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The Deloitte Swiss Watch Industry Study 2017

It's all about digital

Contents

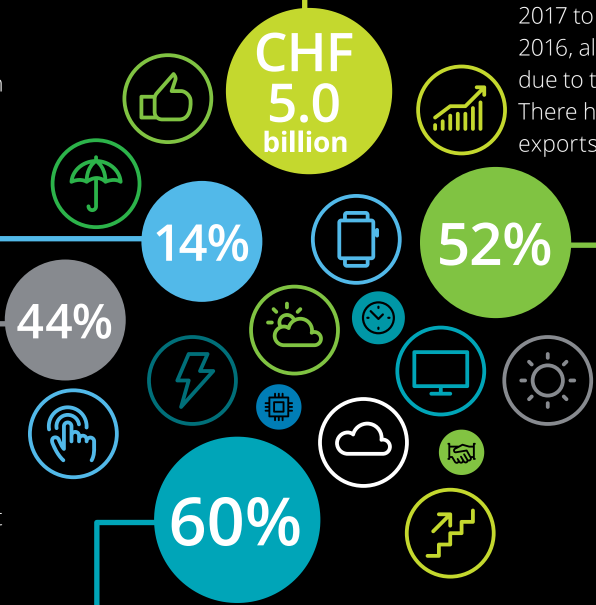
About the study

This is the sixth annual Deloitte Watch Industry Study. It is based on an online survey and discussions with watch executives and a consumer survey which was conducted among 4,500 people living in China, Germany, Italy, Japan, Switzerland and the US by the data collection provider Research Now. The online survey with executives was conducted between May and July 2017. More than 60 watch executives participated.

Key findings

Smartwatches not perceived as a threat
Swiss watch executives do not see smartwatches as a threat to their business, **72%** do not expect them to have an impact on their sales and **14%** see smartwatches as an opportunity.

Swiss watch exports show first signs of recovery
After eight consecutive quarters of declining growth, exports of Swiss watches rose in Q2 2017 to **CHF 5.0 billion** from CHF 4.8 billion in 2016, although volumes continued to decline due to the decrease in quartz watches. There has been a strong recovery in watch exports to China in particular.



Revised Swiss Made
Twice as many watch executives **(44%)** consider the impact of the revised Swiss Made rules to be positive rather than negative for the industry. The new rules will not necessarily bring production back to Switzerland but are essential to maintain the undisputed leadership in the luxury watch market.

Positive outlook
52% of watch executives surveyed are optimistic about the outlook for the Swiss watch industry for the next 12 months, compared to only 2% in 2016. They expect volume growth across all price segments.

Digital is key
While a majority of consumers still buy watches in-store, **60%** use online and digital channels to research prices or find product information. The development of these channels is now the second priority of watch executives after introduction of new products.

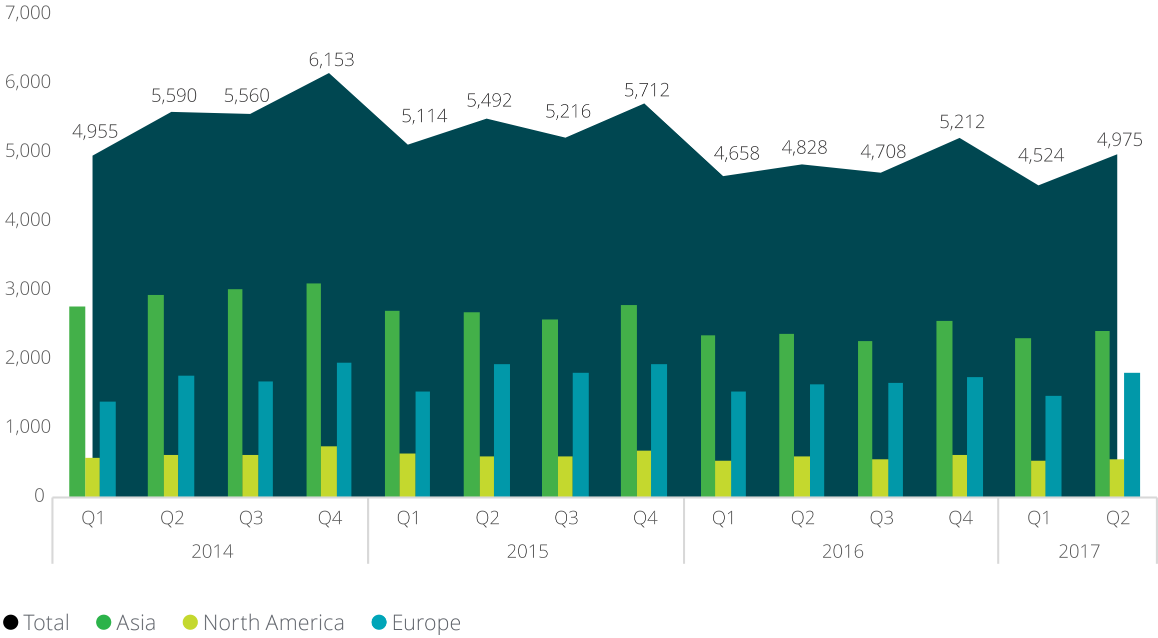
Industry overview

Signs of recovery

After 20 consecutive months of negative growth rates, Swiss watch exports started to rise in March 2017 and continued to do so in May, June and July. In Q2 2017, watch exports were worth CHF 5.0 billion, compared to CHF 4.8 billion in Q2 2016 (+3%) (see Figure 1). Growth has improved particularly in the European market, where exports increased by 9% in Q2 2017.

This growth however is relative and primarily reflects a recovery of mechanical watches (+1.9% in volume) while quartz watches continued to decline (-5.7%). Overall, volumes of wristwatches were still down by -3.3% in Q2 2017 compared to Q2 2016. The recent trend nevertheless shows promising signs that the industry is on the path to recovery.

Figure 1. Swiss watch exports (CHF m)



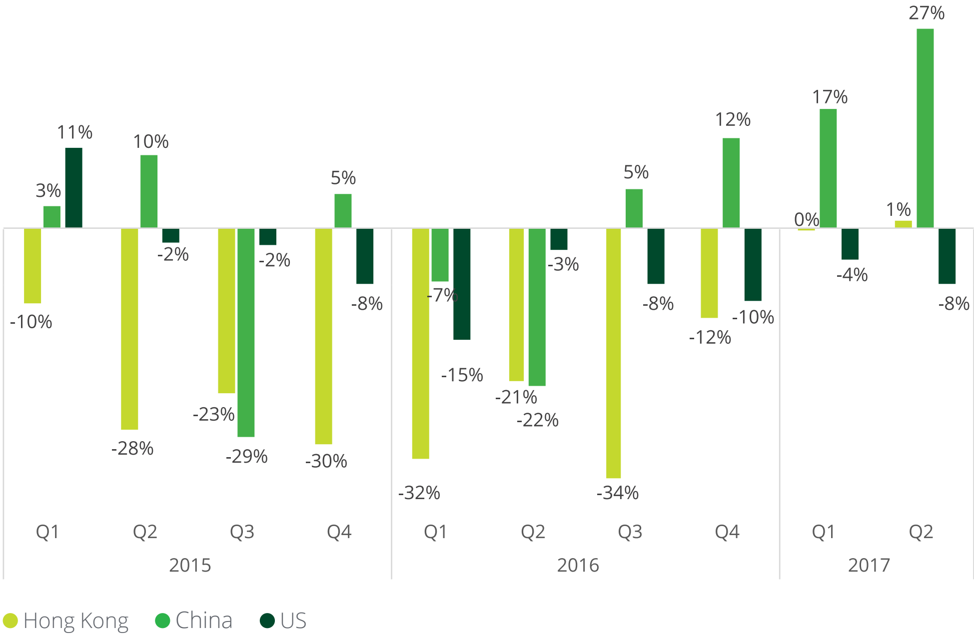
Source: Federal Customs Administration, Deloitte analysis

Strong recovery in China

After a sharp downward trend from Q2 2015 to Q4 2016, watch exports to Hong Kong, the most important export market for Swiss watches, stagnated in Q1 2017 and rose slightly in Q2 (+1%). In contrast, there has been a strong recovery in watch exports to China with double-digit growth rates since Q4 2016.

The lack of recovery in watch exports to North America can be mainly attributed to the US, the second most important market for Swiss watches. For nine consecutive quarters Swiss watch exports have been declining (see Figure 2) although the last few months have shown the first signs of stabilising.

