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The Deloitte Swiss Watch Industry Study 2020

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About the study

This report is the seventh edition of the Deloitte study on the Swiss watch industry. It is based on an online survey and interviews conducted between mid-August and mid-September 2020 with 55 senior executives in the watch industry. The study is also based on an online survey of 5,800 consumers in China, France, Germany, Hong Kong, Italy, Japan, Singapore, Switzerland, the United Arab Emirates, the United Kingdom and the United States.

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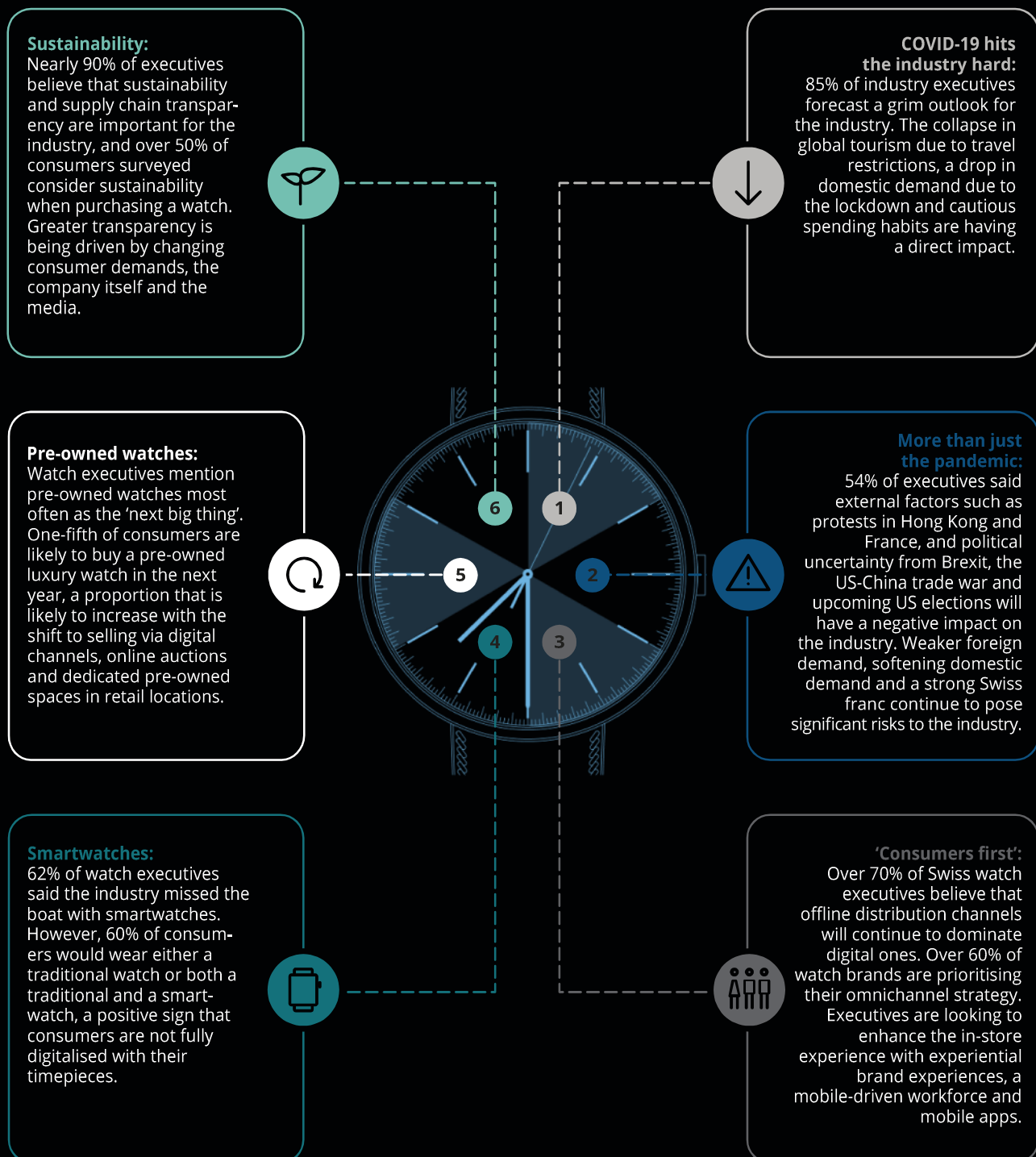


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1. Key findings



2. Industry overview

2.1 COVID-19: Unexpected and unprecedented

Growth has defined the Swiss watch industry over the past two decades and the country holds a unique position within the luxury segment of the industry. An estimated 95% of all watches retailing at over CHF10,000 are produced in Switzerland. This position, its capacity for innovation and the exceptional brand image and tradition of its major players have enabled the industry to remain resilient despite changing market conditions and crises.

The majority of high-end Swiss watches are mechanical and have been the primary drivers of growth over the past few years. Entry-level quartz watches in contrast continue to suffer from an increase in non-Swiss fashion brands, smartwatches, and less importance being placed on the 'Swiss made' label by select fashion brands operating in this segment and price range. Today, the Swiss watch industry is led mainly by a number of well-known brands including independents such as Rolex, Patek Philippe, Audemars Piguet, Breitling, Chopard, and those part of large luxury groups like Omega and Longines (Swatch Group), Cartier, Jaeger-LeCoultre and IWC (Richemont) and Hublot, Zenith and Tag Heuer (LVMH). A number of smaller independent brands such as MB&F, Richard Mille or FP Journe, are differentiating themselves from a crowd of over 400 Swiss watch brands.

Switzerland has a number of independent subcontractors and suppliers working for luxury groups or independent watch brands. The Swiss watch industry has developed a specialised horizontal structure where suppliers, craftsmen and subcontractors supply movements and external parts to brands that assemble the final product. Less common is vertical integration whereby watches are made

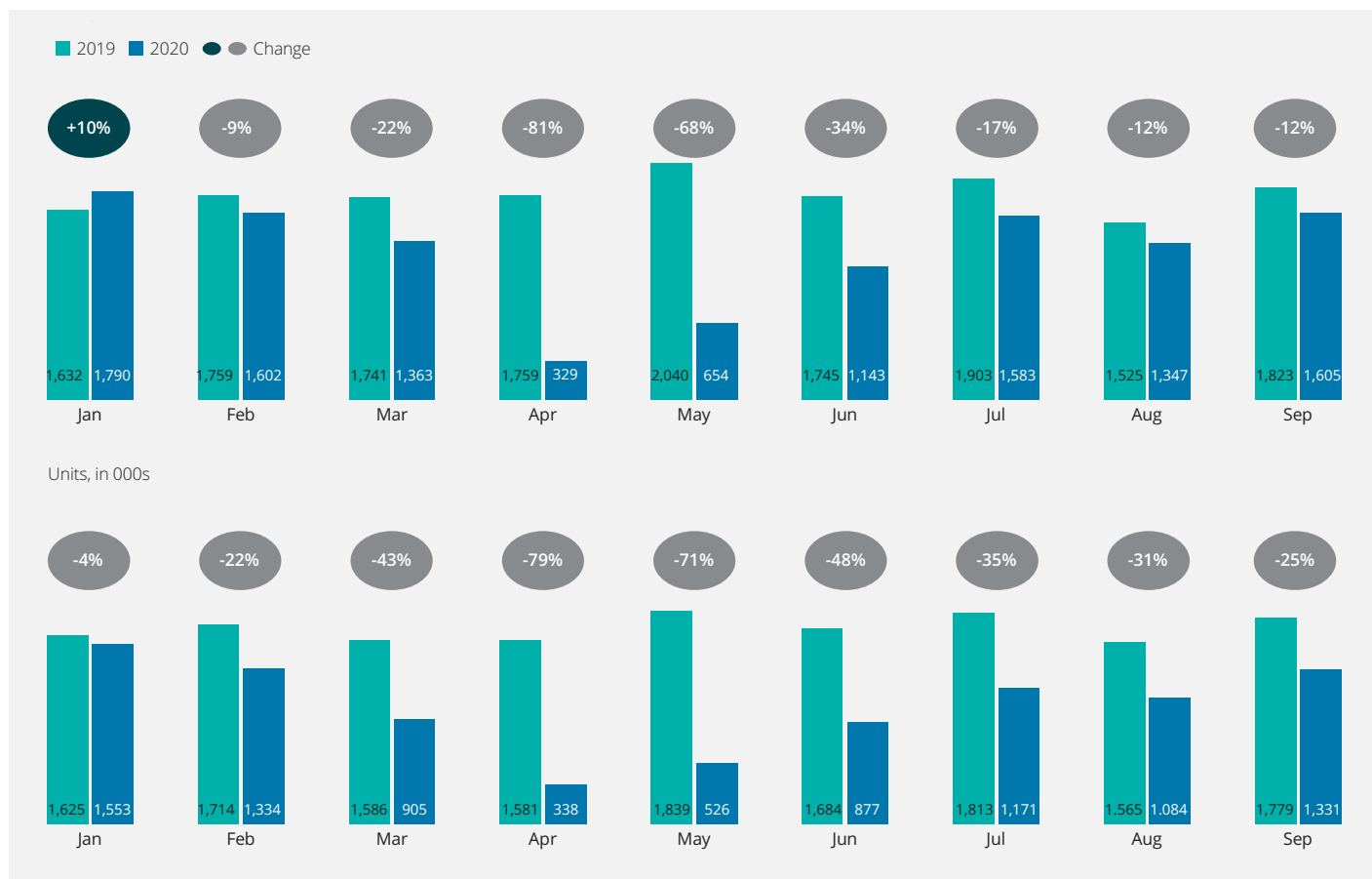
entirely by the same company, called a 'manufacture' although these 'manufacture brands' also rely on independent subcontractors for some components. Suppliers working for leading brands or working on specific components in the high-end segment have fared better than those working for volume brands in the low to medium range price point. Generally, independent subcontractors are the first part in the value chain to experience a slowdown but also a restart.

Despite growth in global exports from approximately CHF9 billion in 2000 to CHF21 billion in 2019, the Swiss watch industry is cyclical in nature. After a sharp decrease in 2009 following the 2008 financial crisis (by 22% in export value), exports increased strongly in 2010 (by 23% in value) and growth continued until 2014, led mainly by demand from China and Hong Kong. After a slowdown in 2015 and 2016, the export industry returned to growth in 2017 and 2018 with a 4% increase in export volumes of mechanical watches for each of these two years. The high-end segment experienced even stronger volume growth of 8% in 2018. The industry as a whole, however, experienced only moderate growth due to the continuing decline in entry-level quartz watches in the face of competition from smartwatches. An economic slowdown in China and geopolitical uncertainty in many regions made 2019 a more challenging year, with a 3.8% decline in export volumes of mechanical watches.

