market – or disrupt it?



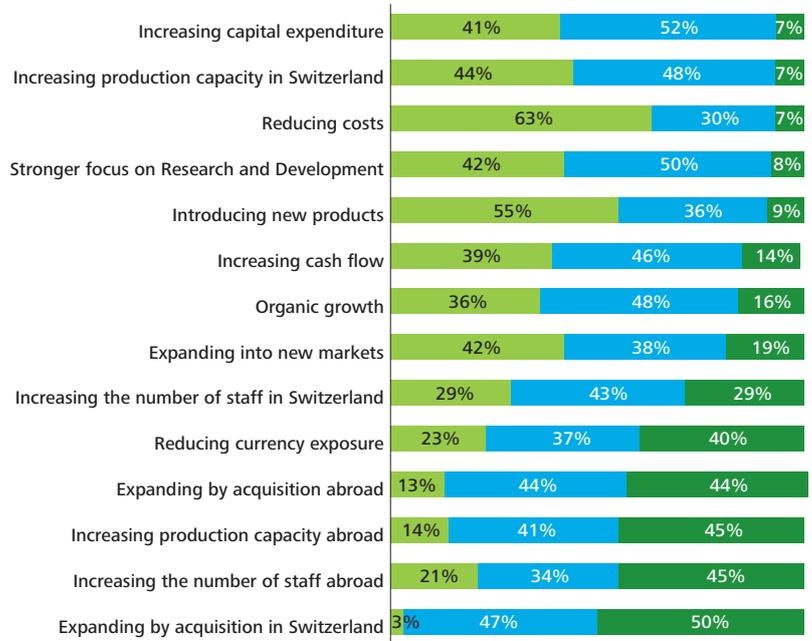
see new products as a business priority, 92% a stronger focus on R&D.

Top priorities for watch executives over the next 12 months include increasing capital expenditure, R&D, increasing production capacity and the introduction of new products. Keeping up with growing demand and investing in new or improved products to maintain their competitive advantage are also priorities.

The appetite to expand into new markets also reflects a strategy to find new growth channels to offset the uncertainty of the growth prospects of traditional markets. Our survey results also indicated a primary focus on design and complications in product development.

Chart 17. Business strategies

To what extent is each of the following business strategies likely to be a priority for your business over the next 12 months? (Multiple answers possible)



■ Strong priority
 ■ Somewhat of a priority
 ■ Not a priority

Smartwatches – the next disruptive innovation?

One particular and potentially disruptive innovation could be smartwatches – computerised wristwatches with functionalities far beyond timekeeping or related functions. Although the current offering is extremely limited, the launch of a wrist-worn product by a firm like Apple or Google and/or based on a widespread operating system (iOS or Android) could kick-start the market like the iPad did for tablets. However, the success of a smartwatch would also depend on a number of factors such as price, dedicated applications, interoperability with other devices, and their perception as a fashion accessory.

A majority of executives do not see this new watch category as a threat, although 33% see them as a potential threat for watches costing less than CHF 500. 17% view smartwatches as an opportunity (Chart 18).

Chart 18. Smartwatches

To what degree do you rate smartwatches as a competitive threat?

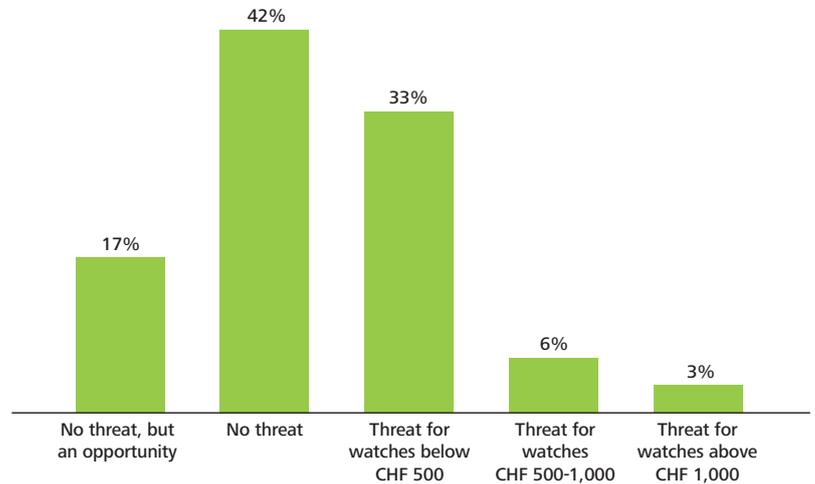
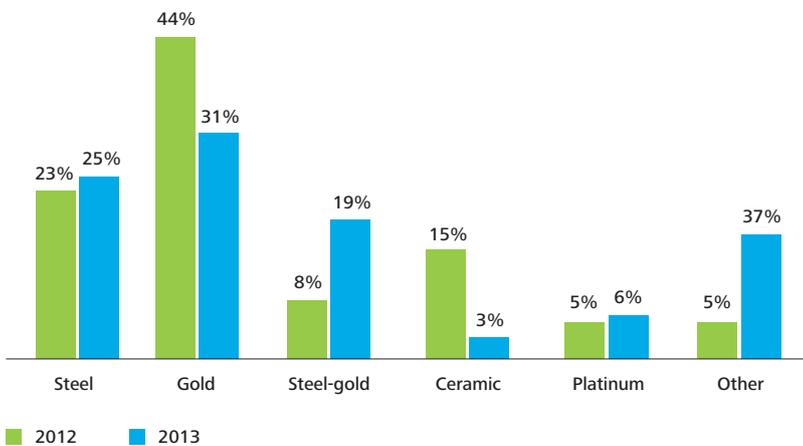


