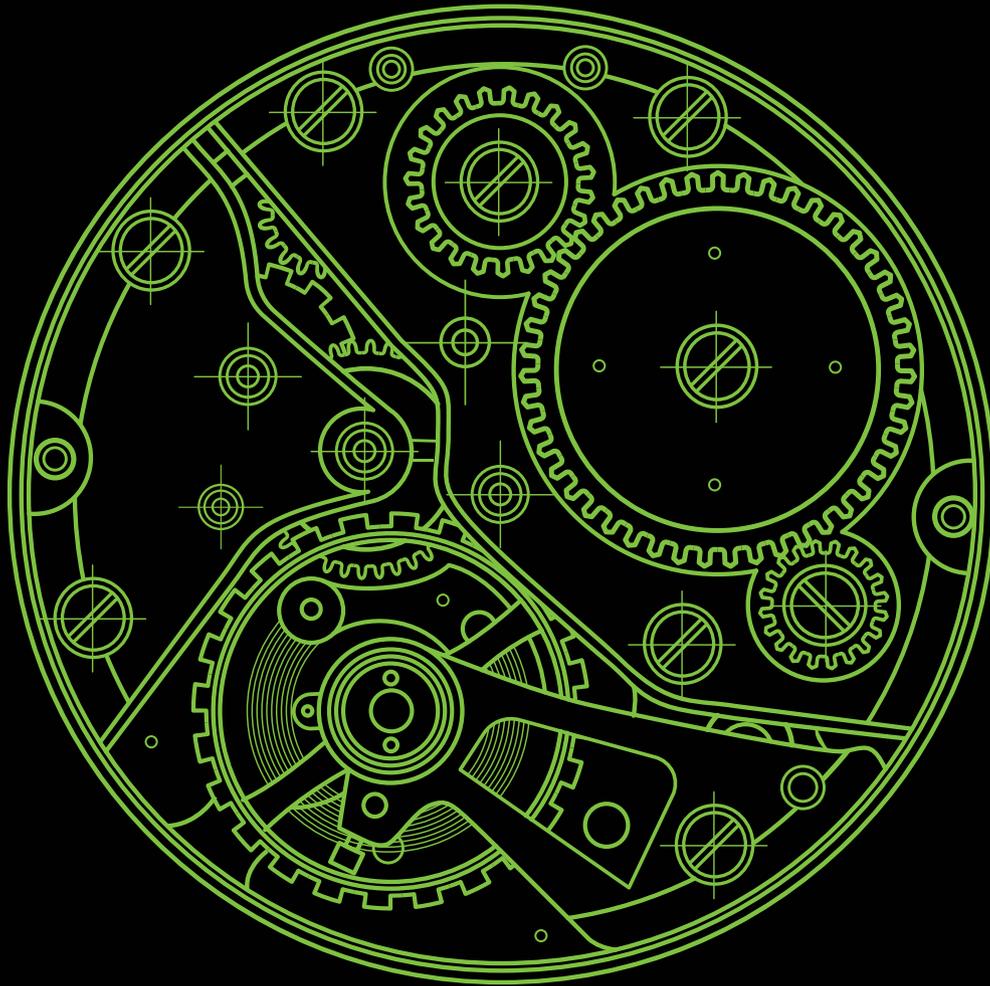


Deloitte.



The Deloitte Swiss Watch Industry Study 2021

Adapting to a changing landscape

About the study

This is the eighth edition of the Deloitte Swiss Watch Industry study. It is based on an online survey of 67 senior executives in the watch industry, conducted between mid-August and early September 2021, and interviews with industry experts. We also carried out an online survey of 5,558 consumers in China, France, Germany, Hong Kong, Italy, Japan, Singapore, Switzerland, the United Arab Emirates, the United Kingdom and the United States. It is a holistic industry assessment comprising diverse points of view.



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1. Key findings

Serious about sustainability:

72% of brands are investing more in sustainability to reduce their carbon footprint and address consumer demands. 60% of consumers consider sustainability in their purchasing decision with the most important aspects being ethical sourcing, and the environmental impact of the materials. Supply chain transparency and traceability are crucial now and in the future.



Industry prospects are positive:

77% of executives surveyed judge the outlook for the Swiss watch industry as positive for the next year, but they expect growth only in segments of Chf 5,000 (export price) and above and above. 24% expect the Swiss watch industry overall to achieve pre-pandemic sales volumes by the end of 2021, with 36% predicting sales parity by the end of 2022.



Pre-owned professionalises:

Brands see the pre-owned market as a way to introduce themselves to new audiences. 65% of executives are implementing some type of strategy for the certified pre-owned market. The proportion of consumers who are likely to buy pre-owned increased 11 percentage points compared to 2020.



China's influence:

Chinese consumers have helped the industry through the pandemic. The Chinese luxury watch consumer is much younger, on average, than consumers in other countries, willing to spend more and very open to innovative and new retail models. The industry is focusing its attention on mainland China and working out the best ways to approach this market.



Consumer behaviours:

With Millennials and Gen Z gaining more purchasing power, they are the generations most interested in watches and they prefer luxury mechanical watches if given the choice. Smartwatch wearers continue to increase in numbers, but 23% of consumers wear both traditional and smartwatches. Timepieces have become solid investments and almost 1 in 5 consumers buy watches for this purpose.



It's all about omnichannel:

67% of executives surveyed believe that offline sales will continue to dominate, but digitalisation continues to accelerate and an omnichannel strategy is essential. Nearly half of consumers want to buy via e-retailers, social media or e-auctions.



2. Industry overview

Chapter highlights

1. The biggest impacts on businesses were loss of sales volumes from a reduction in travellers and store closures, counterbalanced by an increase in online activity.
2. Export values have recovered, particularly in the high-end segment where July 2021 YTD volumes and value already exceed pre-pandemic levels;* other segments are lagging
3. The share of Swiss watch exports to China more than doubled last year, Europe (including the UK) is still the top market.

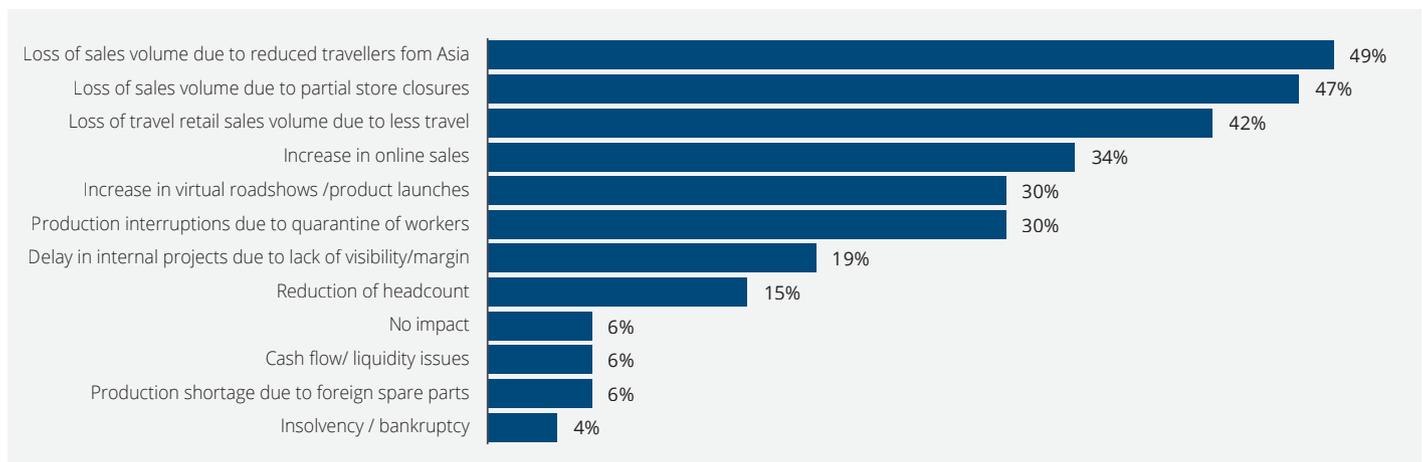
2.1 On the road to recovery

The pandemic has left its mark on the Swiss watch industry. Lockdowns and the cessation of international travel provoked a historic collapse in production and sales in the second quarter of 2020. But at the same time, as we wrote in our 2020 study, an accelerated transformation is taking place in the industry and the pandemic has proven a catalyst for that. Necessity forced many consumers to increase the breadth of goods they purchased online, and luxury items, including six figure timepieces, found their way into virtual shopping carts. Although consumers did and still do enjoy the convenience of online shopping, a behavioural shift that will endure, the crisis has also shown that e-commerce cannot

completely replace sales from bricks and mortar stores and the experience they provide.