Hopes were high in January 2020, with the industry off to a good start and heading towards a better year than 2019. COVID-19 intervened unfortunately, leading to one of the most disruptive periods the Swiss watch industry has ever faced.

Exports dropped significantly in February, 9% YoY in value, but the effect of the pandemic and subsequent lockdown peaked in April with a debilitating 80% YoY decline (see Chart 1). This was linked directly to factory closures in Switzerland for four to five weeks, and globally most boutiques were closed. Exports started to recover slowly over the summer, although still substantially down on 2019 levels. Until the end of August 2020, many brands, manufacturers and suppliers had part-time working in place and some even required employees to take extended summer holidays. A few leading brands, primarily active in the high-end segment, and their respective suppliers, were able to get back to 100% production capacity as of September and October.

Leading brands and their suppliers entered the COVID-19 crisis with stronger balance sheets and, despite seeing a decrease in activity, were least affected by the pandemic. Already facing a challenging 2019, higher volume brands operating in the low to medium range segments were most affected. The suppliers working with these brands entered the pandemic with lower liquidity levels and had little buffer to navigate these difficult times. This led some to lay-off their employees while others were forced to sell their business, or sell off assets to avoid bankruptcy. It is likely that these suppliers will continue to suffer in the months ahead.

Chart 1. The impact of COVID-19 on Swiss watch exportsSwiss watch exports - World (2019 vs 2020 monthly comparison)
Value, Mio CHF

Source: Federal Customs Administration, Federation of the Swiss Watch Industry FH, Deloitte Research

COVID-19 was a perfect storm for the consumer goods industry in general, and particularly for fashion and luxury goods. Coupled with prolonged store closures – in China, most luxury boutiques were closed from January to March – the collapse in worldwide travel removed the industry's most valued and valuable consumers. Ongoing uncertainty about COVID-19 also dampened consumer sentiment.

The Swiss watch industry is traditional at its core, relying primarily on sales at flagship bricks and mortar stores and retail outlets. The industry recently started developing its digital channels in an effort to get closer to their end customers. As the pandemic progressed they were forced to accelerate their digitalisation and quickly rethink their business model and strategies to face a

new reality in which in-store buying was either impossible, or less comfortable for customers.

In April 2020, Patek Philippe announced that it was authorising selected dealers to sell its current stock of watches online for a limited period. Although a temporary measure, it was seen as a small revolution for this traditional brand given that it has never sold its watches online.¹ Industry giants like the Richemont Group announced its intention to further develop its digital capabilities because online retail sales, although down, grew stronger and were more resilient, contributing 8% of Group sales in Q1 2020 compared to 2% in Q1 2019.²

Brands such as Piaget and IWC offered virtual experiences and augmented reality. Omega rolled out its European e-commerce site which until 2020 was restricted to the US and UK. In April, Breitling shifted its Breitling Summits to a Webcast Summit to launch its 2020 collections. That same month Cartier launched an online platform, Watchmaking Encounters, to showcase its new releases. Tudor and HYT stayed close to their customers through increased social media activity. To keep its community connected, Panerai introduced #OwnYourTime, an interactive content platform with live talks and Q&A sessions. MB&F normally relies on a network of retail partners to sell its watches. This summer it ventured online to sell a portion of their two limited edition watches crafted in collaboration with H.

Moser & Cie. MB&F used this foray into e-commerce to offer select models for a limited time on a rotation basis. An industry first, their e-shop also included selected pieces sourced from their retail partners; an initiative accelerated when a majority of their retailers closed at the height of the lockdown.

A similar digital acceleration happened in the collectible watches auction market, which saw online auctions boom during lockdown and extended to watches of all price points. Sotheby's for example recorded strong growth driven by its weekly online auctions, which are now much more frequent and will comprise a major part of its business going forward.

Amidst a great deal of uncertainty, the industry is struggling to adapt and deal with an undefined 'new normal', torn between the hope for a recovery during the second half of the year, and the fear of a second wave of the coronavirus. A resurgence of infections during autumn and winter, as is currently the case in much

of Europe and the US, would inevitably force additional restrictions on travel and freedom of movement.

A second lockdown in the last quarter of the year with similar market effects as seen from March to June would mean substantial losses for the holiday business season and a more negative outlook for 2020 exports. The latest results of Deloitte's State of the Consumer tracker, which gauges consumer behaviour and confidence across nearly 20 countries, indicate that only 52% of consumers feel safe going to shops: this is up slightly from the summer (49%), but nowhere near a return to normal.³

2.2 Quartz watches: Continuing drop in exports and sales

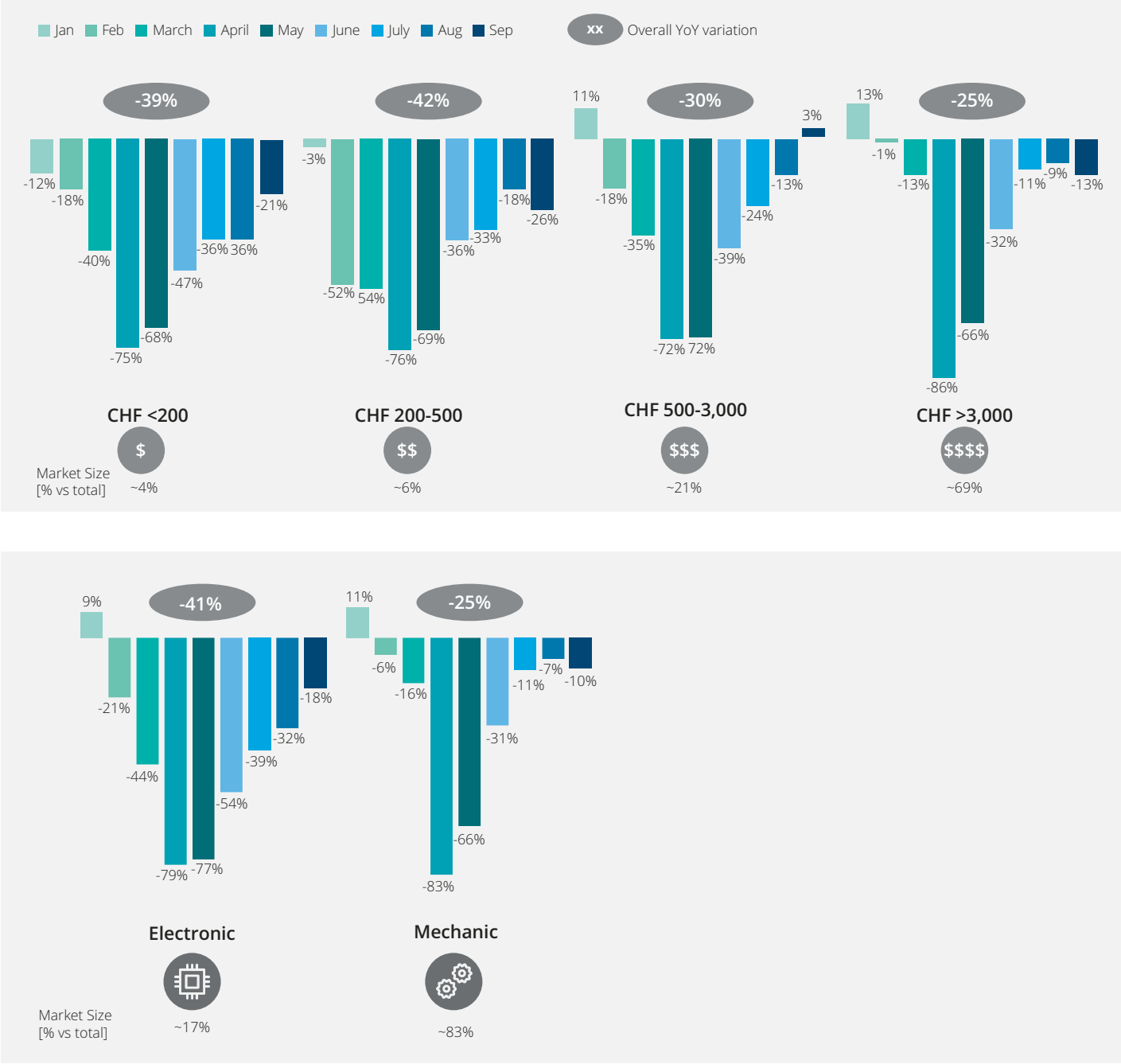
Since 2012, the trend in exports of entry-level quartz watches has been downwards, growing more acute in 2019 when export volumes were 10 million units lower than in 2011. This decline was further accelerated in 2020 by COVID-19, as illustrated in Chart 2, with a decrease of around 45% in the first half of the year.

During times of crisis, those with less discretionary income have a tendency to save, and there has been a big impact on sales of entry-level watches from cautious spending, growing competition from similarly priced smartwatches and non-Swiss fashion brands, and less need for the 'Swiss Made' label in this price range.

Mechanical watches have driven market growth in recent years and are partially responsible for helping the industry recover from slowdowns and crises over the past decade. This has also been the case in 2020 as the mechanical segment fared better than the overall industry with a lesser decline of 33% over the first six months. The high-end mechanical segment (export price above CHF3,000) has been the least affected this year and, in August export sales rebounded back to 2019 volumes. In line with recent years, high-end mechanical watches should drive the recovery of the Swiss watch industry, which historically has experienced periods of growth after difficult times.



Chart 2. The impact of COVID-19 on Swiss watch exports across different price ranges and type of build (2019 vs 2020, value)

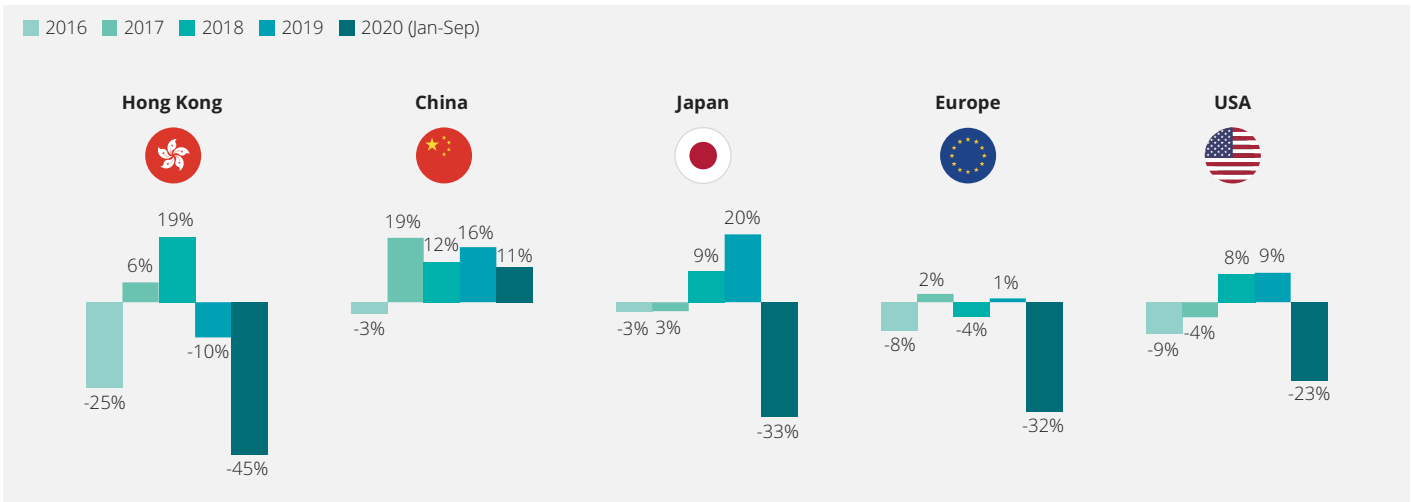


Source: Source: Federal Customs Administration, Federation of the Swiss Watch Industry FH, Deloitte Research

2.3 China: Key for recovery and growth

Looking at recent annual sales, Swiss watch exports have collapsed in many markets, with the exception of China. Cumulative exports to China in 2020 until September even increased by 11% compared to the corresponding period in the previous year. The market in China is growing more strongly than Hong Kong, and this has been the case since 2018.