Chart 19. Still going for gold

In which material did you see the strongest growth in the last 12 months?



Gold watches still in the lead

Gold watches have continued to experience the strongest growth, but in contrast to last year their lead has narrowed considerably (Chart 19). Instead watches made from steel, steel-gold and a range of other materials, including titanium and carbon, have all seen strong growth.

The use of carbon as a high-tech material in luxury watches has increased greatly during the past few years. First used on dials, carbon is now used for watch cases and moving parts. The development of limited edition watches for motorsports, and luxury car manufacturers in particular, has greatly contributed to this expansion.

Business strategies

Vertical integration continuing



79% expect vertical integration (brands buying suppliers) to continue.

M&A activity set to continue

An overwhelming majority of watch industry executives expect merger and acquisition (M&A) activity to continue, particularly vertical integration (Chart 20). This is because the key drivers of acquisitions – alleviating sourcing problems in parts and labour shortages – are likely to increase following the Swiss Made legislation, ongoing negotiations with COMCO and difficulties in the supply of specific parts such as dials and watch cases.

Horizontal integration, which enables brands or groups to increase their brand portfolio, has also been back on the agenda lately. Large groups that are wholly or primarily involved in the watch industry, such as Swatch Group or Richemont, already have comprehensive brand portfolios, but retain an appetite to acquire new brands, as was demonstrated by Swatch Group's acquisition of Harry Winston earlier this year.

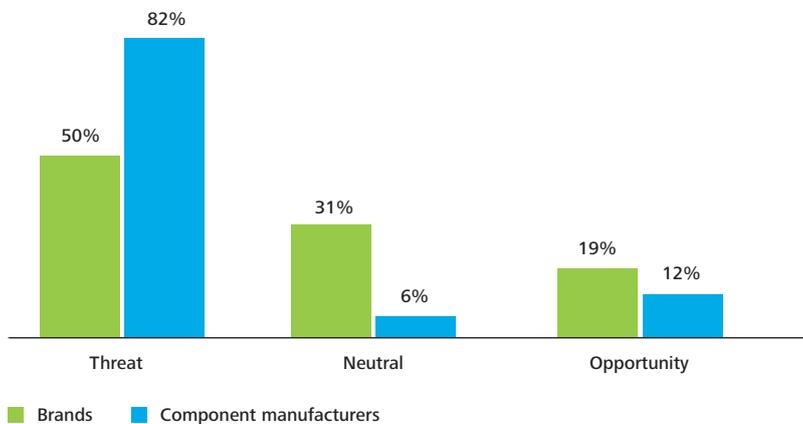
Chart 20. Acquisitions

In your view, which type of acquisitions are most likely to happen? (Please choose up to three)



Chart 21. Implications for suppliers market

How do you rate the effect of the increasing vertical integration of large brands/groups on the suppliers market?



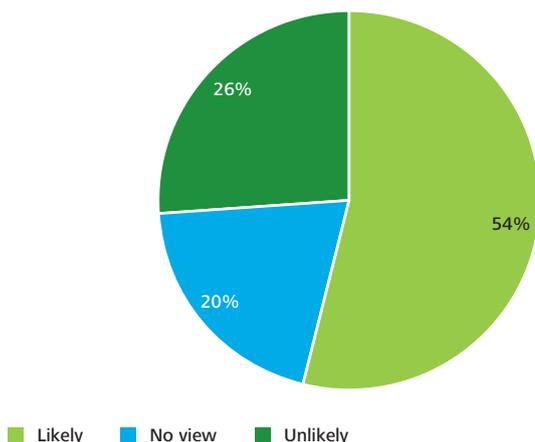
Luxury groups like LVMH and Kering (formerly PPR) may seek to expand their brand portfolios to strengthen their watch division. Asian groups, such as Japan's Citizen or China Haidian have recently acquired Swiss brands and are still looking to expand their portfolios in the mid/high range. China Haidian demonstrated this recently by acquiring Corum.