Loss of sales volumes from a reduction in travellers and store closures had the biggest influence on business activity, as shown in Chart 1. Towards the end of 2020 the level of COVID-19 infections reached a plateau and restrictions in parts of Asia eased, resulting in an increase in exports, and the industry was able to recover, at least in terms of value: the value of exported watches increased by 1.7 percent in the first eight months of 2021 compared to the same period in 2019. However, the impact of COVID-19 varies by segment. The high-end segment (above Chf 3,000

Chart 1. How did the pandemic influence your business activity? (Please select all that apply.)



Source: Deloitte research

* When we reference pre-pandemic levels, we are talking specifically about export volumes and values in 2019.

in export price) was able to return to pre-pandemic volumes and value in the first half of 2021 and even exceed them, but all other segments of the industry lagged.

Chart 2 shows the value and volume of Swiss watch exports for mechanical and quartz watches since January 2019. Overall, mechanical watches have proven to be more resilient at weathering the crisis, as was also the case after the 2008 financial crisis. Following a steep decline in volume over the first quarter of 2020, sales of mechanical watches rebounded for much of 2020, although total volumes

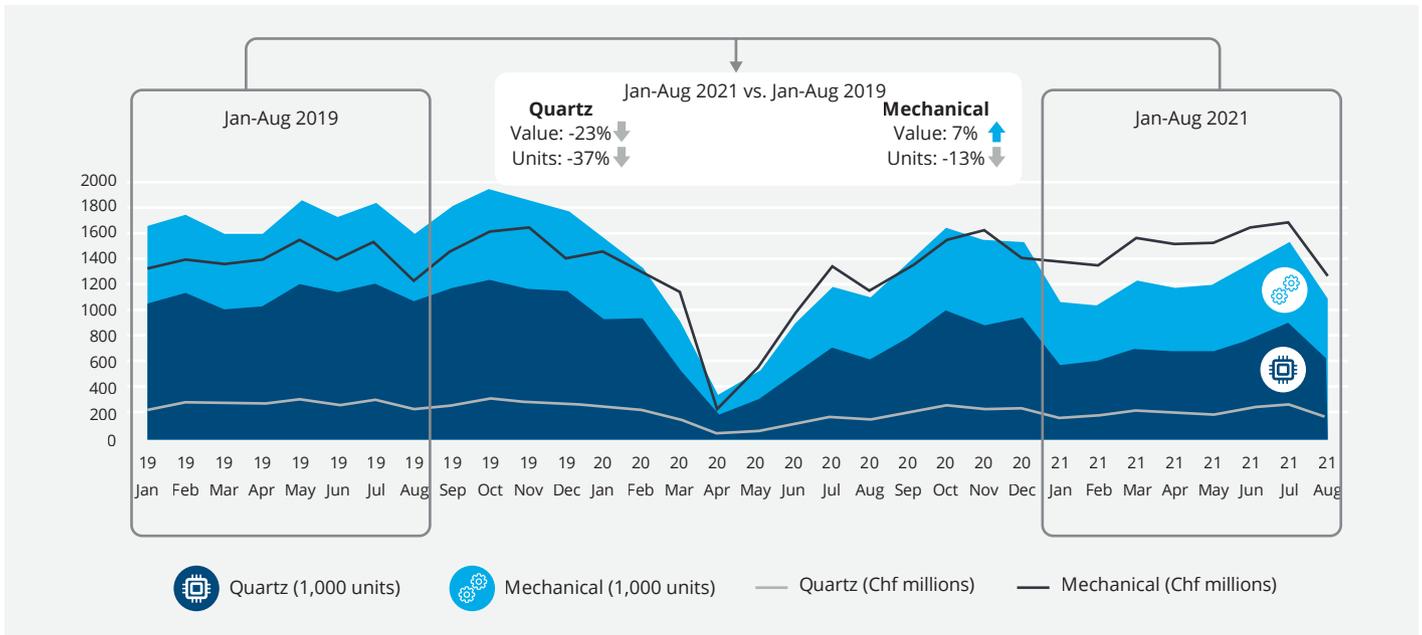
as of August 2021 are still below the same period in 2019. Quartz and mechanical models are down 37 percent and 13 percent respectively for the first eight months of 2021 compared to 2019 levels.

We observed a slight upward trend in both value and volumes overall from January until July 2021, with the recovery in the industry supported by higher priced models. Compared to the first eight months of 2019 the export value of quartz watches is down 23 percent whereas mechanicals increased by 7 percent. The export value of quartz watches has been decreasing

for over a decade, from 28 percent of total sales in 2010 to 14 percent in 2020. This is a not only a response to crises or economic downturns. It also reflects the rising impact of smartwatches in this price segment.

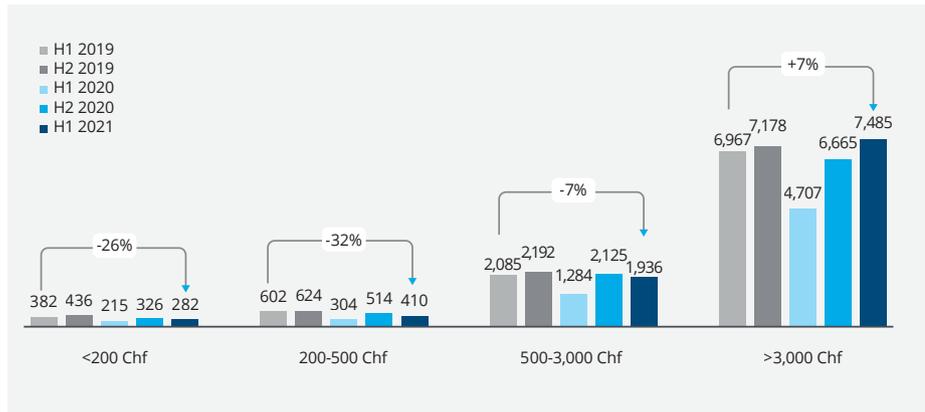
For the industry as a whole, from January to August 2021 the volume of exports is down (29%) on 2019 levels. Looking ahead, 24 percent of executives surveyed expect the Swiss watch industry overall to achieve pre-pandemic sales volumes by the end of 2021, with 36 percent predicting sales parity by the end of 2022 and 25 percent by the end of 2023.

Chart 2. Swiss watch exports according to type of build (in 1,000 units and Chf millions)



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

Chart 3. Swiss watch export value for different price levels (in Chf millions)



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

2.2 Luxury is back on track, lower price watches continue to struggle

High-end watches have been a lifeline for the Swiss watch industry in the pandemic, as was apparent already in the latter half of 2020. As we see in Chart 3, the export value of watches over Chf 3,000 increased by 7 percent in the first half year compared to the same period in 2019, whereas the low-end category (below Chf 200) declined by 26 percent and those priced between Chf 200 and 500 declined even further, by 32 percent. This is another clear indicator that the high-end segment remains the main growth driver of the industry.