Chart 3. Swiss watch exports (YoY variation, value)



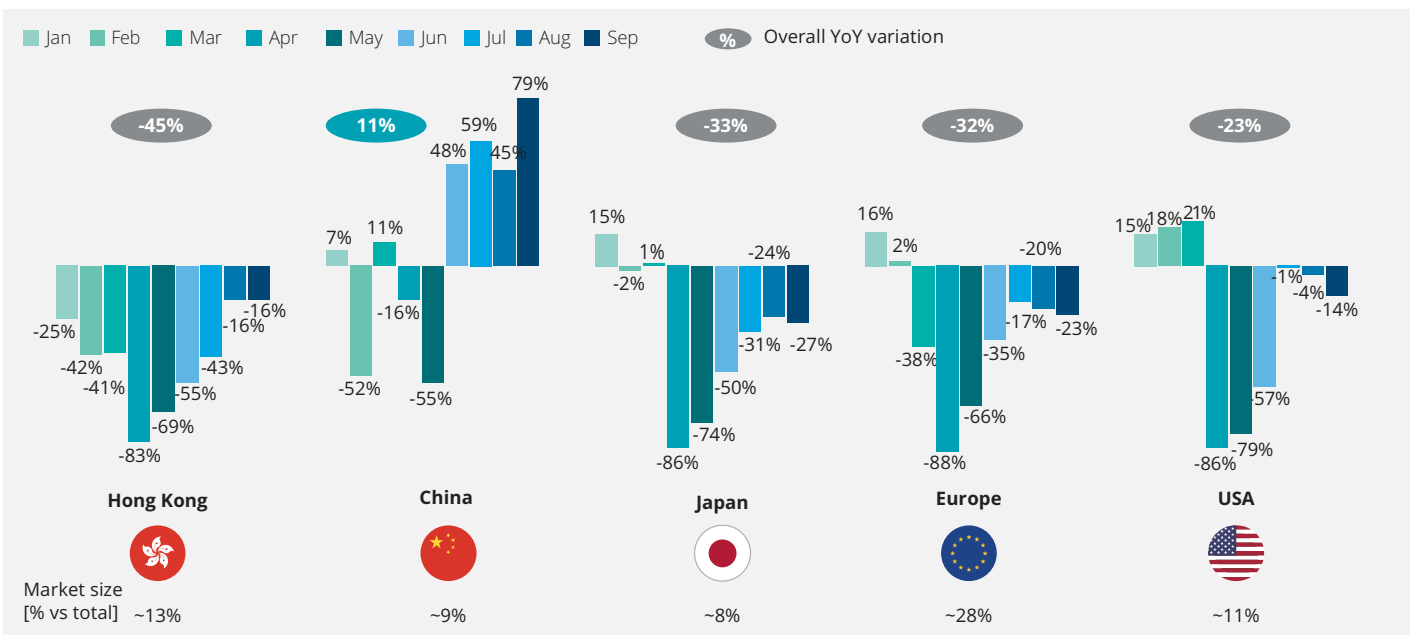
Note: Data from 2020 consists of Jan-Sep compared to same time period in 2019.

Source: Federal Customs Administration, Deloitte Research

The monthly trajectory in sales in the major markets provides further grounds for optimism. Changes in sales volumes in China correlate with the timeline of the pandemic and the corresponding lockdown measures. As travel retail relies heavily on Chinese travellers, if we see a gradual return to normal then the situation in other key export markets may improve.

China was the first country to suffer the consequences of COVID-19 and the first to 'get back to business'. In June 2020, sales in China began to show a strong increase of 48% YoY (see Chart 4). This can be attributed to a return to consumption and also restocking of Swiss exports in China following a stop in production for several weeks. The recently released September export figures show strong recovery in China and continued decline in the US, Europe and Japan.

Chart 4. The impact of COVID-19 on Swiss watch exports across major markets (2019 vs 2020, value)



Source: Federal Customs Administration, Federation of the Swiss Watch Industry FH, Deloitte Research

Strong sales in China can imply that the eagerness of consumers to 'get back to normal' will facilitate a quicker 'V-shaped' recovery from the crisis. If true, the rebound in the second half of the year could partially compensate for the first part of the year, with the prospect of a more sizable rebound in 2021.

However, what is true for the local Chinese market might not be the case for the rest of the world. Historically Chinese buyers have been responsible not only for growth in China and the rest of Asia, but have also constituted a large part of the travel retail sales in Europe and the US. Tourist sales in big European and US cities as well as in Switzerland have been attributable in large part due to Chinese buyers. With travel

retail down and not expected to recover fully until at least 2022–2023,⁴ a return to growth outside China will prove more difficult.

China is also incentivising its citizens to purchase more domestically, for example with a generous revision of the duty free shopping policy at its Hainan Free Trade Port area. From 1 July 2020, the duty free shopping limit significantly increased from approximately USD400 to USD14,000 per year which includes the purchase of an unlimited number of watches provided the total annual limit is not exceeded.⁵ This effort to stimulate purchases may lead Chinese consumers to shift a substantial portion of their buying power within the domestic market and away from Hong

Kong, the US and Europe.

Sales and growth curves still need to normalise, but it is too early to make any definitive prediction about the post-pandemic market particularly with COVID-19's second wave affecting Europe and the US. There is strong reason to believe that the recovery will come earlier across luxury segments in particular, driven by consumers' financial means to fund discretionary purchases, including travel, rather than solely by the (still quite uncertain) evolution of the macroeconomic landscape.



3. Looking ahead

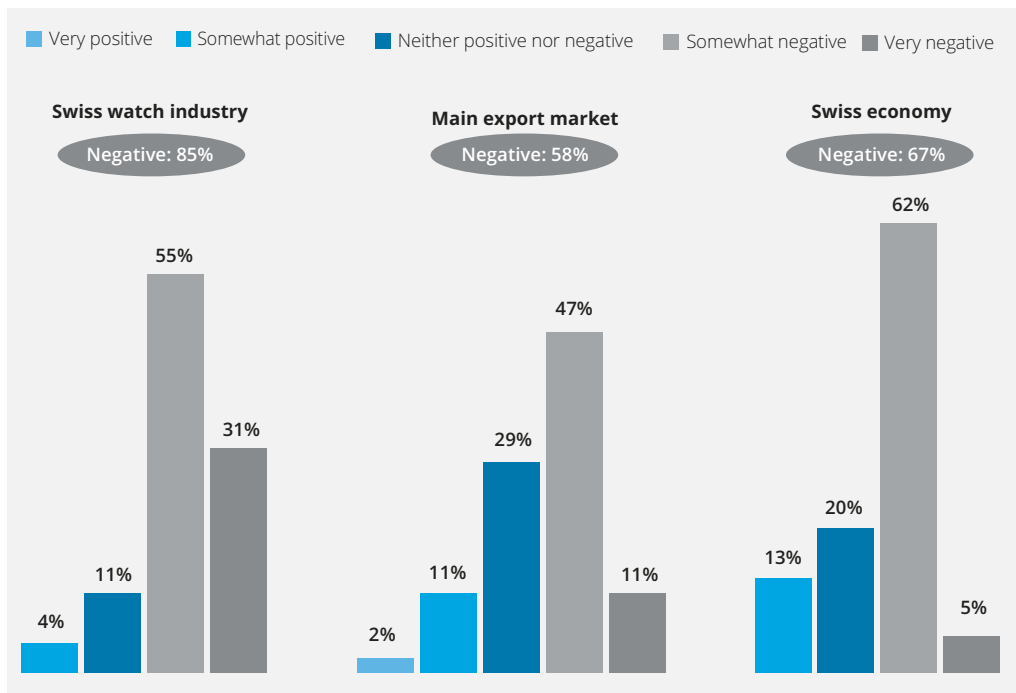
3.1 Beyond the pandemic

The Swiss watch industry has been affected in many ways by COVID-19. Global tourism collapsed due to travel restrictions, which meant almost no customers in the duty free stores or shopping malls. Domestic demand dropped, at least temporarily, due to lockdowns. The crisis also has had direct financial consequences for many people, particularly on their disposable income and willingness to spend. In our consumer survey, 29% said that they will postpone their watch purchase this year and 18% will not buy a watch because they are only buying what is necessary.

Many retailers are afraid that customers will stay away or are staying away because the shopping experience is not quite the same with mask obligations, hygiene measures and social distancing. As mentioned previously, Deloitte's State of the Consumer tracker found that, as of the 3 October update, only 52% of consumers feel safe going to shops. It is therefore not surprising that the outlook is negative for the Swiss watch industry, the Swiss economy and its main export markets next year. While 67% of the executives surveyed see a negative outlook for the Swiss economy, the number for the Swiss watch industry is even worse at 85%. Expectations for the

main export markets are better, though still clearly negative. The fact that the future of the watch industry is seen as worse than for the Swiss economy as a whole shows the seriousness of the current situation and the monumental challenge facing the industry.

Chart 5. How do you judge the economic outlook for the next 12 months?



Note: Because of rounding, percentages may not add up to 100. This also applies to all subsequent charts in this report.
Source: Deloitte Research

3.2 The Far East and high-end are vital for growth

Asia, particularly China, is clearly a growth region for the year ahead: 77% of executives are expecting growth in the market in China, with 35% even predicting strong growth, and over one-third expect growth in the Middle East; however a decline is expected in both Europe and Hong Kong, as illustrated in Chart 6. As watch sales in Europe and Hong Kong have been driven mainly by travel retail from China, their recovery remains very uncertain.