Figure 2. Growth rates of Swiss watch exports (compared to previous year)

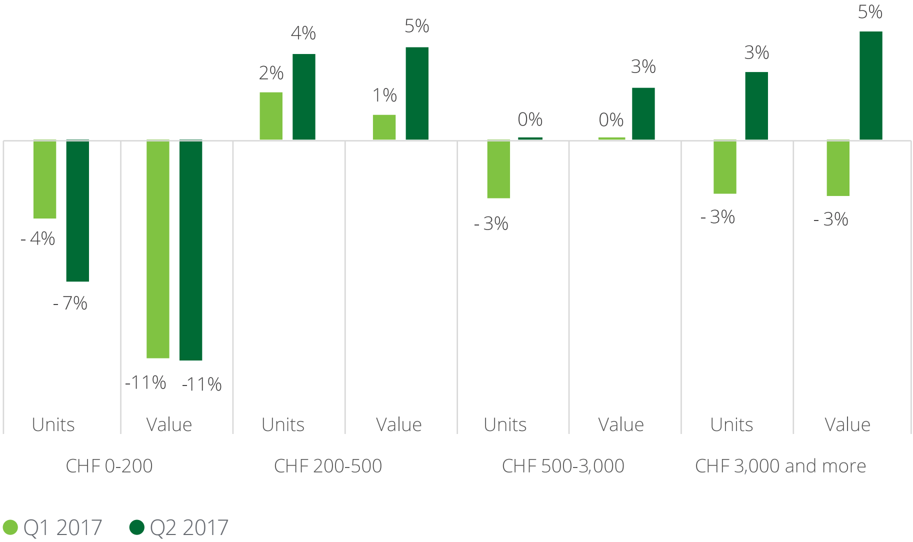


Source: Federal Customs Administration, Deloitte analysis

Growth mainly driven by high-end mechanical watches

Looking at different price segments, high-end watches (CHF 3,000 and upwards) have outperformed in Q2 2017 (see Figure 3). In other words, the recovery of the Swiss watch industry has mainly been driven by the strength of high-end watch exports. In Q2 2017 they accounted for nearly 66% of total Swiss watch exports. In contrast, exports of low-end watches (CHF 200 and below) fell by 11% in value both in Q1 and Q2 2017.

Figure 3. Growth of Swiss watch exports by price category



Source: Federation of the Swiss Watch Industry FH, Deloitte analysis

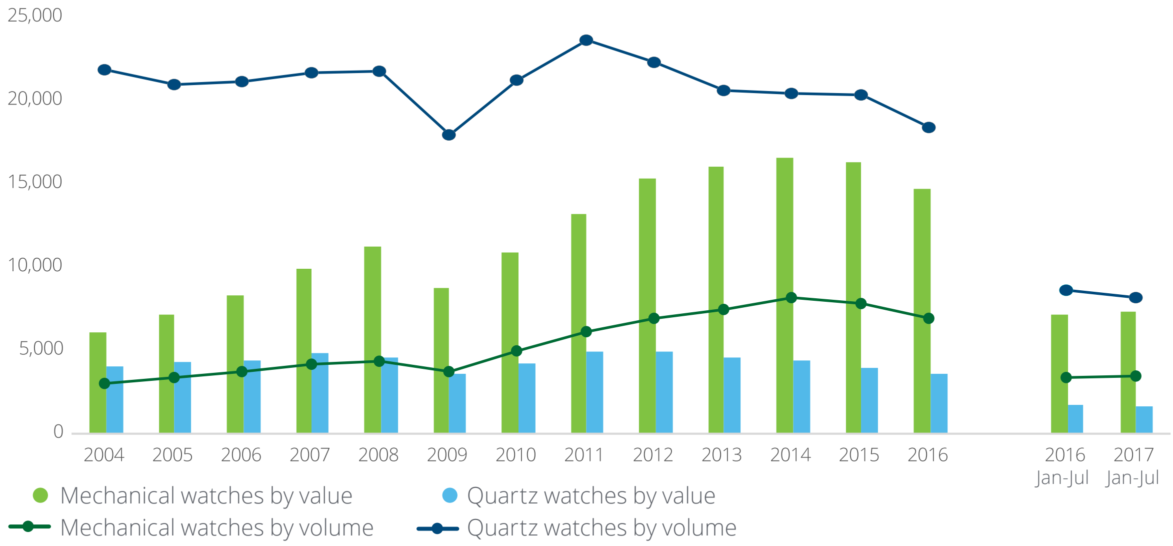
Quartz watches continue to lose export share

After five years of highly positive growth rates, mechanical watches declined by 2% in value in 2015 and 10% in 2016 (see Figure 4). The level of decrease in volume was similar. With regard to quartz watches, the downward trend started back in 2012 and has lasted for five consecutive years. In 2016, quartz watches decreased by 10% in value and 9% in volume compared to 2015.

The first half of 2017 has shown signs of growth returning, at least in the mechanical watch segment. Between January and July 2017 they rose by 3% in value and in volume, compared to the same period in 2016. However, recovery has yet to arrive in quartz watch exports which declined by 5% in value and 7% in volume over the same period.

According to the watch executives surveyed, expectations for volume growth in the next 12 months increased for all price segments compared to 2016. Sales of mid-range watches (retail price between CHF 1,000 - 5,000) are expected to grow the most (rating 5.9 of 10), followed by high-end (5.5), very high-end (retail price above CHF 25,000) (5.4) and low-end (4.7).

Figure 4. Swiss exports of mechanical and quartz watches by value (in m) and volume (in 1,000 pieces)



Source: Federation of the Swiss Watch Industry FH, Deloitte analysis

Industry outlook and demand

A return to optimism

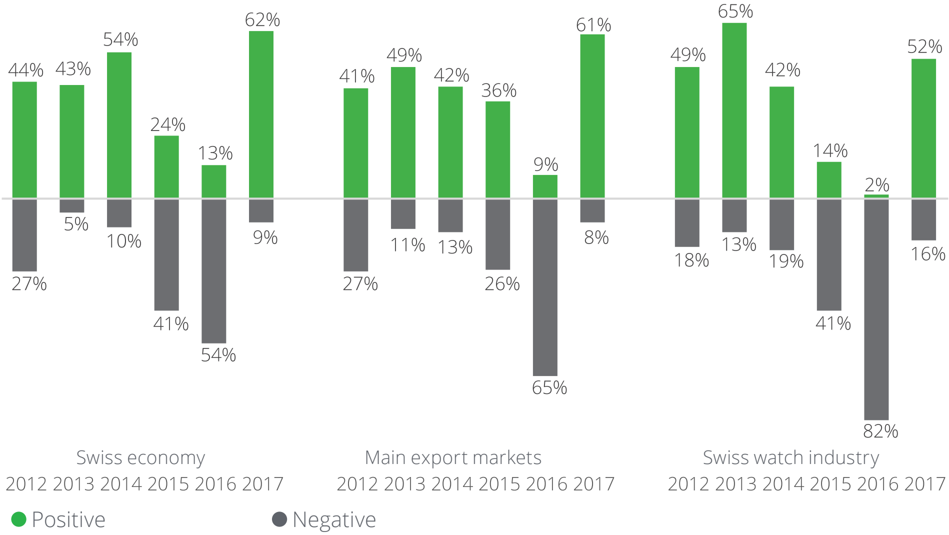
Swiss watch executives surveyed are now more optimistic about the future and think the recent positive trend should continue: 52% of respondents have a positive growth outlook for the Swiss watch industry in the next 12 months, up from only 2% in 2016 (see Figure 5). Only 16% consider the outlook to be negative compared to 82% in 2016. Last year's pessimism has clearly been replaced with optimism.

There is also growing optimism about the outlook for the Swiss economy and the main export markets. Since the Deloitte Swiss Watch Industry Study was launched in 2012 the percentage of respondents who have a positive outlook for these two indicators has never been higher. 62% of respondents expect the Swiss economy to grow, compared to only 13% in 2016. With regard to the outlook for the main export markets of the Swiss watch industry, 61% consider it to be positive in the next 12 months.

This optimism goes beyond the watch industry. According to Deloitte's summer edition of the CFO survey, 71% of Swiss CFOs rate Switzerland's economic prospects over the next 12 months as positive against just 3% who rate them as negative.[1]

Figure 5. Outlook for the next 12 months

How do you judge the economic outlook for the ... in the next 12 months?