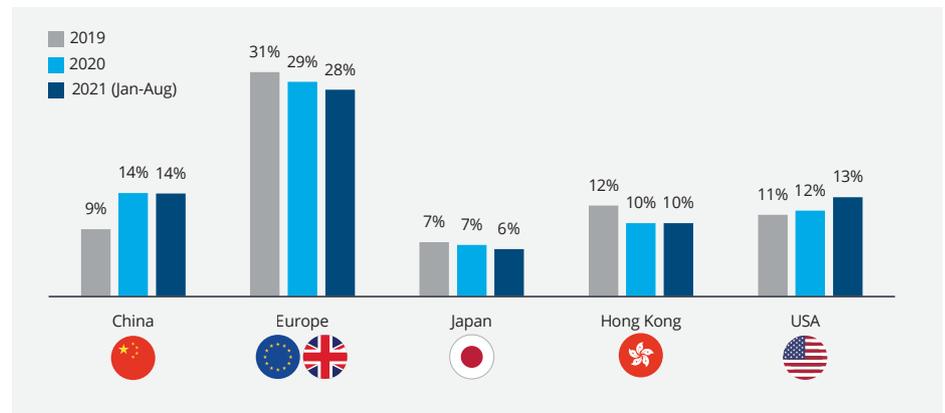
The pandemic has provoked growing wealth concentration and luxury goods, including timepieces, have become solid investment pieces in uncertain times. Wealthy consumers were less affected financially by the pandemic but, like the

rest of the population, spent less of their money on expensive holidays. The high-end watch segment proved the beneficiary of this pent-up demand, increased liquidity and opportunity to shop online.

2.3 China remains essential for Swiss watch exports

As Europe experienced its first hard lockdown in spring 2020, the share of Swiss watch exports to China more than doubled to 22 percent in Q2 and it concluded 2020 as the top export market (see Chart 4). While the share of exports to China has declined since, it remains five percentage points higher than in 2019. Even before the pandemic, China was one of the top three markets for Swiss watches, with the export share doubling since 2015. Hong Kong's dominance as a leading export market has been waning for over a decade, with its share decreasing from 20 percent in 2010 to around 10 percent currently. This historically strong market has been affected by the 2019 protests which led many brands to depart or reduce their

Chart 4. Swiss watch exports, relative share of selected countries and regions (value based)



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

Note: The category "Other countries" is not shown in the chart

presence in the city-state. The US market share has increased slightly over the past year and currently stands at 13 percent, second only to Europe (including the United Kingdom).

Due to travel restrictions, brands and retailers had to adapt to Chinese consumers shopping locally. Hainan will continue to play a leading role as 'the'

destination for Chinese shoppers. Duty-free allowances there increased recently and the island province is expected to be tax-free by 2025.¹ In January 2021, Dufry opened its Global Duty Free Plaza in Hainan and has an additional two outlets planned for later in 2021 and early 2022.² In November 2020, Richemont and Alibaba invested in a new joint venture with Farfetch to further digitalise the luxury

goods sector, provide luxury brands access to the lucrative Chinese market and expand Farfetch's global platform to the more than 750 million Chinese customers on Alibaba's Tmall Global.³ The second edition of Watches & Wonders took place in Shanghai in April 2021 and the trade fair will return to Sanya (on the island of Hainan) for a three month immersive event from October to December 2021.



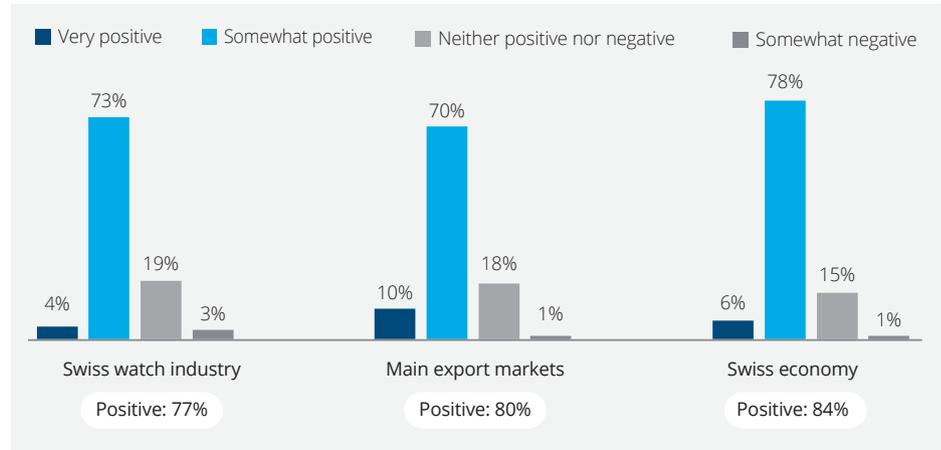
Photo courtesy of PHILLIPS in Association with BACS & RUSSO.

3. Looking ahead

Chapter highlights

1. Executives are far more optimistic about the economic outlook of the Swiss watch industry than last year.
2. Strong growth predicted for the very high-end and high-end segments, decline forecast for the entry-level and low-end categories.
3. China predicted to be the main growth market, with North America, the rest of Asia and the Middle East also showing growth.

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



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

Our expectation that we would be writing about the post-pandemic period in this year's study was premature. New coronavirus variants, lack of vaccine equity and governments grappling with how to protect their citizens and their economies mean that uncertainty continues. However, according to the Deloitte State of the Consumer Tracker, which gauges consumer behaviour and confidence across nearly 20 countries, the average number of people who feel safe going to a store increased from 45 to 61 percent between January and August 2021. Those who feel comfortable taking a flight increased from 25 to 37 percent over the same period.⁴ These are hopeful signs of further recovery and normalisation in the markets, but a return to the pre-pandemic level of travel still looks distant.

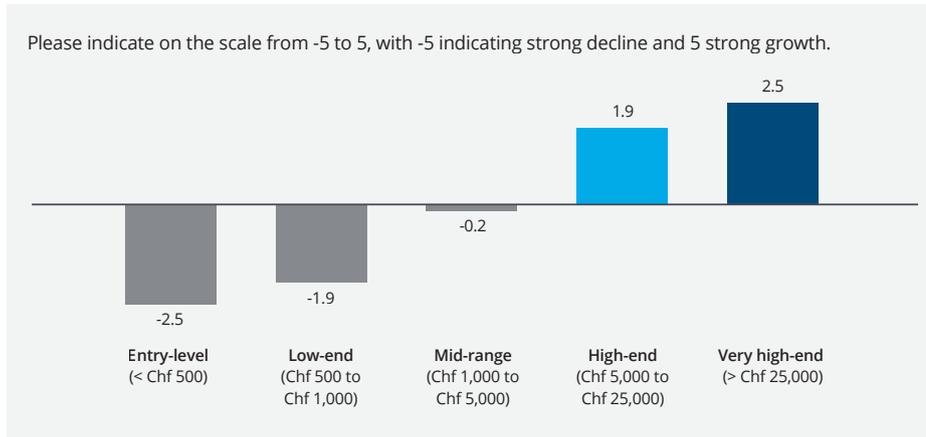
Economic prospects in 2022 look promising, with 3.5 percent GDP growth predicted in the US, 3 percent in China, and 4.5 percent in the Eurozone. This is likely to foster the further recovery of the watch industry.⁵ The overall mood of the industry is quite different to one year ago. A clear majority (77%) of the executives surveyed judge the economic outlook for the Swiss watch industry to be positive for the next 12 months. This optimism extends to both the main export markets and the Swiss economy, with 80 percent and 84 percent respectively expressing overall positive sentiment.

There are, however, stark differences between the growth expectations across the various price segments, as shown in Chart 6. The strong growth predicted for

the very high-end and high-end segments is almost symmetrically mirrored by the decline forecast for the entry-level and low-end categories.