China is mentioned most often as the next big growth market for the Swiss watch industry in general, followed by the US and other densely populated Asian

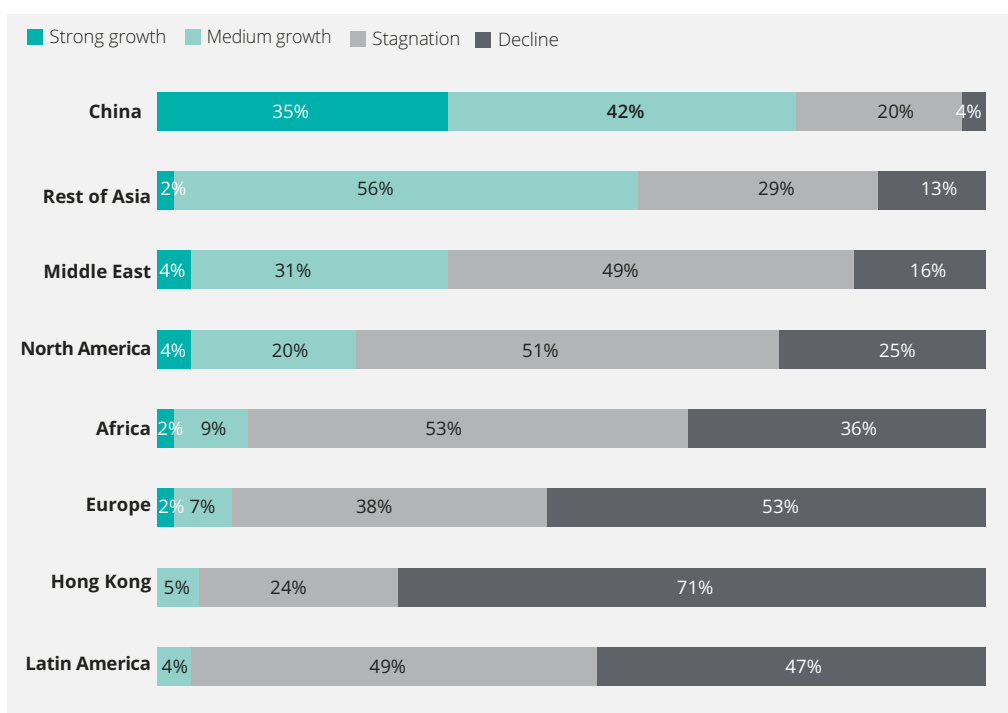
countries like Indonesia, India and Vietnam. Watch makers are therefore adapting their products, messaging and strategy for the lucrative Chinese market. Watches & Wonders, Geneva's flagship watch fair, previously held in Hong Kong, was held for the first time in Shanghai at the beginning of September and is currently having a month-long exhibition in Sanya, a resort on the island of Hainan.⁶

Launched in 2017, Alibaba's Tmall Luxury Pavilion is an invitation-only B2C e-commerce platform in China giving premium watch brands such as Cartier, Tag Heuer and Zenith the ability to connect to a wider, local and digitally-savvy audience. Luxury Pavilion allows brands to have dedicated 'store-fronts' where they

can customise their content, customer experience and communication, all while accessing Alibaba's latest technologies.

When looking at growth expectations, it is clear that the more expensive the watch, the better the outlook. High-net worth individuals are less affected by the current crisis, and in general the luxury segment is less exposed to economic crises. Mechanical watches, particularly high-end ones, have been much more resilient to crises and slowdowns in the past. They have driven the recovery in China over the summer, and this upward trend should continue.

Chart 6. What are your growth expectations for the Swiss watch industry in the following regions in the next 12 months?



Source: Deloitte Research

“2020 will be a historic year for the Swiss watch industry with China becoming the largest market for Swiss watches and Hong Kong losing its top position after more than a decade.”

René Weber,
Managing Director and Analyst,
Luxury Goods, Bank Vontobel AG

4. Challenges remain

4.1 External risks: Protests and politics

Protests, political uncertainty and a strong Swiss Franc

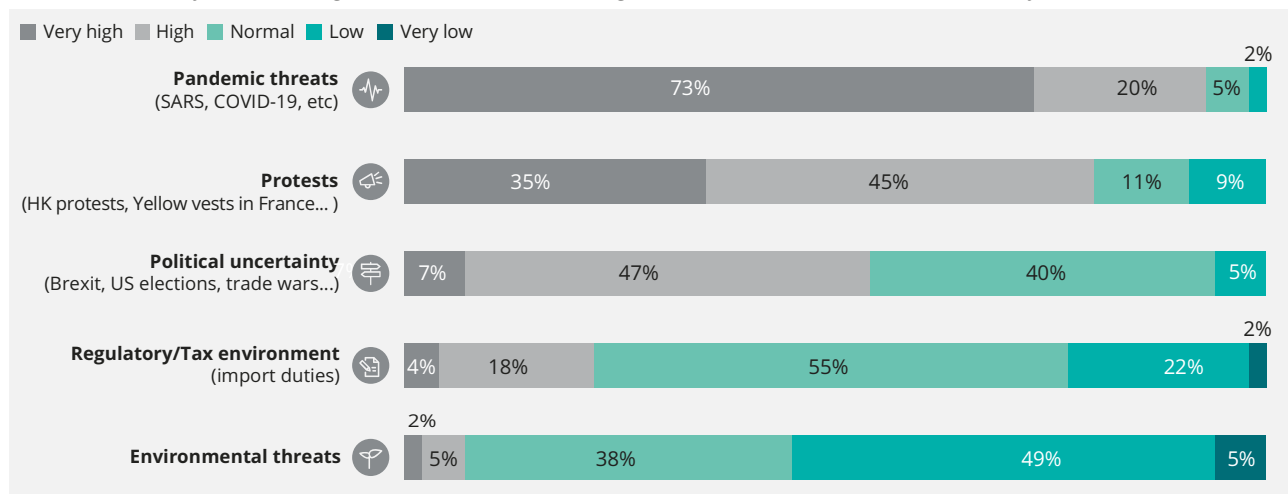
The industry is dealing with more than just the COVID-19 pandemic. In 2019, the protests in Hong Kong caused many streets to close and shops to be boarded up, with a noticeable impact on sales figures month after month. This was a similar situation in France with the yellow vest protests which disrupted the country for most of 2019. In central Paris, shops were forced to shut

on a number of Saturdays and landmark department stores such as Galeries Lafayette and Printemps, and the famed Boulevard Haussmann were almost empty of shoppers even in the weeks leading up to Christmas. As Chart 7 shows, 80% of executives surveyed believe that these protests have had a large negative impact on the watch industry.

According to the majority of executives surveyed, general political uncertainty, from the likes of Brexit, the US-China trade

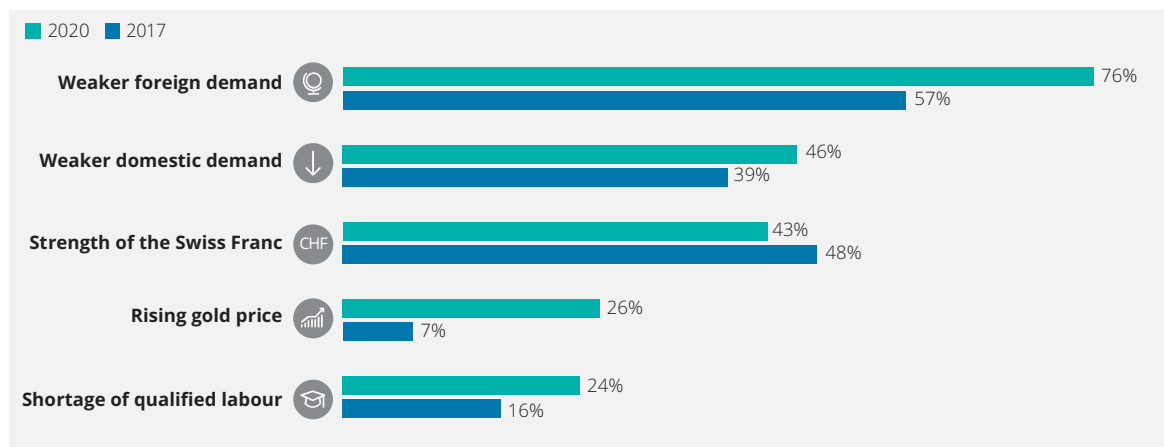
war and upcoming elections in the US, is having a negative impact on the Swiss watch industry. As we also saw in our 2017 study, weaker foreign demand, softening domestic demand and a strong Swiss franc all continue to pose significant risks to the industry, as shown in Chart 8. Since then, risks from the rise in the gold price (by about 50% since 2017) and a shortage in skilled labour have also increased substantially.

Chart 7. How would you rate the negative influence of the following external factors on the Swiss watch industry?



Source: Deloitte Research

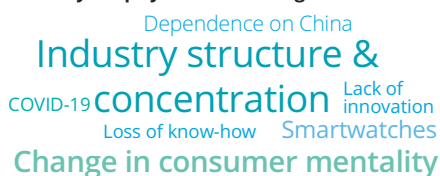
Chart 8. Which of the following factors are likely to pose a significant risk to your business over the next 12 months (multiple answers possible)?



Source: Deloitte Research

What keeps watch executives awake at night? According to those surveyed, the biggest cause for concern is the structure and concentration of the industry. Just a few brands serve as the growth engine for the industry: these are concentrated in the high-end segment and have considerable control over their distribution networks. This poses a threat to smaller brands, independent distributors and those suppliers who work with smaller brands. Smartwatches continue to be seen as a threat, although this depends on the price category – smartwatches are less of a concern for companies that manufacture or distribute only high-end mechanical watches.

Chart 9. What issue related to the Swiss watch industry keeps you awake at night?



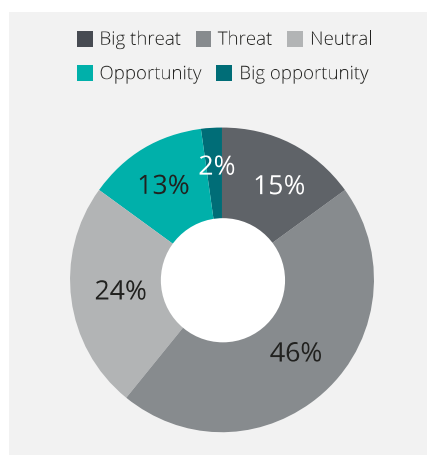
Source: Deloitte Research

Decline in sales of quartz watches is a threat to the industry

As mentioned previously, annual production of quartz watches by the Swiss watch industry has fallen by over 10 million units since 2011. Over 60% of respondents

see this decline as a threat. After the quartz crisis in the early 1980s the Swiss watch industry rebuilt itself by producing large quantities of entry-level to mid-range categories of quartz watches. This provided a strong foundation for developing the mechanical watch segment and moving into the luxury industry. Respondents fear that a continuing fall in sales of entry-level quartz watches and low-to-mid-range mechanical watches, which are not performing as well as in the past, could weaken the industry in Switzerland. This would inevitably have a knock-on effect on prices, job losses and a loss of know-how.