Swiss watch executives are optimistic about the future

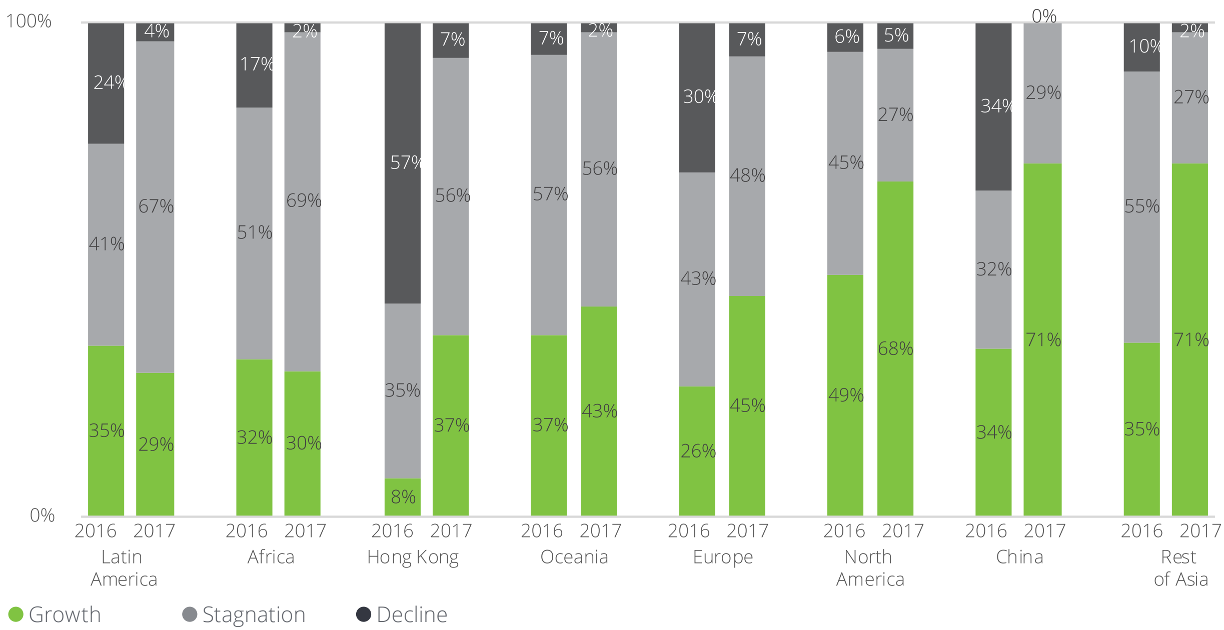
Strong growth outlook for China

This broad optimism is not surprising given the higher expectations for growth in almost all regions, especially in Asia (see Figure 6). 71% of watch executives are expecting demand for Swiss watches to grow in China, compared to only 34% in 2016. The same number of respondents have positive growth expectations for the rest of Asia, up from 35% in 2016.

In China, luxury product sales have picked up since the beginning of the year. According to forecasts, they will grow 6 to 8% this year.[2] One major factor that has boosted consumption of luxury goods including high-end watches is the drop in China's corruption prosecutions. In 2016 China's courts prosecuted 20% fewer officials for corruption than in 2015.[3] For the first time in five years the number of officials handed over to China's courts decreased, marking a turning point in China's anti-corruption and anti-bribery campaign.

Figure 6. Growth regions

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



In addition, Chinese buyers are now more inclined to buy their luxury products domestically following the rise in import taxes (from 30 to 60%) and increased controls at Chinese customs. According to our survey, nearly 50% of watch executives consider China to be the next big growth market for the Swiss watch industry. Watch executives also still see potential for development outside of the largest Chinese cities which they have primarily focused on during the past six years. Online sales locally via official mono-brand e-boutiques could also further help to reach customers beyond the largest cities.

A similar upward trend can be observed in Hong Kong although the number of watch executives having a positive outlook is much smaller (37%). This reflects the fragile situation in Switzerland's most important export market for watches. After two years of negative growth rates, sales of luxury goods including jewellery and watches in Hong Kong increased slightly in the first half of 2017, mainly as a result of the recovery in visitor arrivals from China. However, it is unclear whether the tourist industry will totally recover.

Optimism about the US market

For the first time since the Swiss Watch Industry Study was launched, the US has been overtaken as the most promising market for Swiss watches. However, a large majority of respondents (68%) still consider that the US market could grow in the next 12 months, making it the third most promising market after China and the rest of Asia. Last year this number was down to 49%.

Despite the political uncertainty following the results of the US presidential election in November 2016, watch brands continue to believe in the importance and potential of the US market. For example, Patek Philippe opened a temporary museum in New York illustrating the brand's history and created a new collection of watches exclusively for the US market. Omega also chose New York to hold a special event celebrating the 60th anniversary of the Speedmaster in February 2017 and Tag Heuer recently unveiled a limited Gulf version of the Monaco chronograph available exclusively online in the US.

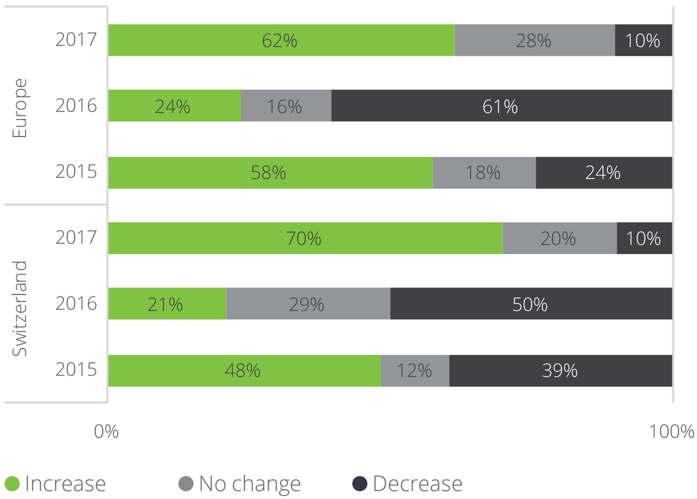
70% of Swiss watch executives surveyed believe that sales to tourists in Switzerland will increase over the next 12 months, compared to only 21% in 2016.

Sales to foreign tourists on the rise

Watch executives' expectations have also improved in relation to sales to foreign tourists in Europe and Switzerland, an important additional export channel for Swiss watch companies that is estimated to make up 5% of total watch exports. Compared to 2016, Swiss watch executives are much more optimistic: 62% expect sales to tourists to increase in Europe, up from 24% in 2016 (see Figure 7). The situation in Switzerland is considered even better: 70% of executives surveyed believe that sales will increase over the next 12 months, compared to only 21% in 2016.

Figure 7. Outlook for sales

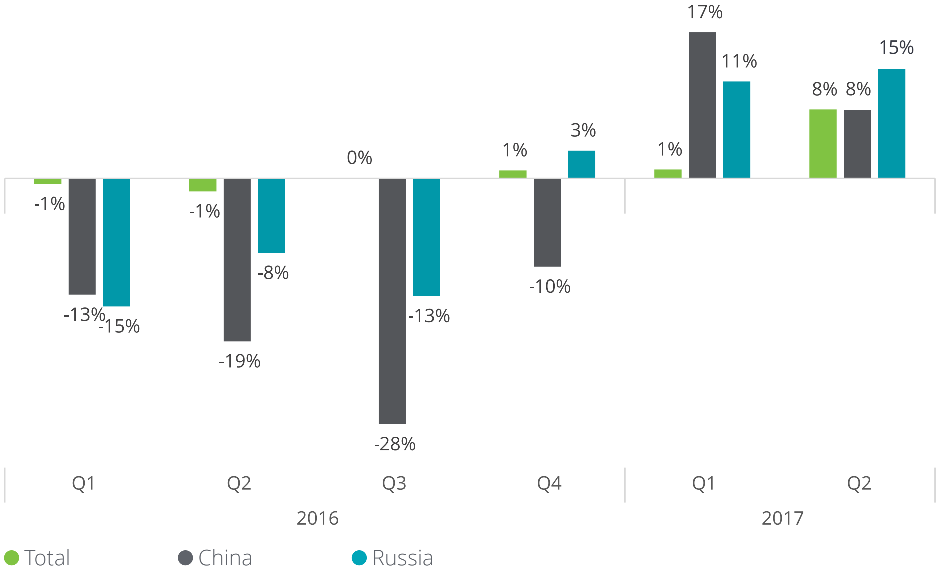
What do you think is the outlook for sales in Europe and Switzerland to tourists from Asia, South America, Russia or the Middle East over the next 12 months?



This change in sentiment can be attributed to the latest trends in travel and tourism to Switzerland. After negative and stagnating arrival numbers in the first three quarters of 2016, Switzerland has witnessed robust growth in tourism since Q4 2016, in particular in Q2 2017. Other European countries have experienced a similar upward trend.