Unsurprisingly, as was the case last year, China is most often mentioned as the next big growth market for the Swiss watch industry, followed by the United States and India. Executives surveyed almost unanimously (96%) forecast growth in China, and 57 percent strong growth. As shown in Chart 7, other growth regions include the rest of Asia, North America, and the Middle East, with between 80 and 90 percent of executives predicting growth. One-fourth of executives expect growth in Europe and only one-third in the former export market powerhouse of Hong Kong,

Chart 6. What are your growth expectations for the following segments over the next 12 months?

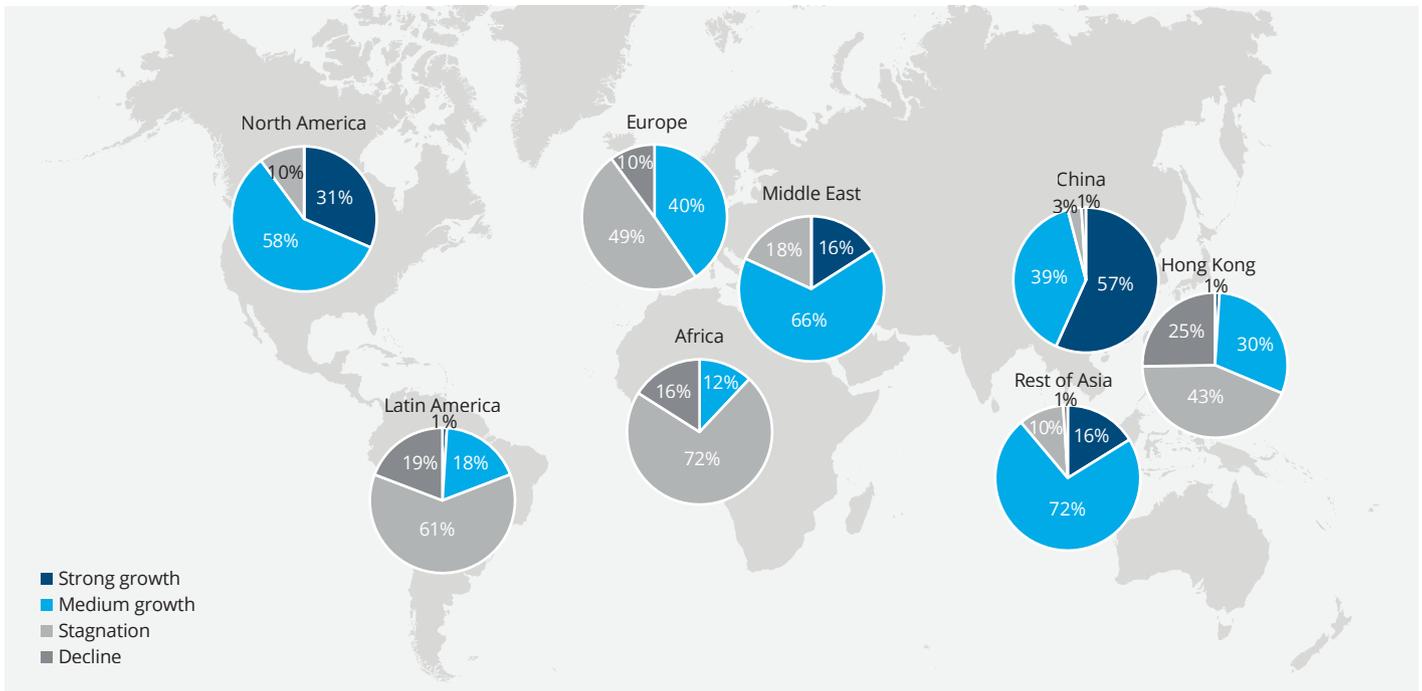


Source: Deloitte research. Note: the segments above are based on export price.

with all other regions forecast to decline or stagnate.

If these past 18 months have shown us anything, it is that the Swiss watch industry has demonstrated both resilience and agility. Its timepieces are rooted in tradition, but its business strategies are adapting to new realities.

Chart 7. What are your growth expectations for the Swiss watch industry in the following regions over the next 12 months?



Source: Deloitte research

4. Risks, challenges and opportunities

Chapter highlights

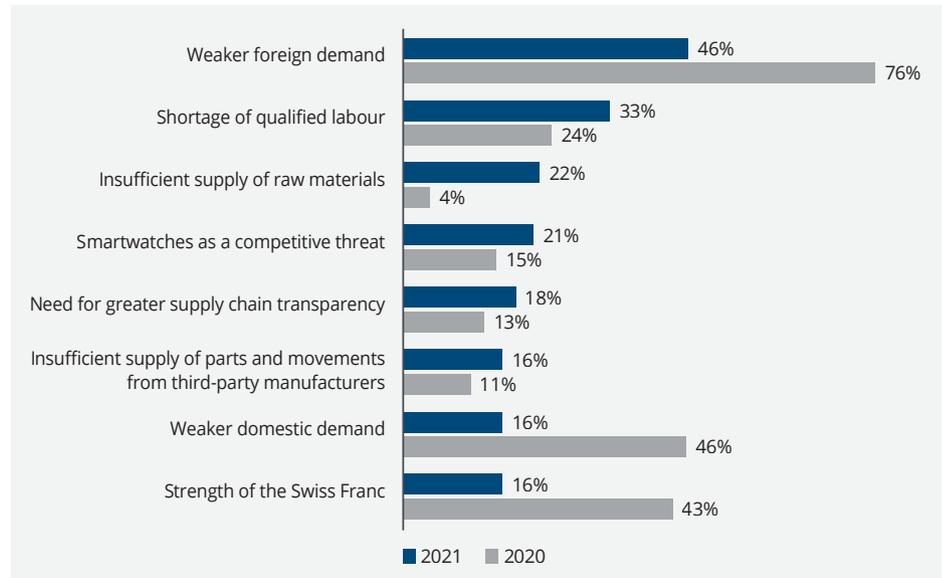
1. Supply chain disruptions and risks stemming from labour and raw material shortages have increased.
2. Smartwatches still seen as a threat, but traditional brands are stepping up their game and consumers increasingly prefer to own both.
3. Decreased production volumes, a loss of expertise, lack of authenticity and how to respond to changing consumer behaviours trouble industry executives.

4.1 Supply chain disruptions and the impact of digitalisation

Uncertainty stemming from the pandemic and its repercussions on demand, supply and the labour market continue to be a challenge for the industry. Weaker foreign demand is still considered a significant risk, but decidedly less so than last year. Challenges posed by weaker domestic demand and the strength of the Swiss Franc have also significantly decreased compared to our 2020 study. However, the risks posed by shortages of qualified labour and the insufficient supply of parts, movements and other raw materials have increased.

The pandemic brought many challenges but its biggest long-term impact for the

Chart 8. Which of the following factors are likely to pose a significant risk to your business over the next 12 months? (Please select all that apply)



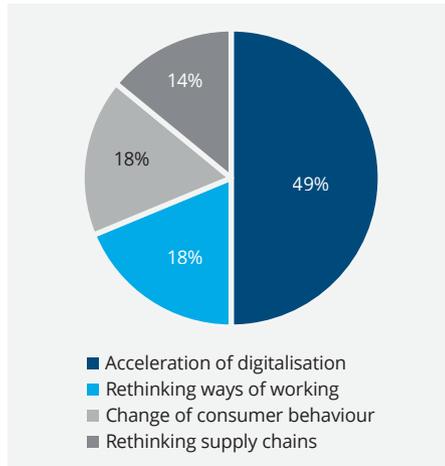
Source: Deloitte research

watch industry was the acceleration of digitalisation – as our 2020 study highlighted – and this represents an opportunity for the industry. Digitalisation goes far beyond a user-friendly e-commerce platform and savvy social media presence. Modern digital infrastructure, the collection and protection of data, a connected and consistent customer journey across all channels, and the use of technologies such as AI and machine learning will be paramount to improving consumer

conversion and retention. And this digitalisation must be blended with the history and heritage on which the brand's story was built.