Chart 10. How would you rate the effect on the Swiss watch industry of the decline in quartz watches produced in Switzerland?



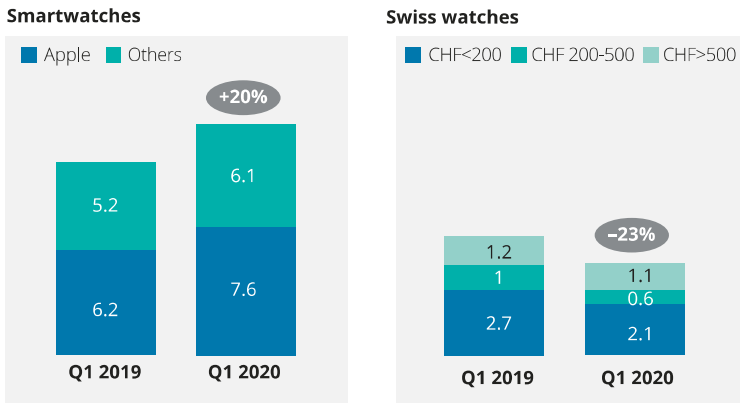
Source: Deloitte Research

Over the past decade, the Swiss watch industry and 'Swiss made' label have been affected by an increased sourcing of selected watch parts from outside Switzerland. The new 'Swiss made' rules in place since 2017 have done little to change this. This was confirmed by the watch executives surveyed, some of whom thought that the 'Swiss made' legislation has had a negative impact on low-to-mid-range brands and has even resulted in a growing preference for the use of foreign-sourced components. Although some high-end brands were already close to being 100% 'Swiss made', a number of players continue to rely on imports for external parts. When production in China came to a halt in early 2020, this became an issue for a number of watch producers by exposing gaps in their supply chain and inventory. The COVID-19 pandemic may incentivise watchmakers to relocate some of their production back to Switzerland, thereby protecting Swiss suppliers and local expertise. This would benefit the Swiss industry overall.

4.2 Smartwatches: Industry missed the boat

In 2017, Apple claimed to be the largest watch brand in the world in terms of sales volume, ahead of Rolex. Fast forward to 2019, and the Apple Watch outsold the entire watch industry in terms of volume with an estimated 30.7 million units shipped worldwide (36% more than in 2018) while the Swiss watch industry in total shipped 20.6 million units. In Q1 2020, 7.6 million units of the Apple Watch were shipped worldwide, an increase of 23% on Q1 2019, showing that the growth in global demand for smartwatches continued despite considerable headwinds from COVID-19. During the same period, Swiss watch exports declined by 23%. With more than 55% of the global market share, Apple remains the clear industry leader ahead of Samsung and Garmin.⁷



Chart 11. Shipments of smartwatches vs Swiss watches (millions of units)


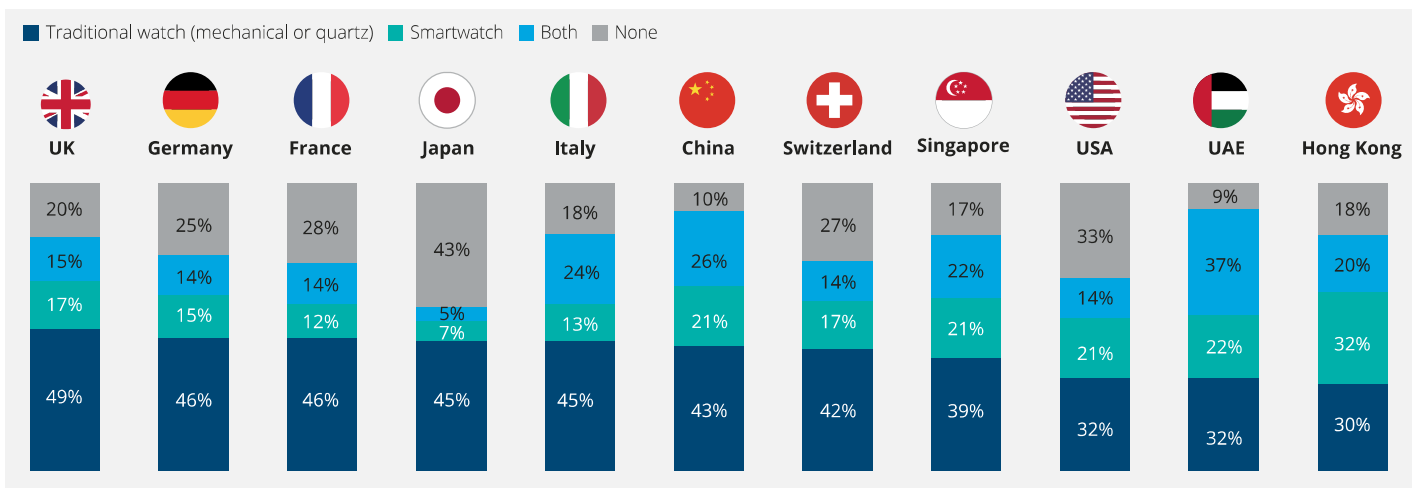
Source: Strategy Analytics, Deloitte Research

Although Apple and Samsung dominate the smartwatch market, a number of smaller niche brands and fitness trackers continue to be popular. Overall, health and fitness-related functions have been the main driver in developing the popularity of this market. Looking at the considerable rate of growth, are smartwatches really a threat for the watch industry, or are they a gadget worn sometimes to serve a specific purpose?

Chart 12 shows that the percentages of people who wear both a smartwatch and a traditional watch or only a smartwatch are similar across most countries. Smartwatches are more common in Hong Kong, the UAE, the US, Singapore and China.

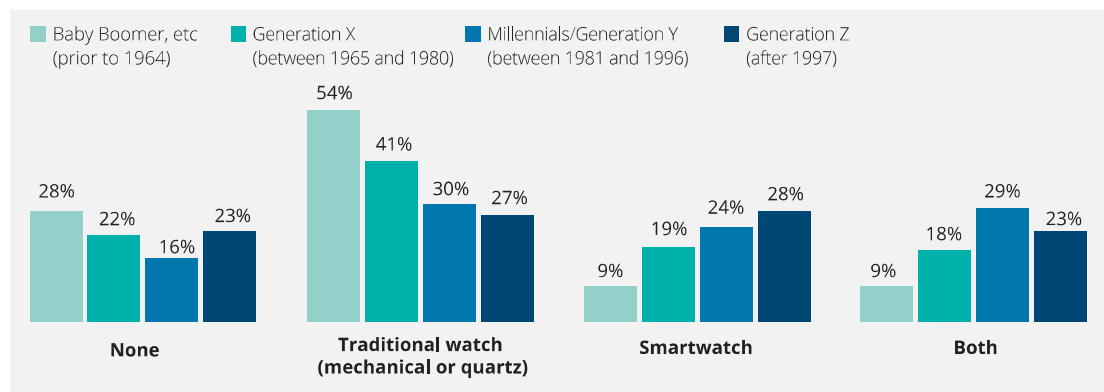
When comparing countries it is important to keep in mind differences in the age make-up of the population. The UAE has a particularly young population, which drives the higher demand for smartwatches. The UK, Germany and France have the highest percentage of traditional watch owners. Traditional watch wearers make up the majority of the surveyed population in all countries, with the exception of the UAE where the majority, 37%, prefer the flexibility of either a smart or a traditional watch. Over 40% of Japanese and 30% of Americans do not wear a watch.

On average approximately 60% of consumers in the markets we surveyed wear either a traditional watch or both a traditional watch and a smartwatch, this is a positive sign that consumers are not completely digitalised when it comes to their timepieces, and smartwatches are not as calamitous for the Swiss luxury watch industry.

Chart 12. What kind of watch do you wear? By country


Source: Deloitte Research

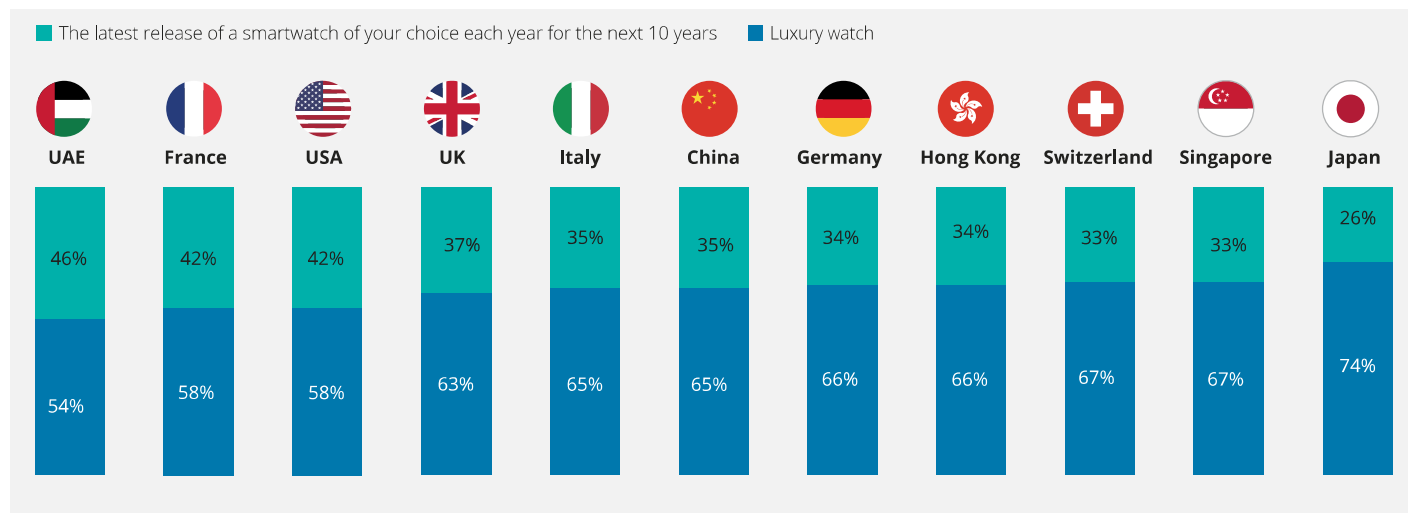
Chart 13. What kind of watch do you wear? By age category



Source: Deloitte Research

Age demographics play a role in which type of watch one prefers. Baby Boomers have a clear preference for traditional watches while there is a stronger preference for smartwatches among millennials and Generation Z. Income levels at different stages in life also influence buying decisions, so we asked respondents what their watch buying preference would be if they had CHF5,000 (or their local currency equivalent) to spend.