Increased vertical integration threatens supplier market

The majority of industry executives expect increased vertical integration to threaten the supplier market, a view that is strongly held by component manufacturers (Chart 21). With many larger suppliers being acquired by brands, it leaves those remaining more dependent on smaller brands, which have lower production volumes and are often less resilient to downturns.

Chart 22. Formation of large supplier groups expected

Do you anticipate further consolidation among suppliers, i.e. formation of large supplier groups?



Most industry executives also expect further consolidation among suppliers, resulting in the formation of large supplier groups.

The supplier market remains fragmented and most are small companies with low investment capacity, making them vulnerable to downturns. As a means of defence, a number of supplier groups were formed in the past decade and this trend is likely to continue following the vertical integration of brands.

Business strategies

Marketing and distribution



continue to see authorised dealers as an important sales channel.

Industry executives consider the optimisation of sales channels and the use of social media as the most important sales and marketing strategies (Chart 23). Also high on the brands agenda is rationalising the product range, better inventory control and the selection of quality – rather than quantity – distribution channels. The increasing importance of social media is discussed further on page 17.

Two sales channels are viewed as the most important in the next 12 months: authorised dealers and mono-brand stores (Chart 24). The main strategy behind mono-brand stores is that they provide better inventory control, sales tracking and pricing controls. They also eliminate the grey market to a certain extent and capitalise on the brand. Mono-brand stores provide a means for the brands to build a better overall client experience per product lines and a better informed sales team.

Although not an immediate global strategy, several large brands have opened e-boutiques or are running pilot projects in selected countries. The results show that over the next five years own e-boutiques are expected to become much more important.

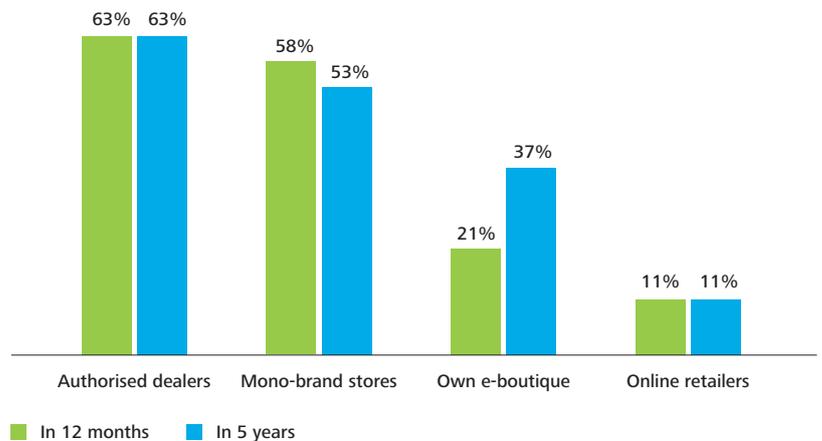
Chart 23. Preferred sales and marketing strategies

To what extent is each of the following business strategies likely to be a priority for your business over the next 12 months? (Answers only from brands, multiple answers possible)



Chart 24. Sales channels

What sales channels will you be focusing on in the next 12 months and in 5 years? (Answers only from brands, multiple answers possible)



Business strategies

Increasing vertical integration at the distribution level

Advantages of mono-brand stores and e-boutiques ...

The importance of mono-brand stores is further highlighted by the fact that 47% of respondents indicated that they are likely or very likely to open new stores within the next 12 months. In addition to mono-brand stores, group flagship stores featuring the brands of a particular group are increasingly being opened. A separate question found that mono-brand or flagship stores are predominantly planned for Asia, followed by the Americas and Europe.

As shown in Chart 24, e-boutiques will become increasingly important in the future. Twenty-one per cent of respondents who plan to open one aim to within the next 12 months, 37% within the next 5 years.

Similar to mono-brand stores, own e-boutiques have clear advantages for the brands but the specific characteristics and high prices of luxury watches are still obstacles to online sales. It may also be difficult to make the move to online without having a negative impact on authorised dealers, with whom the brand companies typically have longstanding relationships. The advantage of the dealers over e-boutiques, for customers, remains their ability to negotiate discounts on the manufacturer's recommended retail price which they cannot obtain on official e-boutiques.

Chart 26. Vertical integration at the distribution level

How do you rate the effect of the increasing vertical integration of large brands/groups at distribution level (both mono-brand and large multi-brand stores dedicated to a group) on smaller independent brands/distributors/dealers?