The pandemic changed the way we work, bringing its own set of challenges and opportunities. Watchmakers and component manufacturers needed to be at production sites each day while back office and management functions were able to work more flexibly. This created new dynamics, but also its share of challenges.

Chart 9. Where do you see the biggest long-term impact on your business operations because of the pandemic?



Source: Deloitte research

In 2020, suppliers needed to adapt their production facilities and arrange for rotating shifts to ensure the safety of their employees. A full return to the office has not yet materialised and flexible working policies remain in play and not finalised. Video calls remain persistent and have not given way to quality face to face exchanges with colleagues.

The pandemic caused supply chain disruptions for many industries, with continued shortages in microchips, aluminium and steel. This continues to have an impact, particularly on mid-to-lower range models that rely on imported parts (see Chart 8). Supply chains can no longer be evaluated purely from a cost standpoint. They also need to be rethought in terms

of resilience, agility and transparency. The much-hyped reshoring of supply chains has not materialised but, with disruptions continuing, there are examples of nearshoring. Hermes, for example, is now sourcing steel from Austria rather than Japan, thereby bringing supply closer to home and reducing its carbon footprint.⁶

Even for brands that produce their timepieces fully in Switzerland the concepts of agility and transparency are important. The new realities of retail mean that consumers are used to getting what they want, and quickly. E-commerce giants like Amazon have set the standard for same day service and consumers are willing to pay a premium for it. Supply chains will need to be reworked, creating a dispersed network of distribution centres or purchasing inventory in anticipation in order to respond to increases in demand. Reducing the order-to-delivery time

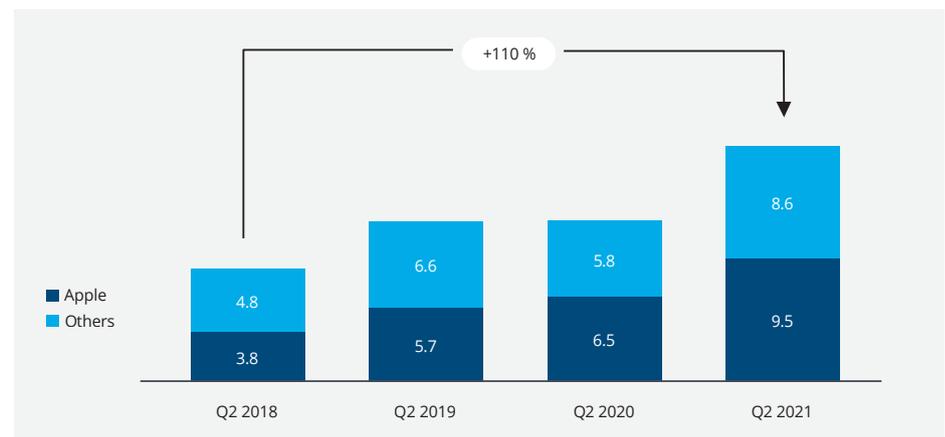
enhances the customer experience and increases overall competitiveness. Survey respondents noted that fully integrating the production and distribution channels enables manufacturers to better plan demand.

4.2 The scarcity of wrist real estate – smartwatches continue to move in

In our 2020 study, over 60 percent of watch industry executives said that the Swiss watch industry missed the boat when it came to smartwatches. The global market for smartwatches has more than doubled since Q2 2018, rising from 8.6 to 18.1 million units in Q2 2021, and the fitness renaissance during lockdowns only made wearables more popular. Apple maintains its dominance over the market with over 50 percent of global smartwatch market share, as shown below.

Of executives surveyed this year, 42 percent see smartwatches as a threat.

Chart 10. Global shipments of smartwatches (millions of units)



Source: Strategy Analytics, Deloitte research



H. Moser & Cie. Streamliner Centre Seconds. Photo courtesy of H. Moser & Cie.

Smartwatches serve a different function to traditional timepieces and many brands operating in higher end price segments do not consider the likes of Apple and Samsung to be competitors. But wrist real estate is finite and traditional brands have been responding over the past years with their own foray into the smartwatch segment. Some executives even talk about the 'battle for the second wrist' or the 'reconquest of the wrist'. From Montblanc's Summit 2, Louis Vuitton's Tambour Horizon and Breitling Exospace B55 to the Frederique Constant Horological Smartwatch, TAG Heuer Connected and Hublot's Big Bang E, traditional watch brands are releasing first, second and third generation products that meld craftsmanship with connectivity.

And those who find themselves silently cursing the 18-hour or so battery life of the Apple smartwatch could consider Tissot's T-Touch Connect Solar, which is powered by sunlight, or Sequent, a Basel-based start-up, which creates self-charging and self-winding smartwatches.

But the technology giants continue to dominate the smartwatch segment. There are a slew of recent, rumoured or upcoming releases including the Samsung Galaxy Watch 4, Google Pixel Watch and Apple Watch Series 7. And in a classic example of 'if you can't beat them, join them,' Hermes collaborated with Apple to launch their own classic yet sporty smartwatch. Smartwatches found their way on to more wrists in 2021, according

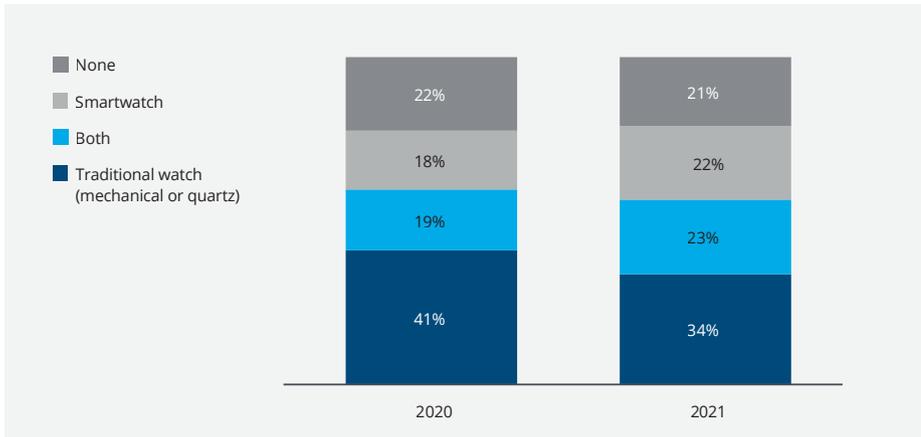
"If you think about the watch industry in Switzerland, the revenue of the biggest watch groups is less than the R&D budget for Apple or Google. We cannot compete with them to develop new operating systems or technologies. But we can partner with them to bring our knowledge and expertise into the product design and the hardware."

Edouard Meylan
CEO, H. Moser & Cie.

to Deloitte's 2021 Connectivity and Mobile Trends Survey, but among those who use smartwatches or fitness trackers 40 percent say they are concerned about the privacy of the data that their device collects.⁷

Several respondents noted that the interest in connected watches provides an opportunity for the industry. Using watches to tell time has been secondary for quite some time. Consumers are looking for attractive watches that offer additional functionality. Traditional watch manufacturers can use their expertise to profit from the increased interest in wearables by making connected watches with better movements and a longer battery life.

Chart 11. What kind of watch do you usually wear?



Source: Deloitte research

For the second year in a row, we surveyed 5,558 consumers on their watch-wearing habits. In the ongoing battle for wrists, smartwatches are gaining ground on traditional ones. Of those respondents who do wear smartwatches, 75 percent wear them every day. There was a decrease of seven percentage points in the number of consumers wearing traditional watches compared to our 2020 study, but an increase of four percentage points in those consumers who wear both traditional and smartwatches, as illustrated in Chart 11. In China almost every second respondent wears both, though presumably not at the same time.