Chart 14. Regardless of whether or not you own a luxury mechanical watch or not, if you were given CHF5,000 to spend on a watch, which type would you prefer?



Note: Participants who have chosen "Don't know" were excluded.
Source: Deloitte Research

The majority of respondents across all eleven countries in our consumer survey opted for a luxury watch. This is also the case when taking age into consideration: 58% of Generation Z, 61% of millennials and 65% of Generation X would also opt for a luxury watch. Therefore, the desire to own a piece of luxury craftsmanship is strong across all generations. In Japan only 26% would choose a smartwatch, although this contrasts with the UAE where 46% would choose a new smartwatch each year. This may be due to the very different age structures in the populations of the two countries. In our 2017 study, a clear majority of millennials in the UK, China and Italy chose the luxury watch, but in 2020 these numbers were significantly lower – for the UK by 24 percentage points, for Italy by 15 percentage points and for China by 13 percentage points. Smartwatches are therefore increasingly a preferred option when money is not a consideration, but responses to the question suggest that luxury mechanical watches still seem to have a bright future.

One person in three wears a smartwatch at least some of the time and even more among the younger generations. Did the Swiss watch industry miss the boat when it came to smartwatches? According to our survey, the answer from 62% of watch executives is Yes. The rise in popularity of smartwatches has resulted in falling sales of quartz watches over the past five years. The industry has been trying to catch up and compete in the smartwatch segment. Tag Heuer's Android-based Connected and Golf watches and Tissot's latest proprietary smartwatch T-Touch Connected Solar released in 2020 are interesting Swiss luxury smartwatch offerings, but this segment will remain a niche market for traditional Swiss players and is unlikely to become mainstream.

One-third of watch executives see the effect of smartwatches influence on sales as a threat, up from 14% in our 2017 study, although smartwatches are seen as less disruptive for those companies that manufacture or distribute primarily high-end mechanical watches.

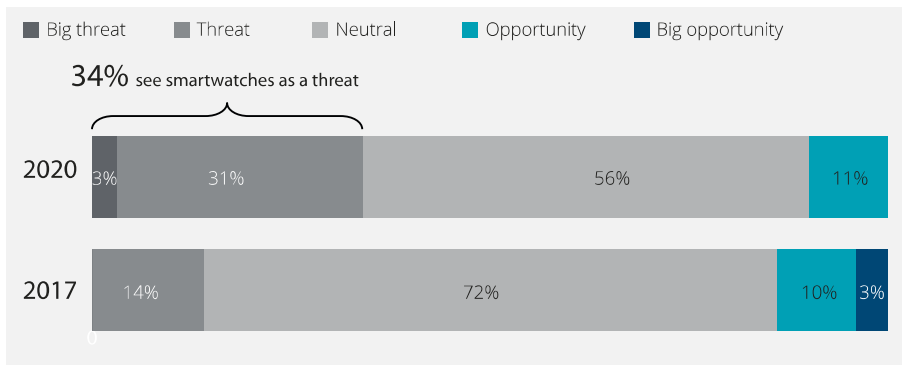
“People have an emotional connection to high-end watches, they are timeless and the result of centuries-old know-how.”

Pascal Ravessoud,
External Affairs Director and
Watchmaking Expert,
Fondation de la Haute Horlogerie

62%

of watch executives say, that the Swiss watch industry missed the boat when it came to smartwatches.

Chart 15. How do you rate the impact of smartwatches on your sales?



Source: Deloitte Research

5. Business strategies

5.1 Digitalising for a 'consumer first' world

Omnichannel strategy, new products and cost reduction

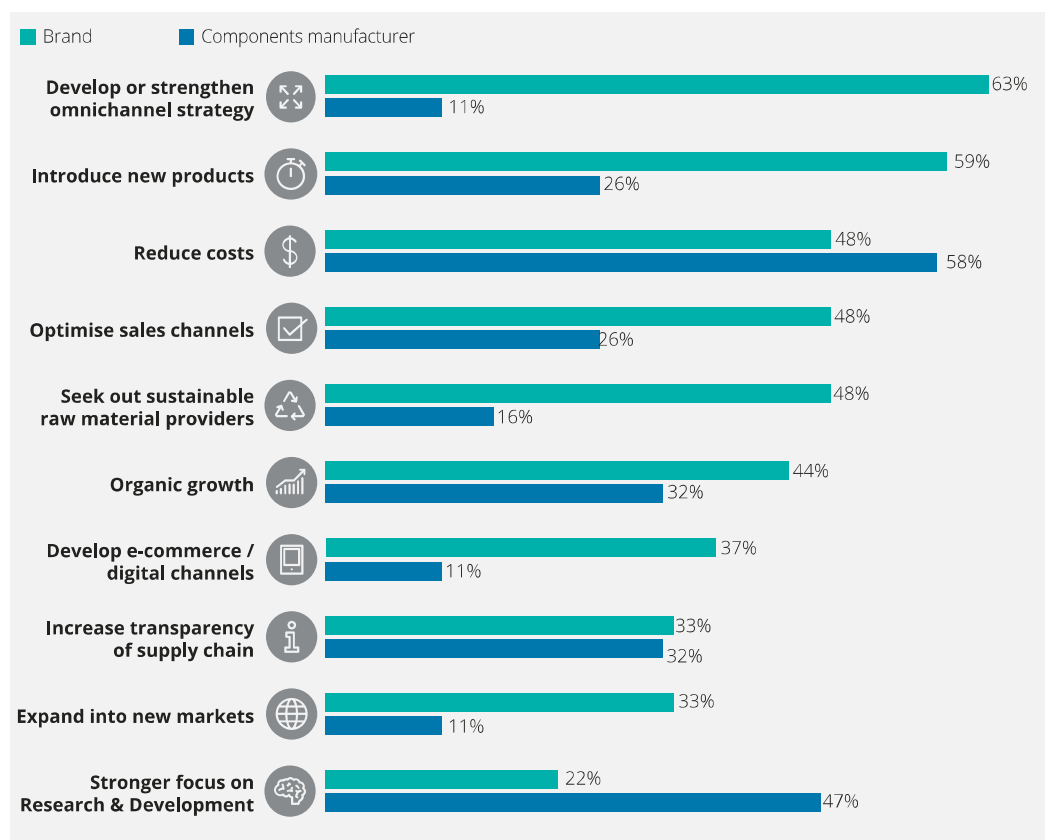
Over the next year brands are looking to develop or strengthen their omnichannel strategy, introduce new products, reduce costs, optimise sales channels and seek out sustainable raw material providers (see Chart 16). For component manufacturers, the focus is to reduce costs

and increase R&D. More and more brands such as Audemars Piguet and Bulgari are optimising their sales channels by reducing their numbers of points-of-sale. Audemars Piguet is also verticalising its distribution networks in an effort to stay closer to its end consumers, better control its pricing and internalise some of its margins.

Sales of high-end watches take place primarily in a physical retail location, something that has not been possible

during the lockdown and there are still capacity restrictions in a number of countries. Normally seen as traditional, the watch industry must now innovate in the areas of digitalisation, e-commerce and digital engagement along the entire customer journey. This is why over 60% of brands in our survey are prioritising the development and strengthening of their omnichannel strategy.

Chart 16. To what extent is each of the following business strategies likely to be a priority for your business over the next 12 months?*

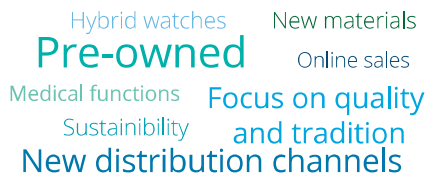


*Share of "Strong priority". Other options were "Somewhat a priority" and "Not a priority".

Source: Deloitte Research

To recover from the current crisis and thrive, companies need to respond to market developments and anticipate the next big innovation or opportunity. Chart 17 shows the opportunities most mentioned by watch executives: 'pre-owned' tops the list. Besides exploring innovations such as new materials, distribution channels and wearable technology, the time-honoured quality and tradition of Swiss watchmaking maintains its importance and also resonates in the pre-owned market.

Chart 17. What will be the 'next big thing' (i.e. innovation/opportunity) for the Swiss watch industry?



Source: Deloitte Research

Seamless journey between physical and digital

When looking at the marketing channel mix, the importance of digital continues while traditional media such as print, television and radio are losing their importance, as illustrated in Chart 18. Social media has increased in importance since our 2017 study, with Instagram seen as key to reaching out to consumers and as a sales channel in most regions of the world. Watch brands will therefore need strategies for their social media and social selling channels, particularly for connecting to the digital native and digitally savvy younger generations.

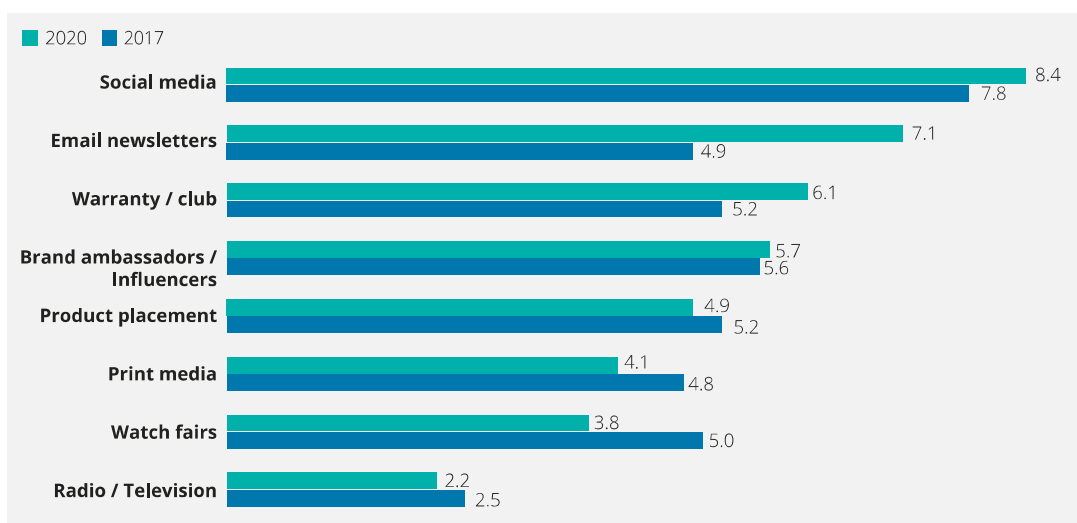
International watch fairs have undergone a major reorganisation in the past few years and COVID-19 will only accelerate a rethink of the approach, format and importance of these fairs in the years ahead. A majority of industry executives believe that smaller more personalised events amongst selected partner brands would benefit the industry most in the future. The challenge for an industry that relies largely on the emotional connection from

seeing and handling luxury watches will be how to combine the physical and digital experiences, so-called 'phygital'. Recent examples such as the Geneva Watch Days, with virtual and in-hotel presentations, and the rebranding and digitalisation of SIHH to Watches & Wonders demonstrate that the industry can adapt to the changing environment. Maintaining visibility, demonstrating resilience and staying optimistic in a time of disruptive transition will be needed if the industry is to thrive in the future.