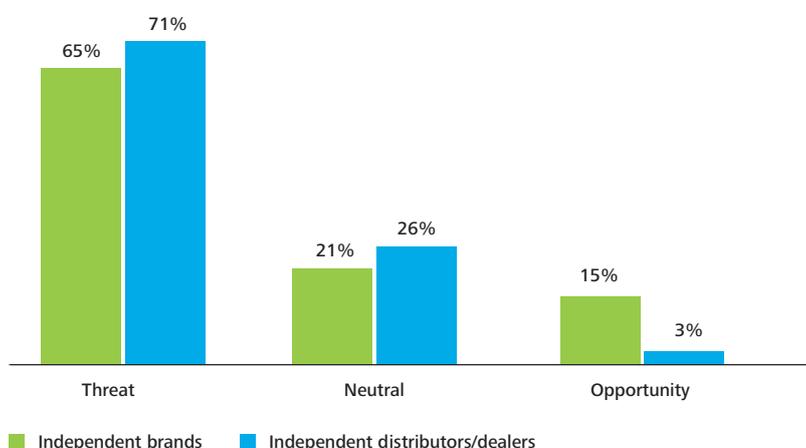
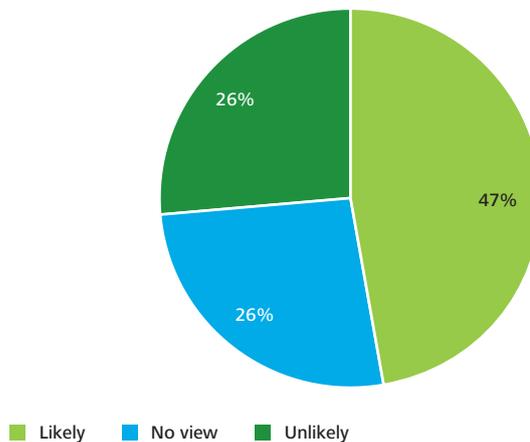


Chart 25. Opening of mono-brand/flagship stores

How likely is it that you will open new mono-brand/flagship stores in the next 12 months? (Answers only from brands)



... contributing to increased vertical integration at the distribution level

A further development affecting sales channels is the increasing vertical integration of large brands/groups at the distribution level, not least through the increased opening of mono-brand or group flagship stores. Not surprisingly, the large majority of industry executives view this as a threat for smaller independent brands, distributors and dealers.

A large part of the success of independent brands is their reliance on being listed by independent distributors. However, the distributors themselves remain heavily dependent on the traffic generated by top-tier brands and the financial marketing power of the large groups, which often impose shelf space and inventory minimums. This means the retailers have less space to sell and advertise smaller independent brands.

Vertically integrating distribution could technically free up some space at independent retailers. However, it is considered detrimental to both independent brands and retailers as flagship stores usually have more inventory, carry specific limited editions and offer a truly dedicated client experience.

Business strategies

The crucial role of social media

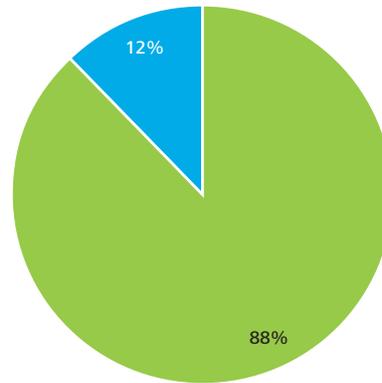
 **88%**
see social media as important
for the watch industry.

Social media is high on the marketing agenda of Swiss luxury watch brands, with numerous watch companies having dedicated YouTube channels and Facebook pages. They are organising contests using Facebook, Twitter and dedicated mini-websites, and turning to rising social networks, such as Instagram and Pinterest.

Omega and IWC are examples of companies actively involved on social media. Rolex launched its Facebook page in April this year. At the same time, Rolex has redesigned its website with 'social' in mind, offering one-click sharing not only to globally established social networks, such as Facebook and Twitter, but also to networks catering to Chinese speakers, such as Weibo and QQ.

Chart 27. Importance of social media

How would you rate the importance of social media in today's luxury watch industry? (Answers only from brands)



■ Important ■ Not important

Chart 28. Social media seen as biggest online risk

In what area of online marketing and distribution do you see the biggest risk exposure? (Answers only from brands)



Social media is also essential for small independent brands which often have limited marketing budgets. Through social media, small independent brands now have a greater opportunity to reach a global audience and engage with a community of enthusiasts. Companies can also use social media to launch limited editions specifically for their loyal followers.

However, the increasing use of social media heightens the potential for reputational risk. The nature of social media involves open conversations that companies may find difficult to control or influence. Industry executives are becoming more aware of the potential risks: 47% of respondents view social media as the biggest online risk this year, compared to only 19% last year.

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