Millennials and Gen Z are more likely to wear smartwatches. However, if given Chf 5,000 (or local currency equivalent) to spend on a watch, all generations are more likely to choose a luxury mechanical

watch (48%) rather than the latest release of a smartwatch (39%) each year for the next 10 years. An average of 20 percent of consumers do not wear a watch and this proportion has held stable over the past two years; the proportions are significantly higher in Japan and the US, at 43 and 40 percent respectively.

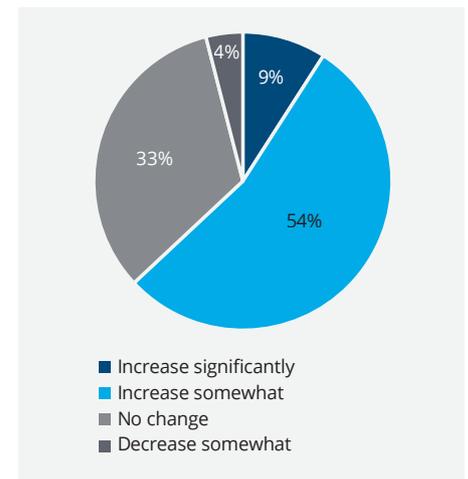
4.3 Combine and conquer – industry concentration and M&A activity

The decline in quartz watch volumes continues to have an impact on the Swiss watch industry. As mentioned earlier, the export volume of quartz watches is still well below pre-pandemic levels, especially for lower-priced pieces which need to sell in sizeable quantities.

As lower-end watches continue to struggle, the risk of further concentration looms. As Chart 12 shows, over 60 percent

of executives predict an increase in mergers and acquisitions (M&A) activity over the next 12 months, with brand acquisitions mentioned as likely and vertical integration with brands acquiring suppliers also probable. Industry executives have commented that verticalisation ‘dries up’ professional knowledge, thereby accelerating the loss of expertise in the industry and threatening job security. Continued industry concentration is also cited as a challenge to those not belonging to the big groups or operating in a niche segment.

Chart 12. How do you expect levels of M&A activity in your industry to change over the next 12 months?



Source: Deloitte research

“Today it is difficult to find apprentices in watchmaking professions. Despite the prestige of very big brands and despite the resilience of the sector, it is difficult to counter the tendency to continue one’s studies through to higher education.”

Pierre Dubois
CEO, Dubois & Dépraz SA

4.4 Causes for sleepless nights

One of the most probing questions we ask industry executives is what industry issue keeps them awake at night. We reveal below what most troubles them.

The watch industry is a niche segment and this nicheness can result, as mentioned by multiple respondents, in navel gazing at the expense of the big picture. Last year highlighted the danger of complacency and although the heritage and timelessness of traditional watchmaking is undisputed, past success does not determine future prospects.

Preserving suppliers and Swiss quality

The watch industry in Switzerland employs about 57,000 people.⁸ The reduction in volumes, most notably for quartz watches, has a cascading effect on the multitude of suppliers. International travel restrictions, particularly the drop in Chinese tourists travelling to Europe, are affecting volumes. Brands that choose to focus solely on the



MB&F HM9 SV. Photo courtesy of MB&F.

ultra-high-end segment also produce only limited quantities. Only by maintaining production volumes can the network of suppliers be supported and the unique expertise of watchmakers be protected. Respondents noted that only by working together can the industry preserve the craftsmanship and skills of traditional watchmaking, maintain Swiss quality, and stand up to competition from abroad.

Authentically authentic

From an industry offering products that have lost their Swissness to people working in the industry who care little about watches or the art of watchmaking

“When you are a smaller entity, your strength has to be to concentrate on what is important to you. Brands have lost their substance; they have lost their identity trying to please many different audiences. The key to success now and in the future is to stay true to who you are. And the people will come.”

Maximilian Büsser
Founder and Creative Director, MB&F

– authenticity, or the lack of it, was mentioned in various forms. A lack of brand identity and positioning was also highlighted. A watch is no longer a necessity. Consumers therefore seek out brands that they identify with or whose story resonates with them. And so a brand trying to be all things to all people will struggle to differentiate. Luxury brands can all wax lyrical about their quality and craftsmanship, but it's their personality or story that makes them stand out from the crowd. Producing products that correspond to the real DNA of the brand was mentioned as one of the 'next big things' for the watch industry.

As we reported last year, the 'Swiss-made' rules in place since 2017 have not enjoyed universal approval. Some see the legal definition of 'Swiss-made' products – 60 percent of manufacturing costs occurring domestically – as not strict enough and want greater control over how and when this label is bestowed.

Understanding the changing customer

Consumer behaviours change constantly, and many respondents fear they are unable to understand what consumers want, anticipate their preferences and adapt to their expectations. The biggest question is whether consumers will wear traditional watches in the future. How to communicate with them in a digital world and how to properly introduce audiences to a brand using digital mediums are other big worries. The changing nature of luxury and the very definition of luxury also keep executives awake at night.

Imitation, the sincerest form of flattery?

Swiss watches continue to be a prime target for counterfeiting. A report from the OECD estimates that the global trade in counterfeit Swiss watches amounted to Chf 3.35 billion in 2018, implying a loss of Chf 1.98 billion in sales.⁹ Counterfeit watches also responded to the accelerated digitalisation trend last year, with over 1.2

million offers for fake watches deactivated in 2020 by the Swiss Watch Industry (FH) Internet Enforcement team.

The industry continues to respond by using certification and technology to combat the counterfeiters. The introduction of certified pre-owned (CPO for short) aims to guarantee the authenticity of the timepiece, providing an additional layer of reliability for pre-owned watches. Technology such as blockchain is also helping the industry fight counterfeiting by issuing unique digital certification to guarantee authenticity.



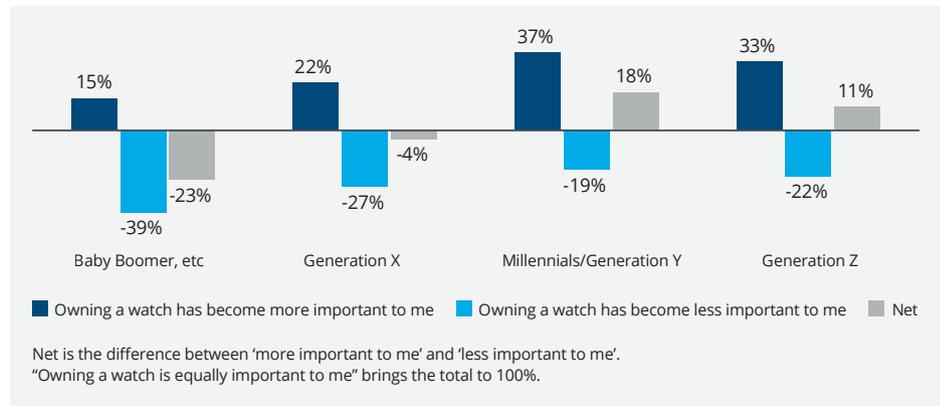
Photo courtesy of Dubois & Dépraz SA

5. Consumer behaviour

Chapter highlights

1. Owning a watch has become more important for Millennials and Gen Z over the past five years.
2. Price/value ratio, brand image and design are the most important factors across almost all markets when buying a luxury watch.
3. Chinese consumers are vital for the Swiss watch industry, and our deep dive explains why.

Chart 13. How has your attitude towards owning a watch changed over the past five years?



Source: Deloitte research

5.1 The importance of a watch

Why people wear a watch has changed in recent decades. No longer a necessity for telling time on the go, a traditional watch has become more of an accessory. But this does not mean that owning a watch is falling out of fashion. Luxury brands are still coveted as a status symbol. As Chart 13 shows, for Millennials and Gen Z, owning a watch has become more important over the past five years whereas for older generations it has become less important, since presumably the majority of Baby Boomers and Generation X already own one or more timepieces.