"Some brands have chosen a 100% digital marketing strategy; Instagram and WeChat will be at the heart of the digital approach of the watch industry."

Manuel Emch,
Consultant and Founder,
Le Büro

Chart 18. How important are the following elements for your marketing strategy?



*Scale from 1 to 10, with 1 indicating very low importance and 10 indicating very high importance
Source: Deloitte Research









An increase in online marketing and distribution channels provide opportunities, but also carry reputational and financial risks. Executives surveyed see the grey market as the biggest risk, followed by social media and the threat of counterfeits, particularly the so-called 'superfakes' which are meticulous in their detail and sometimes difficult to distinguish from the originals. To tackle these issues, brands are starting to use blockchain technology for end-to-end traceability and proof of authenticity. The Kering Group, working with French startup Woleet, has developed digital warranty certificates for its Ulysse Nardin brand of watches based on the Bitcoin blockchain.⁸ Breitling's Top Time Limited Edition for

example is the brand's first watch offered with a blockchain-based digital passport, developed in partnership with Arianee, a company specialising in digital certification of valuable objects.⁹ Breitling announced in mid-October that it will extend this blockchain-based digital certificate to all of its watches with immediate effect.¹⁰ Arianee counts a number of major players in the Swiss watch industry as members including Audemars Piguet, Breitling, Manufacture Royale, MB&F, Roger Dubuis and Vacheron Constantin.¹¹

Consumers differ when it comes to the influence that marketing channels have on their decision to buy a watch (see Chart 19). Print advertisements are still most

influential in Switzerland and Germany, while in France, China and the UK in-store events have the greatest impact on purchasing decisions. Social media and influencers are increasing in importance and are more effective in Hong Kong, the UAE and Singapore, and radio and TV are still quite important in many countries. This shows how critical it is for brands to get their marketing channel mix right and adapt to local preferences. Consistently measuring the impact of an advertising campaign across multiple channels and geographies will help brands make informed, data-driven decisions about which channels to invest in.

Chart 19. In general, which marketing channels influence your decision to buy a watch the most (multiple answers possible)?

	Most influential	Second most influential	Third most influential
 China	In-store events	Brand ambassadors	Social media/Influencers
 France	In-store events	Billboard ads	Radio/Television
 Germany	Print media	Radio/Television	Social media/Influencers
 Hong Kong	Social media/Influencers	In-store events	Radio/Television
 Italy	Own network	Radio/Television	In-store events
 Japan	Radio/Television	Social media/Influencers	Print media
 Singapore	Social media/Influencers	In-store events	Print media
 Switzerland	Print media	Own network	Billboard ads
 UAE	Social media/Influencers	In-store events	Radio/Television
 UK	In-store events	Radio/Television	Social media/Influencers
 US	Radio/Television	Social media/Influencers	In-store events

Source: Deloitte Research

Bringing the brand to life

The in-store experience is an essential part of the customer journey and will continue to be vital as customers place greater emphasis on authentic brand experiences. Brands and retailers must creatively find ways to bring their story and products to life, to add value for the customer experience. Combining the physical and digital shopping experience not only creates a seamless journey for customers, but also increases resilience should another lockdown happen.

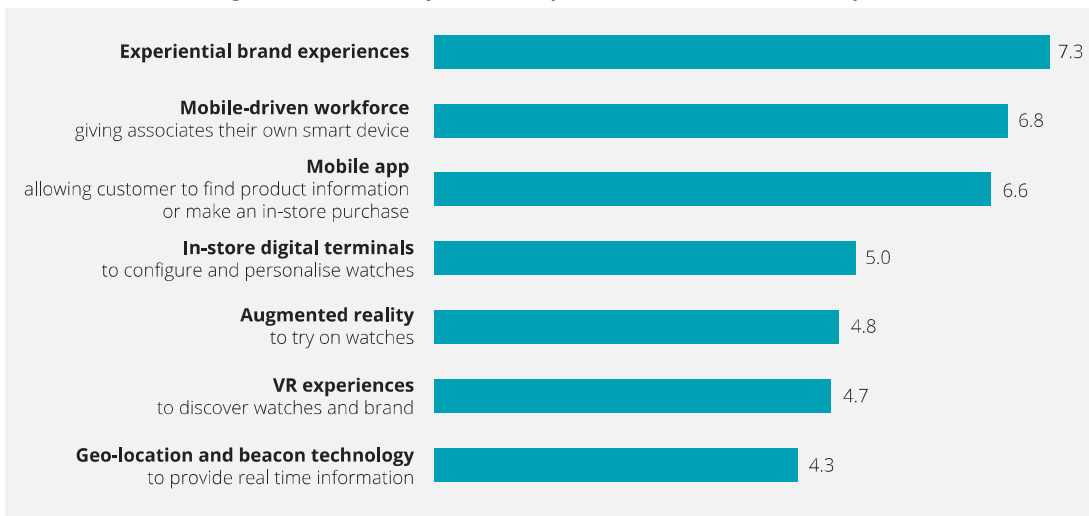
For example Hublot launched a virtual digital boutique, where clients can log in on their smartphones and connect via video call to an assistant who then shows high resolution images and videos of the watches. This hybrid store is currently available in the US and China and allows

Hublot to maintain a tailored customer service even in a virtual space.¹² The current crisis has acted as a catalyst to accelerate existing digitalisation projects.

IWC's recently re-launched flagship boutique in Zürich enables visitors to experience the connection between engineering excellence in watchmaking and motorsport through an interactive, digitally enhanced and immersive experience. Augmented reality, interactive shop windows and visual merchandising that connects with both WeChat and IWC.com demonstrate the company's innovative approach to ensuring a seamless continuation of the customer journey in both the physical and digital space.¹³

Executives are looking to implement experiential marketing for brands, a mobile-driven workforce and mobile apps to enhance their in-store customer experience, as shown in Chart 20. Experiential activities go a long way towards strengthening brand loyalty and mobile tools gives brands and retailers the opportunity to adapt to changing consumer behaviours in the way they browse, research and buy. New technologies like augmented reality or virtual reality are also options, but are not prioritised at the moment.

Chart 20. What kind of digital solutions would you like to implement to enhance customer experience in stores?*



*Scale from 1 to 10, with 1 indicating very low importance and 10 indicating very high importance
Source: Deloitte Research

Chart 21. Which sales channel do you think will be the most important in the next years?



44%

say that they are likely or very likely to open a new mono-brand / flagship store in the next 12 months.

Multiple touchpoints possible, in-store preferred

Bricks and mortar stores will remain the most important sales channels in the coming years, despite the COVID pandemic. Chart 21 shows that more than 50% of those surveyed chose mono-brand stores and authorised dealers as key sales channels. This is underscored by the fact that 44% of watch executives say they will likely or very likely open a new mono-brand or flagship store in the next 12 months. Necessity being the mother of invention

is likely to explain the importance of social media selling channels, such as Instagram, as the third most important sales channel. This demonstrates that the shift to social media sales, accelerated by the pandemic, is here to stay and will inevitably grow in importance.

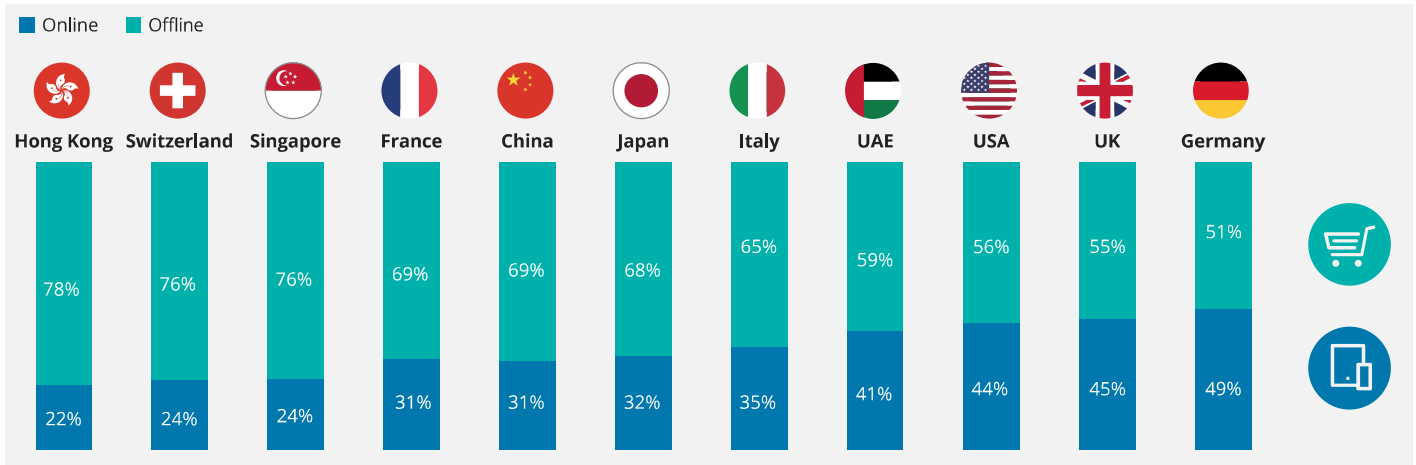
Among Swiss watch executives, 71% believe that offline marketing channels will continue to dominate digital ones across all price brackets, but digital sales channels remain important to consumers,

as shown in Chart 22. Those in Hong Kong and Switzerland are least likely to purchase watches via online channels, while those in the UK and Germany are the most likely. The likelihood of purchasing online has increased since our 2017 study, particularly in the US and Italy, but there is a demographic caveat here: Baby Boomers and more seasoned seniors tend to buy offline more than younger people.

“Digital channels save time and money, but for luxury objects that elicit emotions, you need to touch and feel them. I see a move towards greater complementarity, a blend of the physical and digital – phygital.”

Pascal Ravessoud,
External Affairs Director and
Watchmaking Expert,
Fondation de la Haute Horlogerie

Chart 22. When you buy a watch, where are you most likely to make your purchase?



Source: Deloitte Research

Another channel to watch in the future is watch rentals. The principle of the sharing economy is already a part of many aspects of life, such as transport, hospitality or even fashion. Sharing rather than owning is more fashionable especially among the younger generations. In Switzerland, both Dials and Timetation offer one-off rentals for a set period, or a membership programme with a fixed price per month giving subscribers the ability to rent between three to six watches per year. Among the consumers surveyed, approximately 30% are likely to consider watch rentals in the future.