A major change in growth patterns has occurred in China and Russia (see Figure 8). In 2016, tourist arrivals from China declined sharply, mainly as a result of the growing fear of terrorist attacks and changes in Chinese visa regulations. While these factors have become less important, improved flight connections to Europe and strong media exposure have helped to increase the number of Chinese tourists to European countries, according to the European Tourism Commission.[4]

Figure 8. Growth of tourism arrivals in Switzerland (compared to previous quarter)



Source: Swiss Federal Statistical Office, Deloitte analysis

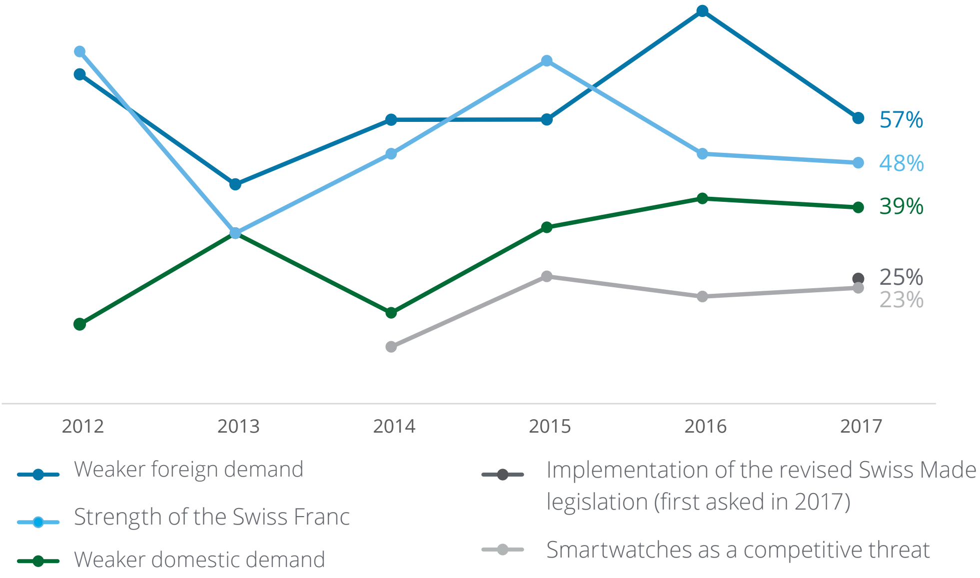
Challenges and risks

Weaker foreign demand still a concern

As a result of the improved overall outlook for the Swiss watch industry risk factors are considered less severe than a year ago. According to the watch executives surveyed, weaker foreign demand remains the biggest risk: 57% expect this to pose a significant risk to their business, down from 79% in 2016 (see Figure 9).

Figure 9. Top 5 external risk factors

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



48% of respondents see the strong Swiss Franc as a significant risk to their business in the next 12 months, down from 50% in 2016. More than two years after the Swiss National Bank's surprise removal of the CHF/EUR floor, watch companies have learned to cope with the strong Swiss Franc relatively well.

The number of watch executives who view smartwatches as a significant risk to their business has remained relatively stable: 23% expect smartwatches to be a risk factor, compared to 21% in 2016.

Revised Swiss Made: opportunity or risk?

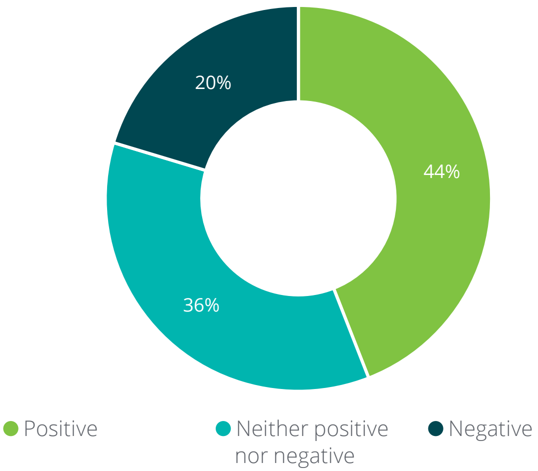
With the implementation of the new Swiss Made rules in early 2017, requiring at least 60% of a watch's manufacturing costs to be incurred in Switzerland, a new factor has found its way into the top five risks.

However, the economic impact of this new regulation is unclear so far, especially considering manufacturers benefit from a transition period of two years to adapt. On one hand, these new rules might indeed pose a risk to the lower-end of the Swiss watch industry for which it could be difficult to remain competitive with these new requirements. On the other hand the revised Swiss Made rules might strengthen the Swiss brand, an important competitive advantage of the Swiss watch industry. Indeed, according to a recent study, consumers are willing to pay up to 100% more for a Swiss luxury watch.[5] On the higher-end of the market, brands are less concerned by these new rules as many were already above the new threshold and closer to 100%. They therefore see these new rules as a good news although some would like to see even higher requirements.

According to our survey, 44% of watch executives consider the impact of the new Swiss Made rules to be positive while 20% believe they will have a negative effect (see Figure 10). Looking at the results in more details, respondents active in the low-end of the market are the most pessimistic with 36% thinking these new rules will have a negative effect. Asked whether the revised Swiss Made legislation is likely to bring production back to Switzerland, watch executives are sharply divided: 40% think the new rules will bring production back and 47% think they will not, another sign that the impact of the new rules remains unclear.

Figure 10. Swiss Made rules

How do you rate the impact of the new Swiss Made rules, which came into force on 1 January 2017, on your company?



Rising political uncertainties

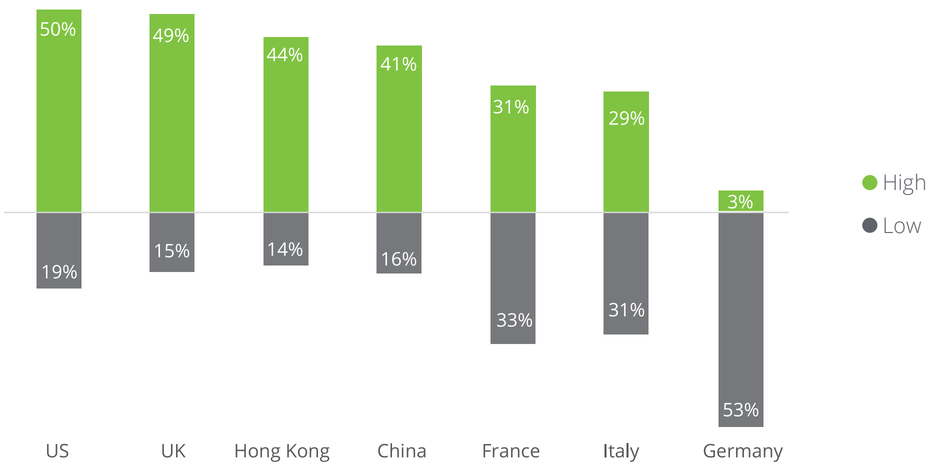
Although the risk factors directly impacting the Swiss watch industry generally declined, the level of political uncertainty has increased in most of the main export markets for Swiss watches. In December 2016 the global economic uncertainty index reached its highest level since its inception in the late 1990s, mainly as a result of the vote in the UK to leave the EU and the election of Donald Trump as US president.[6]

It is not surprising then that around half of watch executives surveyed rate the level of uncertainty in the UK and the US as high (see Figure 11). According to watch executives, the political situation seems to be uncertain in China and Hong Kong, too, although the number of survey participants rating the level as high is slightly lower than with regard to the US or the UK. The opposite is true for Germany which seems to be a safe haven these days.

The impact of political instability, in particular in the US, goes beyond the Swiss watch industry. According to the Deloitte Summer 2017 Swiss CFO Survey, the US is seen as the country that represents the highest level of uncertainty of all Switzerland's trading partners.[7] A large majority (71%) of Swiss CFOs rate the current level of political uncertainty for their companies in the US as high.

Figure 11. Level of political uncertainty

How would you rate the level of political uncertainty facing your business in the following major trading partners of Switzerland?

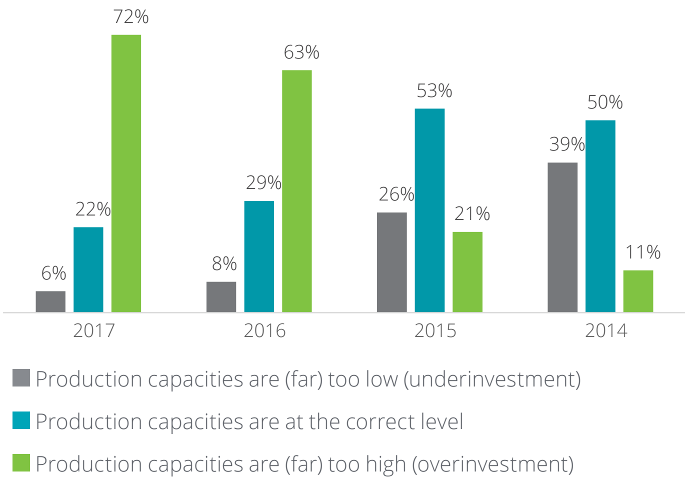


Production capacities still seen as too high

Despite fewer worries about weaker foreign demand, investment in production capacity is likely to fall. The number of watch executives who consider the amount of investment in production facilities too high reached 72% in 2017, up from 63% in 2016 (see Figure 12). Only 6% believe that the production capacity is too low. The uncertain context of the Swiss watch industry although did not stop selected brands and component manufacturers from pursuing previously planned expansions or undertaking new ones. Mid-2017, Tag Heuer announced that it was looking to build a new 30,000m^2 facility in La Chaux-de-Fonds while Sellita, an independent movement producer, announced it will start a 4,000m^2 extension early 2018. At the same time, Frédérique Constant began extending its Geneva based-facility with a new 3,000m^2 aisle (with the aim of doubling the production surface over the next two years). In contrast, a few manufacturing facilities were either closed, put up for sale or repurposed due to bankruptcies (Technotime) or restructuring (Cartier movements and external components activities in Couvet to be moved to ValFleurier and Donzé-Baume respectively).