5.2 Motivations and incentivisation

We also asked consumers in different

countries how much they are willing to spend on a watch. As shown in Chart 14, on average approximately one-third of respondents are willing to spend more than Chf 1,000 (or local currency equivalent) on a watch, but this varies considerably between countries. Germans** are more conservative with their discretionary income, whereas in China and Hong Kong over two-thirds of respondents are willing to spend more than Chf 1,000. This is another reason why China and now, to a lesser extent, Hong Kong are crucial for the luxury segment and why Swiss brands are investing in this growth market. We analyse China in section 5.3.

“Forty percent of people buy only one watch in their lifetime; it is therefore vital to be in the right place at the right time when it comes to marketing activities. Podcasts, Youtube and Instagram are the preferred digital channels to drive interaction and visibility in our main markets.”

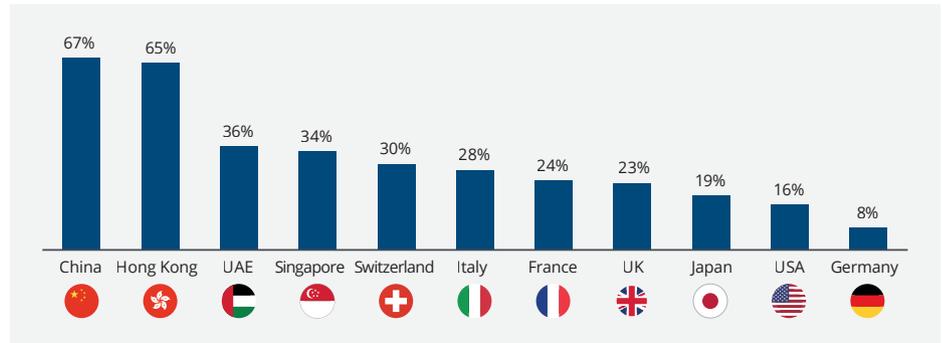
Brian Duffy
 CEO, Watches of Switzerland

** The Deloitte German Watch Study 2021 goes into more detail about consumer behaviour in Germany and the impact on the watch industry there.

We also asked consumers whether they would be incentivised to purchase a luxury watch if brands offered financing options. There is appetite for this in Hong Kong, the UAE, China, and, to a lesser extent, Singapore. The high value placed on luxury items in these countries makes financing more attractive.

Looking at the Deloitte State of the Consumer tracker as of the end of August 2021, consumers in France, Germany, Italy and Japan are still not prioritising discretionary purchases in a wide range of items, from clothing/footwear and electronics to travel and home furnishing. Consumers in the UK and US are warming up to more discretionary spending, and those in China have been consistently increasing their discretionary purchases since May 2021.

Chart 14. Share which is willing to pay more than Chf 1,000 on a watch per country

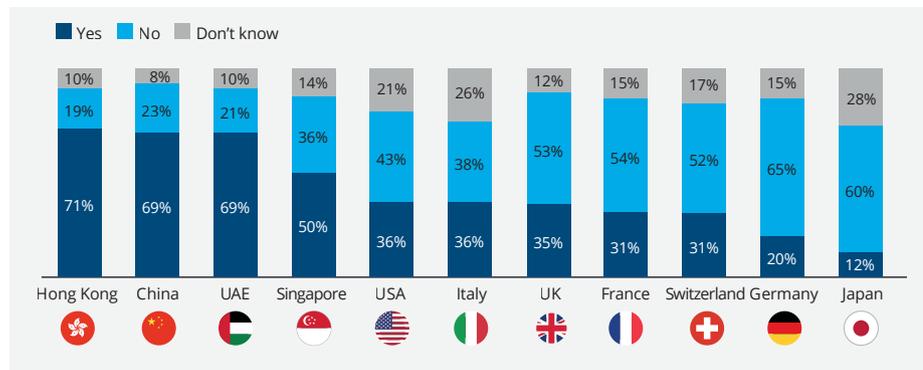


Source: Deloitte research

Across most markets, the price/value ratio was considered the top factor when considering buying a luxury watch, as seen in Chart 16. This may seem counterintuitive as a luxury watch is not a necessity. The importance of a watch as a status symbol

reigns supreme in China and Hong Kong but also ranks in the top three for most markets. Design considerations are most important for consumers in Singapore, the UAE and the UK, but also important overall across the surveyed countries. And in a minor blow to the importance of Swiss provenance, only 12 percent of respondents consider country of origin to be important when purchasing a luxury watch. More encouragingly UNESCO granted the craftsmanship of Swiss (and French) mechanical watches heritage status in December 2020.¹⁰

Chart 15. If luxury brands offered financing of their products with with a low or zero interest rates would that encourage you to purchase a luxury watch (i.e. above Chf 5,000)?



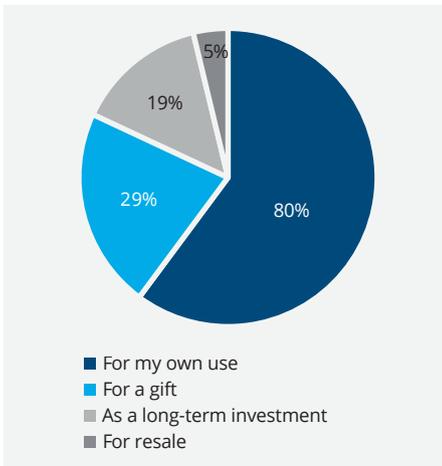
Source: Deloitte research

Chart 16. What are the most important factors you consider when deciding to buy a luxury watch? (Multiple answers possible)

	China	France	Germany	Hong Kong	Italy	Japan	Singapore	Switzerland	UAE	UK	USA
Most important	Brand image	Price/ Value ratio	Price/ Value ratio	Brand image	Price/ Value ratio	Price/ Value ratio	Design	Price/ Value ratio	Design	Design	Price/ Value ratio
Second most important	Price/ Value ratio	Sustainability/ Environmental impact	Design	Price/ Value ratio	Design	Design	Price/ Value ratio	Design	Price/ Value ratio	Price/ Value ratio	Design
Third most important	Sustainability/ Environmental impact	Versatility/ ease of use and wear	Brand image	Design	Brand image	Versatility/ ease of use and wear	Versatility/ ease of use and wear				

Source: Deloitte research

Chart 17. If you plan on buying a watch in the next 12 months, what would be the purpose? (Multiple answers possible)



As Chart 17 shows, most respondents purchase a watch for their own use (80%) with far fewer gifting timepieces (29%), seeing them as an investment (19%) or intending resale (5%). As we wrote in our report, *Collectibles: An integral part of wealth*, during times of economic uncertainty and volatile stock markets, tangible assets such

as timepieces and jewellery are relatively safe ways to diversify one's portfolio.¹¹ And this is supported by the fact that one in five respondents are considering the purchase of a watch for investment purposes. The purchase of watches as investments is more common in Singapore, China and Hong Kong, while giving timepieces as a gift is more common in the UAE and China. In China, consumers are increasingly investing in hard luxury items, such as timepieces and art.

5.3 The importance of Chinese consumers to the industry

Chinese consumers have been crucial to the recovery of the Swiss watch industry in 2020. They are normally prominent on European shopping streets but have yet to return at pre-pandemic levels. Many brands surveyed (61%) are adapting to the reality where Chinese consumers shop more locally, with over one-third (39%) investing heavily or expanding in the Chinese market. The expansion of the duty-free mecca of Hainan will further

encourage Chinese consumers to make more lucrative purchases at home or closer to home, with Macau continuing in importance as a destination for luxury good purchases.