5.2 The pre-owned market heats up

While Swiss watch brands have been focusing their efforts on developing digital platforms and reshaping their distribution strategy to engage more directly with end-customers, another growing trend has been the interest among buyers for the pre-owned market.

Luxury brands have long stayed away from the pre-owned watch market. Within the past three years however large brands and groups have started to enter this important and potentially lucrative segment. This has been accomplished in several ways: through launching their own certified

pre-owned ('CPO') offering, which was the case for brands like MB&F or Christophe Claret; acquiring an already established player such as when Richemont bought Watchfinder & Co in 2018; or simply announcing a pre-owned offering, like Audemars Piguet. On the distribution side, large players like Les Ambassadeurs and Bucherer have also started tapping into this market. Bucherer is taking a dual approach, acquiring Tourneau, a large US distributor already active in pre-owned watches, and also launching its own Bucherer certified pre-owned business.

The aim of the large brands and groups is twofold: to grab a share of this growing market to counter the cyclical effects of the industry, and to grow sales of new watches via trade-in programmes. This strategy, long used by the car industry, could help trigger new sales of watches if properly implemented.

A number of leading players in the pre-owned market started as e-commerce platforms from the outset giving them the infrastructure and agility needed to serve customers uninterrupted when COVID-19 hit. WatchBox, a retailer, and Chrono24, a marketplace, are two such platforms, both

which saw sales increase as retail locations shut and more traditional brands took time to get up to speed with their e-commerce offerings.

It is important for Swiss players to protect their brand equity and ensure that their watches retain value as a good investment. Maintaining monetary, brand and emotional value have become key decision factors in driving today's pre-owned market. Brands with the strongest value retention, both actual and perceived, are the industry leaders.

"We are a tech-driven company that provides a platform to bring the certified pre-owned watch market to the next level with our agile approach."

Patrik Hoffmann,
Executive Vice President,
WatchBox



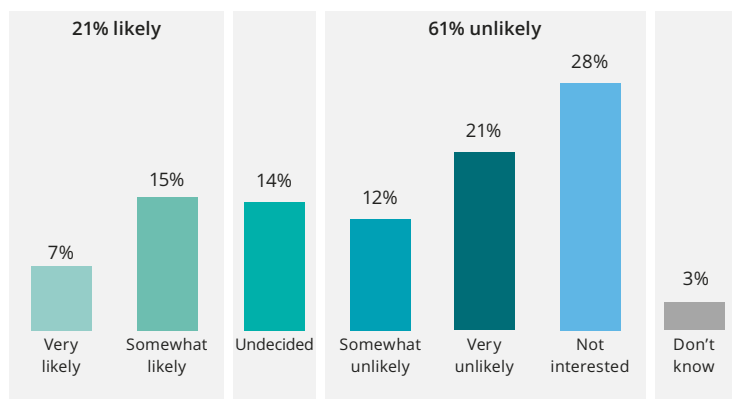
Select blue chip brands are making the most of pre-owned sales, with Rolex, Patek Philippe and Audemars Piguet taking the lead; but other brands like Vacheron Constantin, Zenith and Longines and smaller independent brands such as Richard Mille, F.P. Journe and MB&F are growing in popularity with collectors. Driving the value of pre-owned watches is the overall condition of the watch and the completeness of the set: a full set with original box and certification papers can warrant a 20-30% premium. As rarity is one of the biggest drivers of value, limited editions and discontinued watches are the best place to invest.

As Chart 23 shows, one person in five in our survey indicated that they were likely to buy a pre-owned luxury wristwatch in the next year. In the past, purchasing a pre-owned watch had to be from a special auction house, but now it can be done via the internet. In September 2020, Watchfinder opened a boutique inside Geneva's Bongénie department store to add to their network of boutiques and showrooms in New York, Hong Kong, Munich, Paris, and London. To establish and maintain trust in this market, it is vital to have a 'certified pre-owned' (CPO) guarantee. The timepieces are tested, maintained and certified by the dealers, and are provided with a right of return

and guarantee from the watchmaker. This is how dealers and online portals can eliminate the fear of fraud and counterfeiting.¹⁴

The growth prospects for the pre-owned market are likely to improve with a growing demand for vintage watches and the desire among the younger generations to own top vintage watches. For the cost-conscious consumer, investing in a pre-owned watch can be a cost-effective way to purchase quality pieces, and for those with financial means, they can be a valuable investment.

Chart 23. How likely is it that you will buy a pre-owned luxury wristwatch in the next 12 months?



Source: Deloitte Research

"In the long term, brands that can maintain their value in the secondary market will come out on top; buying a valuable watch becomes an investment."

Manuel Emch,
Consultant and Founder,
Le Büro

5.3 Sustainability: The future is green

Political, social and economic dynamics continue to increase the importance of sustainability. As highlighted in Deloitte Switzerland's recent study, *Power Up Switzerland*¹⁵ sustainability has justifiably taken on strategic importance for both governments and business, including the watch industry. Consumers are increasingly looking at a brand's green credentials to inform their purchasing decisions, particularly among millennials and Generation Z, who are known to be conscious consumers.

The Swiss watch industry also recognises the increasing importance of sustainability and ethics across its entire value chain, be it in the form of recycling/upcycling materials, responsible sourcing, looking into animal product alternatives, or reducing their overall carbon footprint.

An increasing number of Swiss watch brands and suppliers are members of the Responsible Jewellery Council (RJC), the world's leading standard-setting organisation for the jewellery and watch industry. The RJC and its members are helping to transform supply chains to become more sustainable, in order to underpin trust in the industry. Almost 90% of the executives surveyed believe that sustainability is an important issue for the Swiss watch industry. However, only half actively communicate their initiatives and less than one-third publish a sustainability report.

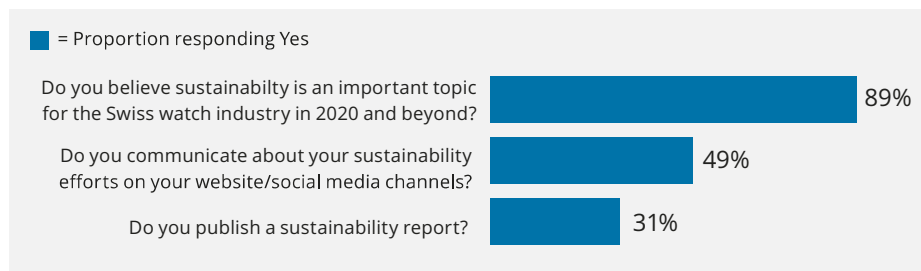
Over recent years, large luxury groups have started to communicate their ESG goals more extensively. Driving the focus for greater transparency are changing consumer demands, a desire by the company itself to be more sustainable and

the media. In 2018, IWC became the first luxury Swiss watch company to produce a sustainability report in line with the Global Reporting Initiative (GRI) standards.¹⁶

Supply chain transparency will be important or very important in the next five years for 89% of executives. Three-quarters of respondents work with raw material suppliers who ethically and sustainably source their material.

With the help of blockchain, Gübelin has developed a digital logbook for gemstones, in which all transactions (and their locations) from origin to sale are stored in a form that cannot be altered or manipulated. This record provides transparency never seen before, and over 200 mines already use this procedure.¹⁷

Chart 24. Statements on the topic of sustainability



Source: Deloitte Research



In the fashion and luxury sector in general, there is an accelerating shift towards sustainability with designers and jewellers focusing on eco-friendly materials and upcycling. The Swatch Group recently released a '1983 collection' made from two newly-introduced bio-sourced materials extracted from the seeds of the castor plant, while the packaging, made of an innovative mix based on potato and tapioca starch, is fully biodegradable and can be recycled with paper waste or even composted at home.¹⁸ Richemont via its Baume brand (now part of Baume & Mercier) was the first watch brand to use recycled/upcycled materials and exclude the use of animal skin and precious metals. A number of brands are also using recycled materials to produce their wristbands in select watches: Breitling uses Econyl, a nylon from abandoned fishing nets, and Carl F. Bucherer uses recovered PET bottles.

Packaging is sometimes seen as an extension of the product itself. In 2019, as

part of its commitment to clean oceans, Oris released two limited-edition Aquis diving watches which come in a box made from 30% algae.¹⁹ IWC is designing smaller, higher quality packaging to reduce the weight and volume of its materials by 30%.²⁰

On average over 50% of consumers surveyed consider sustainability when purchasing a watch and this number will continue to increase in the years ahead. As social and environment concerns grow, this could be an opportunity for the Swiss watch industry to gain a competitive advantage, so that high quality Swiss watches lasting generations become the ultimate sustainable purchase.

89%

say that supply chain transparency will be important or very important in the next five years.

6. Conclusion

The Swiss watch industry is in a phase of accelerated transformation that will last beyond 2020. Recent years have shown that the industry is resilient; the pandemic gives it a new opportunity to show again how agile and adaptable it can be.

Large brands and those focused on the high-end segment, and their suppliers, have weathered the current crisis well; but the low-to-mid-range segments will struggle in the coming months and will need to adapt accordingly. Further industry concentration will ensue, favouring larger brands, but independent and smaller brands are also well placed to thrive. Their size can be an advantage, by providing the agility and creativity to respond to changing consumer tastes and industry dynamics.

While COVID-19 has fast-tracked the transition to e-commerce and social selling channels for brands that have traditionally shied away from such platforms, this

change will only prove beneficial for the industry in the long-term by giving consumers the opportunity to buy watches wherever and however they choose. Customer-centricity will be a critical issue in the years ahead: consumers are looking for personalised, authentic and consistent experiences with brands in both the offline and online spaces. Engagement through digital channels will introduce brands to an even wider potential customer base.

The future is not fully virtual, however. Particularly in the luxury watch segment, building relationships, establishing trust and providing exceptional service are difficult to achieve in the digital space. Using augmented reality to visualise a luxury timepiece on your wrist evokes far less emotion than experiencing it in real life.

Shifting consumer behaviours will also hasten the shift towards sustainability. This is a positive development for the industry.

Investing in quality, tradition and durability will continue to be a unique selling point for the industry at a time when consumers are hopefully shifting to quality over quantity. This investment in quality, in assets that retain value even in times of uncertainty, is testament to the thriving pre-owned market, a segment with considerable, and demonstrable, growth potential.

With the second wave of the COVID pandemic currently affecting Europe and the US, no one can say for certain how long the crisis will last. However, as the country's third largest exporter and a pillar of the Swiss economy, the Swiss watch industry will adapt and recover. Regardless of how the pandemic plays out, the watch industry will look back on the year 2020 as the year of accelerated transformation.



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