Figure 12. Amount of investment in production facilities

How would you rate the amount of investment in production facilities in Switzerland?



Business strategies

New products and digital channels top priorities

The introduction of new products remains the most important business strategy for watch executives: 64% consider this a strong priority over the next 12 months (see Figure 13), slightly down from 69% in 2016. According to our survey, design is the most important aspect of product development for most watch executives. 42% of respondents indicated that a classical style (rather than sport or jewelry) will be the most successful style category in the next 12 months, up from 34% in 2016.

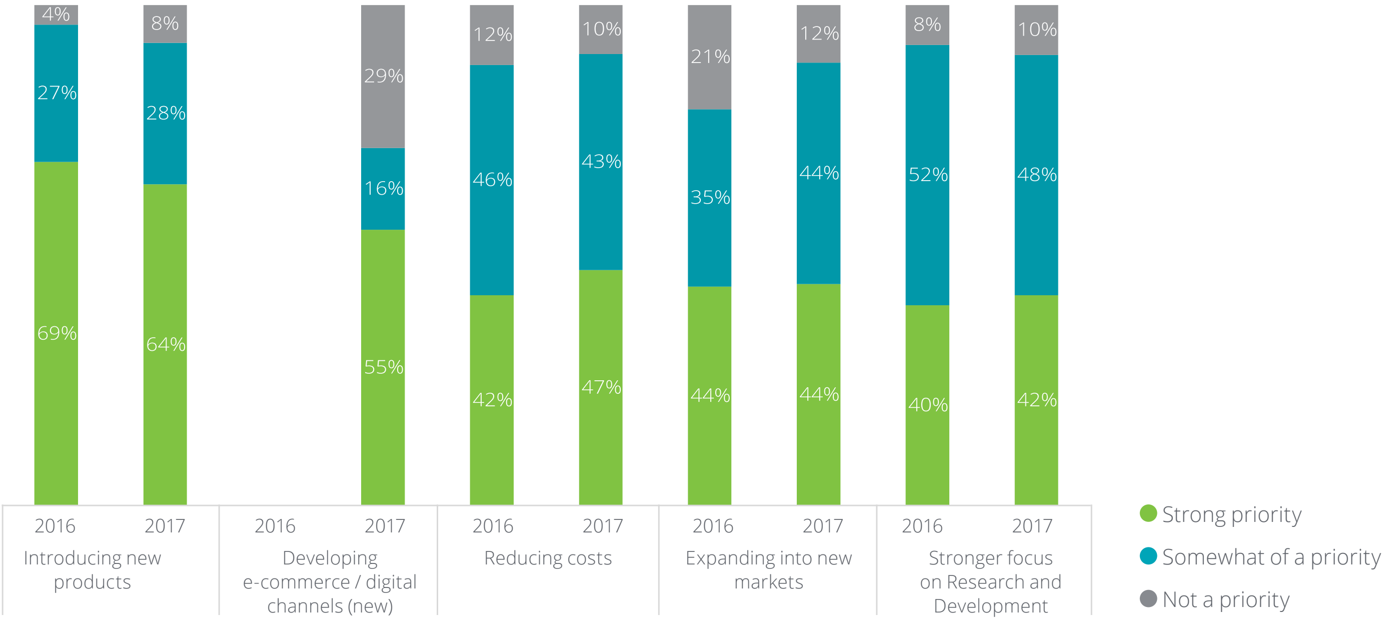
2017 has marked the anniversary of a number of landmark models which gave rise to new versions and/or limited editions: the Cartier Tank turned 100, the Rolex Sea-Dweller turned 50, the Omega Speedmaster, Railmaster and Seamaster each turned 60 and the Patek Philippe Aquanaut 20 (among other anniversaries). The trend for vintage inspired models also continued with the arrival of the new Tag Heuer Autavia, release of the Omega 60th anniversary trilogy as well as vintage inspired models from Montblanc, Longines and Jaeger-LeCoultre to name a few. The trend for blue dials continued as did the focus on female watches with new models from Richard Mille, Audemars Piguet and IWC. In addition, 2017 marked the second version of the Tag Heuer smartwatch and the first move by Montblanc and Louis Vuitton into this category (see Smartwatches section for further details).

The development of digital channels is now the second most important strategy of watch executives after the introduction of new products.

For the first time since the Swiss Watch Industry Study was launched in 2012, we included "Developing e-commerce and digital channels" as a new answer option for the business strategies and asked watch executives to what extend they considered it a priority. 55% of watch executives viewed it as a major priority making it the second priority after introduction of new products.

Figure 13. Top five 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?

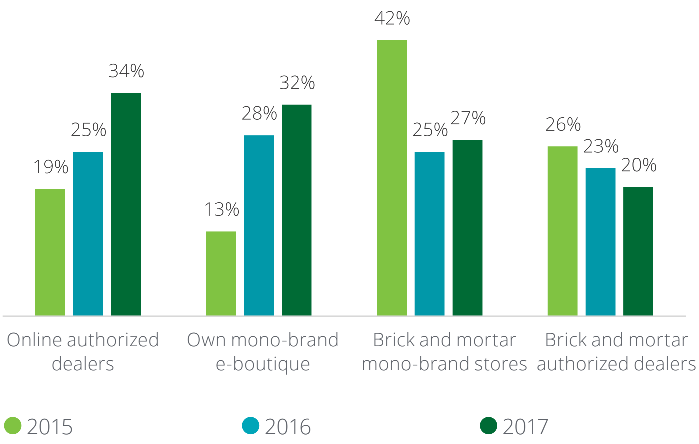


It's all about digital

The growing importance of having a digital strategy is not surprising given that online and digital channels continue to rise. According to Deloitte's Global Powers of Retailing 2017 report, online retail sales are growing much faster than overall revenues.[8] Until recently many Swiss watch brands had tended to be reluctant to adopt online sales channels (see Swiss Watch Industry Study 2016); however this no longer seems to be the case.

Figure 14. Importance of sales channels

What sales channels do you think will be most important in five years?



As mentioned earlier in the study, Tag Heuer recently introduced a limited edition to be sold exclusively online in the US. In November 2016 IWC announced its partnership with the online-only luxury retailers Mr Porter and Net-A-Porter highlighting its ambition to focus on e-commerce. Some luxury watch-brands also partnered with blogs to launch limited editions. This is most notably the case of MB&F, Vacheron Constantin or Zenith with the online wristwatch magazine Hodinkee. In January 2017, Omega also launched its first watch officially sold online, the limited edition Speedmaster Speedy Tuesday, in partnership with Fratello Watches.
These moves come in addition to the growing development of mono-brand e-boutiques by many Swiss watch brands.

According to our survey, online authorised dealers are expected to be the most important sales channel in five years, with 34% of watch executives viewing them as becoming essential, up from 25% in 2016 (see Figure 14). Another 32% believe that having their own e-boutique will be the most important sales channel in five year. Brick and mortar stores still remain relevant, although their importance has declined. In 2017, 27% of watch executives surveyed consider them the most important sales channel, down from 42% in 2015.

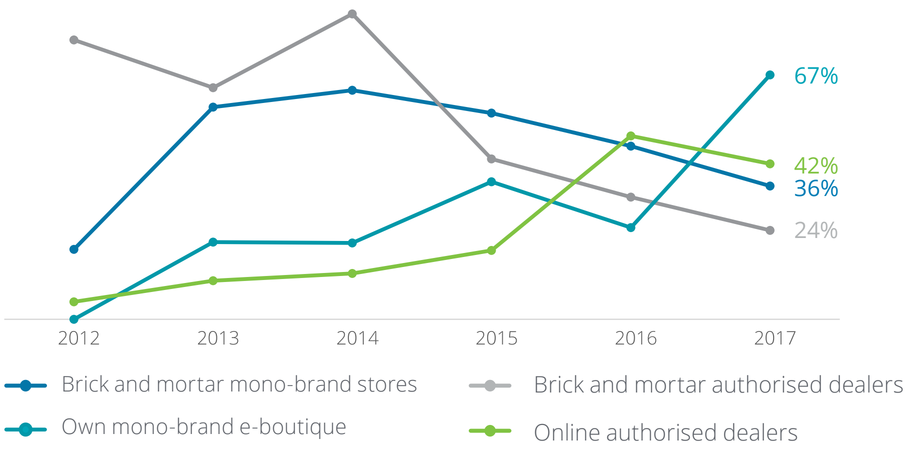
Sharp rise in e-boutiques

The trend towards online sales channels is reflected in the changing emphasis of watch executives in the short term. Only 36% of respondents will be putting the most emphasis on brick and mortar mono-brand stores in the next 12 months (see Figure 15). Three years ago the number was 63%. Even more striking is the decline in the importance of brick and mortar authorised dealers: only 24% of watch executives consider them to be the most important sales channel, compared to 83% in 2014. In contrast, e-boutiques climbed to a record high with 67% of respondents planning to put the most emphasis on them.

The growing importance of e-boutiques can already be seen in the market. Panerai for instance recently launched its first watch exclusively available to online customers in its own e-boutique, the new Panerai Luminor Submersible Automatic Acciaio, a limited edition of 100 pieces. Gübelin has launched a new e-boutique offering luxury watches from 14 different top brands. Other watch brands continue expanding their e-commerce reach from US to Europe and Asia.

Figure 15. Sales channels from watch executives' point of view

Which sales channels will you be putting the most emphasis on in the next 12 months?



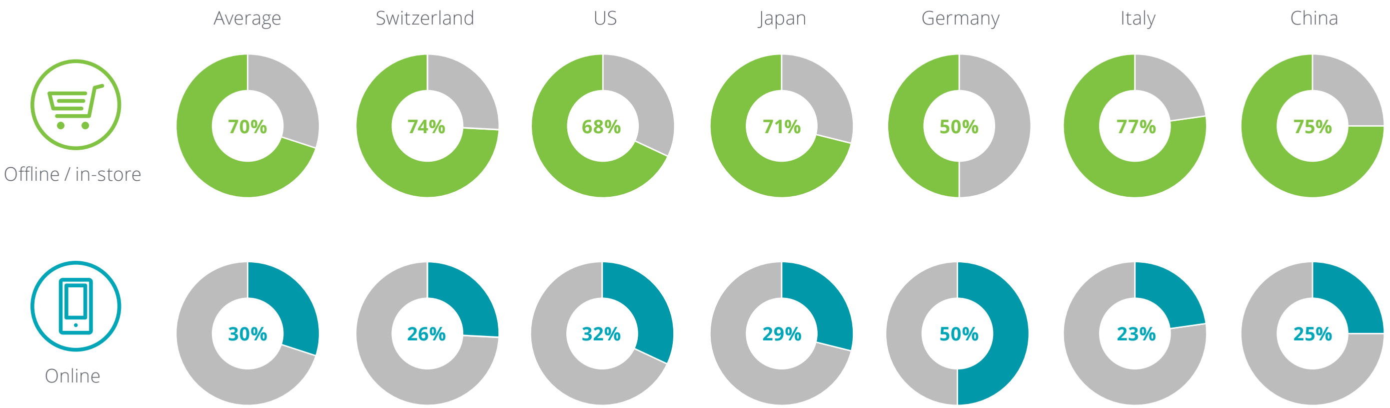
The line between offline and online blurs

These days digital includes much more than just online sales. Increasing customer connectivity expands the digital influence to offline shopping. According to Deloitte research, more than 80% of consumers in Switzerland use a digital device before, during or after their physical shopping trip, for instance to research product information or check availability.[9] At the same time, more than 90% of total retail sales still take place in-store, implying that while the large majority of customers use digital and online channels, they actually buy products in-store. This blurring of the line between offline and online is known as the ROPO-effect (research online, purchase offline).

The fact that a large proportion of offline purchases are influenced by what the consumer has discovered digitally is also true for the Swiss watch industry and luxury goods in general. Many customers do not want to miss the experience of visiting a boutique, see the watch in person, look at the material and touch it. According to our consumer survey, which was conducted among 4,500 consumers in six countries, the substantial majority of people surveyed are still likely to buy a watch in-store, although in Germany 50% of respondents would consider buying a watch online (see Figure 16).

Figure 16. Sales channels from a consumer's point of view

Where will you most likely purchase a watch?

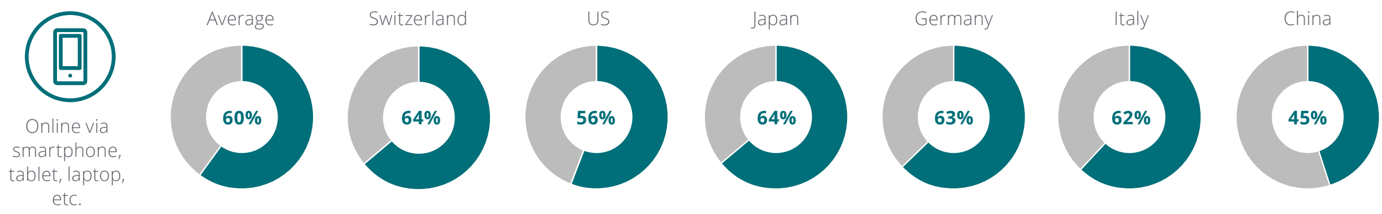


With the exception of China, the majority of people do their research, such as checking prices and finding information, online (see Figure 17). Watch brands therefore should not only focus on e-commerce and online shops, but also try to provide a single all-inclusive digital customer journey on any device which includes all relevant information, for example in-store availability, product reviews or personalised offers. This should in turn help to boost offline sales.

According to our survey, 37% of watch executives indicated that their companies currently provide a mobile app that allows customers to find relevant information about products and availabilities. Another 37% have in-store associates using their own smart device to enhance the customer experience. 18% use geolocation and beacon technology to provide real-time information to their customers.

Figure 17. Search methods

If you think about buying a watch, which method do you use in general to research wristwatches (find information and pictures, check prices, etc.)?



Online marketing

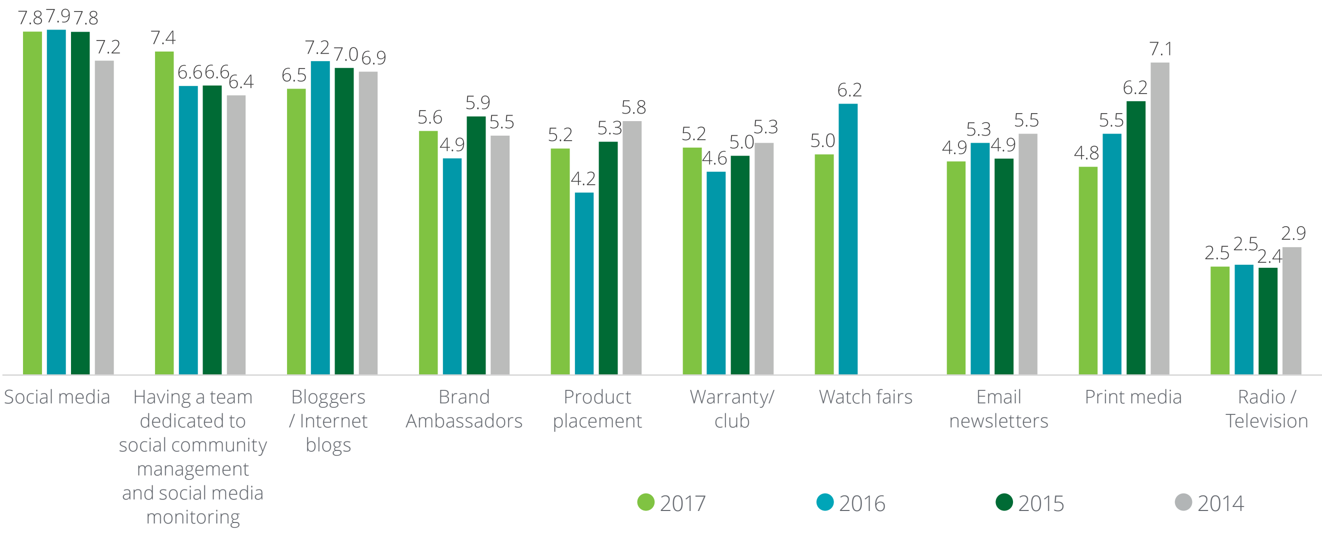
The use of digital has also become key to Swiss watch companies' marketing strategies. In 2017 social media remains the most important marketing channel, followed by having a dedicated team for social community management which has overtaken bloggers (see Figure 18). At the same time traditional marketing channels such as print media continue to lose ground.

At this year's SIHH social media played an important role. The opening ceremony was streamed live on Facebook and brands like Baume & Mercier, IWC, Jaeger-LeCoultre and Vacheron Constantin used social media channels such as Snapchat, Instagram and Facebook during the event to connect and interact with their customers.[10]

The importance of product placement and brand ambassadors has slightly increased compared to 2016. Tudor recently announced its first ever brand ambassadors with the arrival of former professional football player, David Beckham, and singer Lady Gaga. TAG Heuer named Chinese actress, model and singer Angelababy as its new ambassador.

Figure 18. Marketing channels from watch executives' point of view

How important are the following elements for your marketing strategy? Please indicate on a scale from 1 to 10, with 1 indicating very low importance and 10 indicating very high importance.



Our consumer survey indicates that social media and bloggers have the greatest influence on a consumer's decision to buy a watch in three out of the six countries surveyed (see Figure 19). Other important marketing channels are in-store events and print media. These results indicate that a marketing strategy focusing on different channels including online and offline could be the best option for watch companies to attract different customers and interact with them through their preferred channels.

Figure 19. Marketing channels from a consumer's point of view

In general, which marketing channels influence your decision to buy a watch the most?

	Top answer	Second best answer	Third best answer
Switzerland	Own network	Print media	Social media / bloggers
US	In-store events	Social media / bloggers	Print media
Germany	Social media / bloggers	Print media	Own network
Italy	Social media / bloggers	Radio / Television	In-store events
China	In-store events	Brand ambassador	Social media / bloggers
Japan	Social media / bloggers	Print media	In-store events

M&A activities

Overall, watch executives surveyed expect slightly higher levels of M&A: 53% of respondents believe that the level of M&A will increase in the next 12 months, compared to 50% in 2016. In addition, the number of watch executives who expect a decline in 2017 is much smaller (10%) than in 2016 (26%).

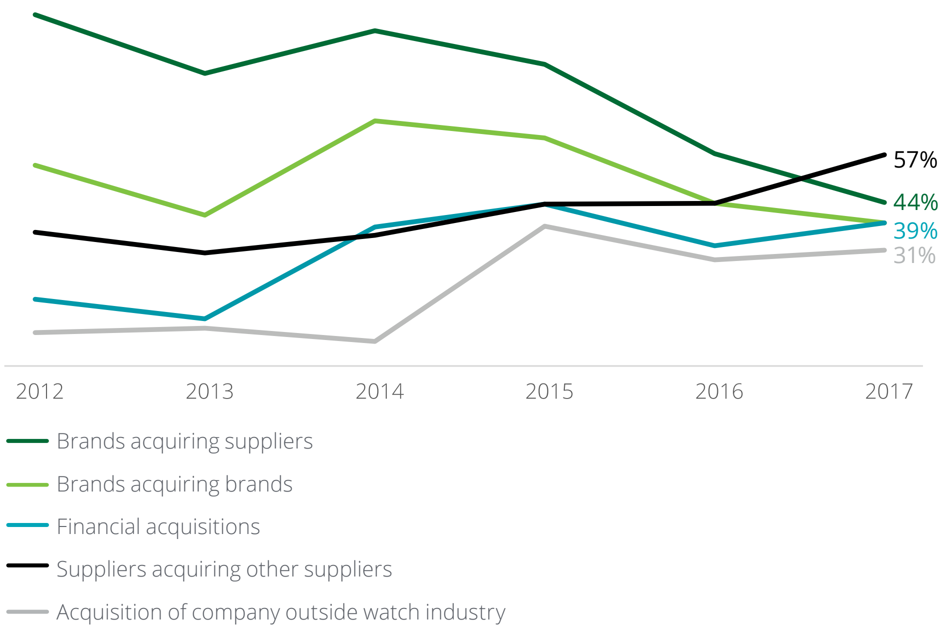
2017 was marked by a number of transactions, the most notable being the acquisition of Breitling, one of the last remaining large independent Swiss watch brands, for USD 870 million by CVC Capital Partners. The transaction represents a paradigm shift in that most Swiss luxury watch brands acquired over the past 10 years involved strategic investors rather than financial investors. Notwithstanding this, the appetite of strategic Asian buyers (China and Japan mainly) for the Swiss luxury watch industry remains strong.

On the component manufacturing front, Festina, a Spanish watch group with manufacturing facilities in Switzerland, acquired the intellectual property (movement designs and patents) and assets of Technotime, a bankrupt Swiss mechanical movement producer in a move to expand its entry-level mechanical movement offering. Groupe Acrotec, the largest independent Swiss manufacturer of precision parts, continued its expansion with four new acquisitions in the watch sector this year: H2i, Mimotec, Gasser-Ravussin and Pierhor.

According to watch executives, vertical integration at brand level will continue to decline in 2017. At the same time, the number of respondents who expect the rise in horizontal integration at supplier level to continue increased from 44% to 57% (see Figure 20).

Figure 20. Most important M&A activities

In your view, which types of acquisitions are most likely to happen (please select up to three)?



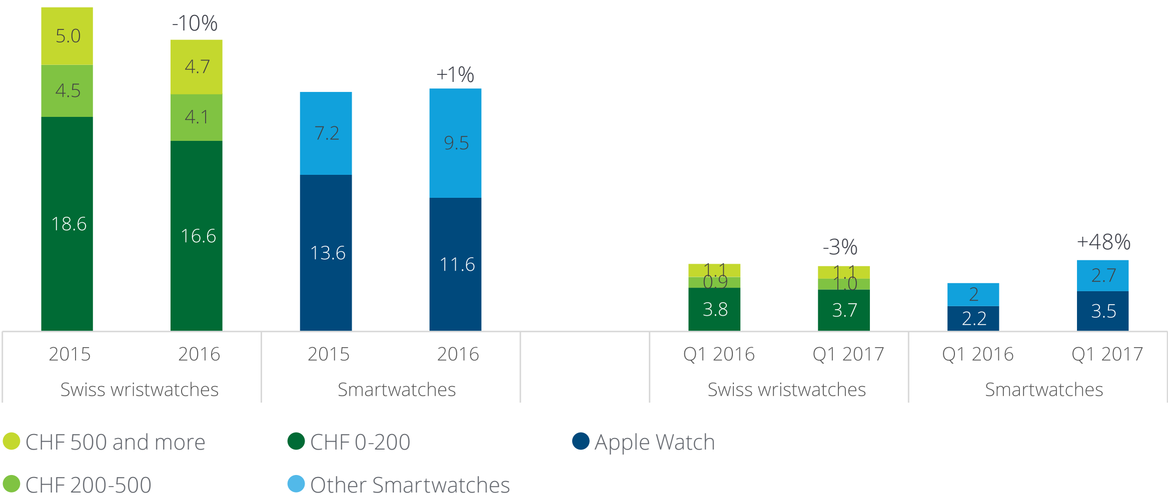
Smartwatches

Smartwatches: a growing market driven by health and fitness features

Since the launch of the Apple Watch in 2015 smartwatches have dominated the headlines. In Q1 2017 global smartwatches shipments increased by 48% in units compared to Q1 2016 (see Figure 21). According to latest analyst estimates (Apple never released official sales figures of its Apple Watch), Apple dominates the market with an estimated share of nearly 60%. At its September 2017 keynote, Apple even claimed they became the largest watch brand in the world ahead of Rolex. Although these two brands are not comparable, this demonstrates the power of the Apple brand to establish itself as a clear leader in a new product category in less than 3 years.

In 2016, 21.1 million smartwatches were shipped compared to 25.4 million Swiss wristwatches, according to the research firm Strategy Analytics (see Figure 21). Although smartwatches stagnated with only 1% growth compared to 2015, the gap between Swiss watches and smartwatches has closed. In Q1 2017 the number of smartwatches even overtook Swiss wristwatches in terms of total units. The fact that low-end watches (below CHF 200) have seen the sharpest decline in 2016 among all price segments and have still not recovered in the first half of 2017 indicates that smartwatches might be hurting lower-end Swiss watches to a certain extent, although increasing competition from fashion watch brands is also a potential factor.

Figure 21. Shipments of smartwatches vs Swiss watches (in m units)



Source: Strategy Analytics, Deloitte analysis

Although smartwatches recently overtook Swiss wristwatches in terms of total units, the perception of the market seems to remain the same: real benefits of smartwatches beyond fitness and health tracking are still lacking for many consumers. It therefore does not come as a surprise that recent launches and announcements continued to focus on these two aspects.

The 2017 edition of IFA (a large international electronics show taking place every year in Berlin) saw the introduction of new smartwatches by Samsung and the first ever smartwatch of Fitbit while both announced in parallel partnerships with Speedo and Adidas respectively. On the other hand, another notable fact compared to last year's edition of IFA was that no new smartwatches were announced by Sony or Asus, showing that this product category remains difficult even for large tech companies. The fact that companies like Microsoft and Motorola decided to exit this product category and long-standing players like Pebble had to cease their activity also confirms that it is difficult to remain in this market.

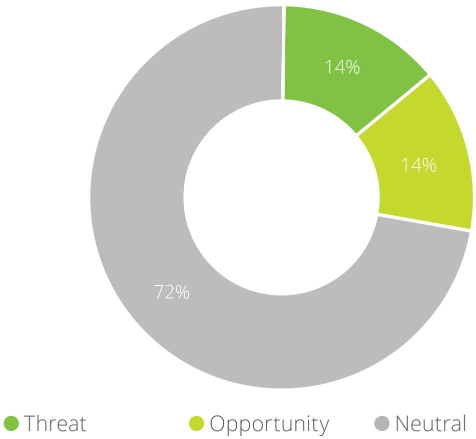
Shortly after IFA 2017, it is Apple yet again that made the headline with the introduction of its Apple Watch 3 which is now available as a Cellular version with built-in LTE radio and embedded SIM card allowing the watch to work without the need for a smartphone. A feature that has been long awaited in this product category and which might help to boost sales even more. With regards to health and fitness, Apple introduced an improved heart-rate monitoring system and announced the Apple Hear Study in partnership with clinicians at Stanford to be launched later this year in the US App Store. Apple also renewed its partnerships with Nike and Hermès to offer sports and luxury versions of its new watch. The Apple Watch 3 will also be available without cellular option and will be priced between CHF 369 and 1,549. Overall, these various announcements confirm the trend towards more health and fitness related functions.

Smartwatches not seen as a threat

Even though Apple continues to grow its offering and other players announce partnerships to gain market share, Swiss watch executives do not see smartwatches as a threat to their business, 72% do not expect them to have an impact on their sales and 14% see smartwatches as an opportunity (see Figure 22). However, perception could differ depending on the target audience of the brand, its price positioning and development strategy.

Figure 22. Impact of smartwatches on Swiss watch sales

How do you rate the effect of smartwatches on your sales?



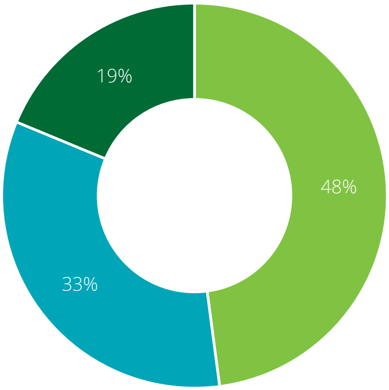
After last year's successful introduction of its first smartwatch, Tag Heuer launched its Connected Modular 45, a new version offering 56 different combinations of materials and colours. The company was not only responding to the trend of personalisation, but most importantly offering the possibility to switch between a smartwatch and a mechanical watch by changing the module inside the watch case. A feature that might prove necessary for clients to opt for a high-end smartwatch, which starts at CHF 1,490, over other similarly priced smartwatches. Jean-Claude Biver also announced that a cellular version of the Carrera connected would soon be available as well.

Notable entries this year in the smartwatch category are Montblanc, which introduced its Summit Smartwatch (starting at CHF 865) and Louis Vuitton with its Tambour Horizon (starting at CHF 2,390), both Android Wear-powered smartwatches indicating that other brands could soon venture into this product category or continue to enhance their offering. Considering these smartwatches share the same operating system and many similar functions and features, it is the price positioning and the power of the brand which will be determining factors for a potential success. Time will tell if smartwatches can continue to expand in this price segment.

48% of watch executives surveyed think that producing more classical smartwatches, i.e. classical watches with a smart function is the best take on the smartwatch market for Swiss watch companies (see Figure 23). Another 33% consider focusing on alternative accessories like e-straps as the best strategy. Only 19% prefer Android/iOS-based smartwatches. It will be interesting to follow the strategy chosen by Swiss watch brands in the coming years.

Figure 23. Opportunities for Swiss watch companies

In your view, what is the best smartphone option for the Swiss watch industry?



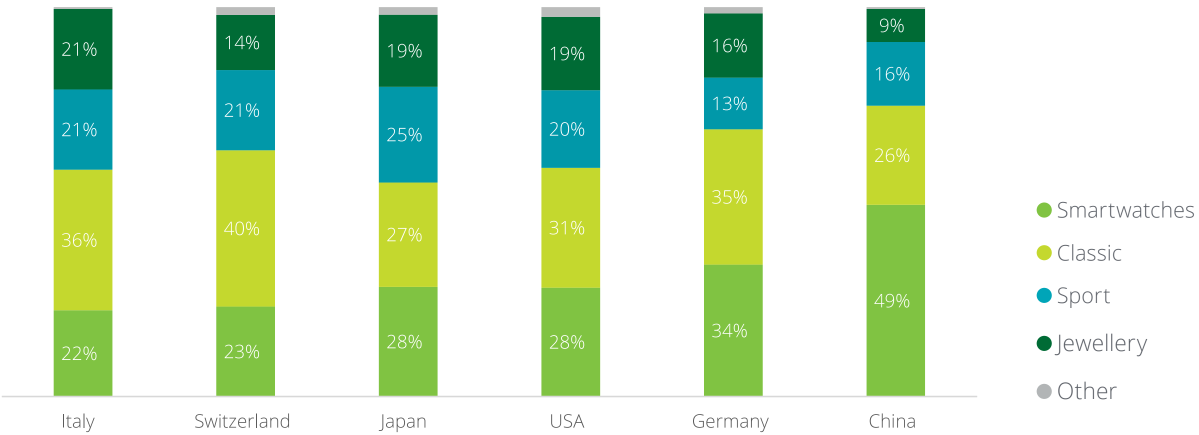
- More classical smartwatches (i.e. classical watch with smart functions)
- Alternative accessories like e-straps (i.e. smart functions added to the buckle or bracelet of traditional watches)
- Android / iOS (or other OS) based smartwatch

Consumers still favour classic watches

When asked what kind of watch they would most likely buy in the next 24 months, only around a quarter of the consumers surveyed would tend to buy smartwatches, except for those in Germany and China, where the percentage is higher (see Figure 24). Although smartwatch interest is strong, the number of people considering buying a classic watch is higher in most countries indicating that they continue to be attractive.
For many consumers, the perception remains that a smartwatch is a smartphone on their wrist and not a jewellery product.

Figure 24. Watch buyers purchase intention

What kind of watch are you most likely to buy in the next 24 months?

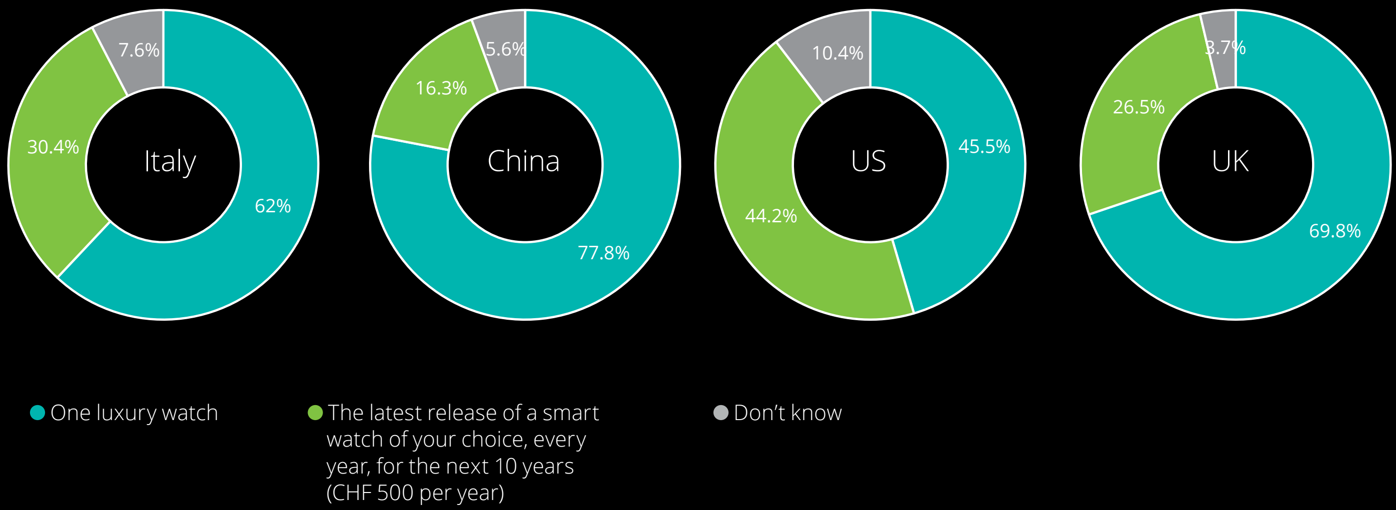


Younger generations remain attracted to high-end watches

Swiss high-end watch brands remain highly attractive, even among younger generations. Research from Deloitte indicates that millennials are less interested in buying a smartwatch than one might expect. Asked how they would spend a CHF 5,000 gift that had to be spent on a watch, millennials surveyed in China, Italy, the UK and US would choose a luxury mechanical watch over the latest release of a smartwatch, every year, for the next ten years.[11] With the exception of the US, where there is an almost equal proportion of millennials opting for smartwatches versus mechanical watches, more than 60% of respondents would prefer to buy a mechanical watch. A positive sign that the Swiss luxury watch industry has a bright future ahead.

Figure 25. Smartwatch vs mechanical watch

Regardless of whether you own an mechanical watch, if you were given CHF 5,000 to spend on a watch, which type would you prefer?



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