Chinese consumers are willing to spend the most on a luxury watch, with one-fifth willing to spend Chf 2,500 – 5,000 and one-quarter willing to pay Chf 5,000 – 10,000. In the battle of the wrists, 49 percent of respondents in China wear both a traditional watch and smartwatch compared to an average of 20 percent across other surveyed countries. Chinese consumers are also increasingly receptive to previously owned or second-hand goods, "led by younger, more environmentally conscious consumers looking for affordable high-end goods."¹² Two-thirds of Chinese consumers said they would be very or somewhat likely to buy a pre-owned watch in the next 12 months; the top reason is access to discontinued models. Chinese consumers also showed the strongest interest (62%) of the countries surveyed to consider

companies or member clubs that offer watch rentals. And the majority (69%) would be encouraged to purchase a luxury watch if brands offered financing with little to no interest. There are opportunities for brands and retailers to attract more, and potentially new, customers.

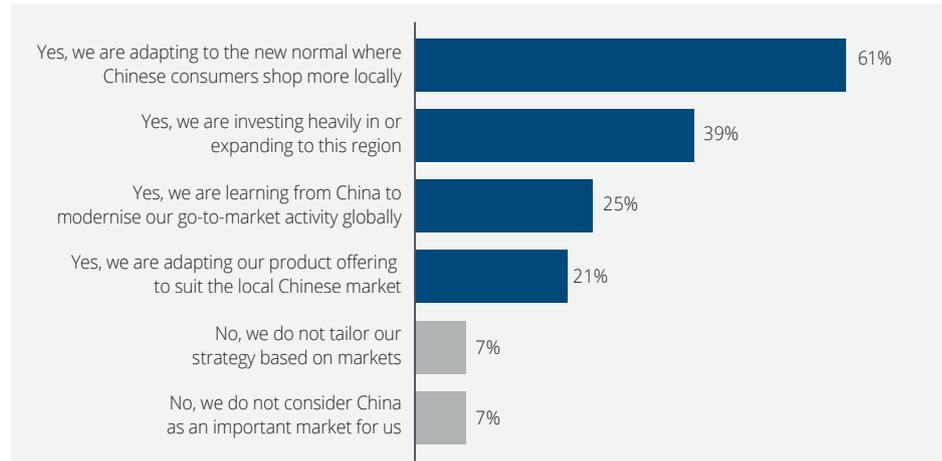
Image is everything

Brand image is the top deciding factor when it comes to buying a luxury watch, and social media, brand ambassadors and influencers play key roles. The association with a given brand and what it says about the buyer or conveys to those around them, these are the top purchasing criteria. Chinese consumers are also becoming more sophisticated. The design and technical specifications, such as watch movements, are now important factors influencing their choice. High-end European watch brands are top of the list for Chinese consumers, with Rolex, Patek Philippe and Audemars Piguet being particularly prized (and also extremely hard to obtain). However, with Chinese consumers becoming more educated about luxury timepieces, the 'Made in Switzerland' designation is no longer a draw. According to our survey, only 15 percent of Chinese consumers consider country of origin to be important when choosing a watch.

Generation influence

Working with local brand ambassadors has proven crucial to tapping into the Chinese

Chart 18. Are you feeling the growing influence of the Chinese consumer? (Multiple answers possible)



Source: Deloitte research

market, and lucrative. In July, Zenith sold out of its timepieces in China upon announcing that actor and singer Xiao Zhan would be its new brand ambassador.¹³ Brands are also using ambassadors as a way to appeal to a broader audience, notably women, as is the case with Panerai partnering with Dilraba Dilmurat, a Chinese actress, and OMEGA with Zhou Dongyu, also a Chinese actress. Brands not only seek out celebrity endorsements but also those of key opinion leaders (KOLs) and key opinion consumers (KOCs), who have built up influence on social media. However, user-generated content can be unpredictable and for brands who are accustomed to 'controlling their narrative' and keeping their messaging consistent, this lack of control can be a challenge. Brands

also face reputational risk should KOLs or KOCs behave inappropriately, as several luxury brands have recently found out.

Tell me your story

Storytelling is hugely important in China. To differentiate themselves in an incredibly saturated and fast-paced market, brands must be both unique and consistent in conveying their story across all channels. Many Swiss watch brands can draw on their long heritage or meticulous craftsmanship, or both. Audemars Piguet, steeped in the watchmaking tradition of the famed Vallée de Joux for nearly 150 years, has successfully rebranded itself in China as the watch of choice for wealthy Chinese of 25-30 years of age. Changing consumer preferences require brands to think about

their carefully curated image to understand which traditional values resonate in a modern landscape. Younger Chinese consumers are looking for brands, luxury or not, that express their identity and personality.

Something to celebrate

The Chinese festival calendar is packed with brands taking advantage of the likes of Singles' Day (11.11), the Double 12 (12 December) Shopping Festival, the Chinese New Year Spring Festival, and three separate Valentine's Day-like occasions. These festivals, some steeped in history, others recent constructs, are serious revenue generators. Rather than an exercise in discounting as is usually the case with Cyber Monday and Black Friday in the West, consumers expect limited edition product launches, bespoke packaging and value above all else.

“In the West, the focus is on nurturing and cultivating the brand, whereas in the East, the focus is more on sales and being present on all channels to facilitate and drive those sales.”

Felicitas Morhart
Founder, Swiss Center for
Luxury Research

Incubator of new retail

China is at the forefront of digital shopping experiences, with Chinese consumers being some of the most digitally active in the world. Smart technologies and immersive omnichannel brand experiences are pervasive. WeChat is a multi-purpose social media, e-commerce and payment platform rolled into one. Brands offer virtual exhibitions through the platform, effectively as mini-stores within the app. Brands interact with consumers directly

on the platform, which encompasses the complete end-to-end customer journey. Phillips, an auction house, also uses WeChat for their online Intersect auctions which feature contemporary art, watches and jewels; their most recent auction took place in September 2021. In spring 2021 Louis Vuitton (LV) partnered with JD.com, an online retailer, to give Chinese consumers access to the brand's products through a customised mini-store. This mini-store integrates seamlessly with LV's official



OMEGA Seamaster Diver 300M 007 Edition. Photo courtesy of OMEGA.



De Bethune DB25 GMT Starry Varius. Photo courtesy of De Bethune.

WeChat programme, where customers complete their purchases. JD.com aims to replicate the luxury in-store purchasing experience through its JD Luxury Express service. Available in select cities, this white glove delivery service provides an end-to-end luxury shopping experience in

the realm of e-commerce for many goods, including high-end watches and jewellery. This new collaboration demonstrates the luxury brand's inclusive and approachable attitude and also its ambition to meet the digital needs of young Chinese consumers in the internet era.

Alibaba's Tmall Luxury Pavilion is also increasing in importance as an online destination for luxury brands, with more and more joining the approximately 200 already involved. Brands must be invited to the platform and they can offer tailored virtual storefronts, personalised products and VIP experiences.

Shoppertainment, a combination of shopping and entertainment, treats shopping as more than just the act of purchasing an item. It includes tools and technologies such as gamification, augmented reality (AR) and live streaming that put consumers in a fairy-tale-like metaverse (avatars sometimes included), which happens to be shoppable. Forrester, a market research company, estimates that by 2023, livestreaming commerce in China will be worth US\$100 billion.¹⁴ But it's not all virtual on the mainland, physical shops are a tangible extension of the brand magic that many users experience online. "Luxury brands have turned flagship stores into art galleries, creative and experimental centres, and innovation labs that allow immersive retail experiences to create strong emotional connections."¹⁵

6. Business strategies and industry disruptions

Chapter highlights

1. Brands continue to develop their e-commerce offering and omnichannel strategy
2. Most executives believe that in-store sales will be most common in the next year and responses from consumers confirm this.
3. New ways of retailing, different business models and approachability will help brands expand to new audiences.

6.1 Omnichannel and omnipresent

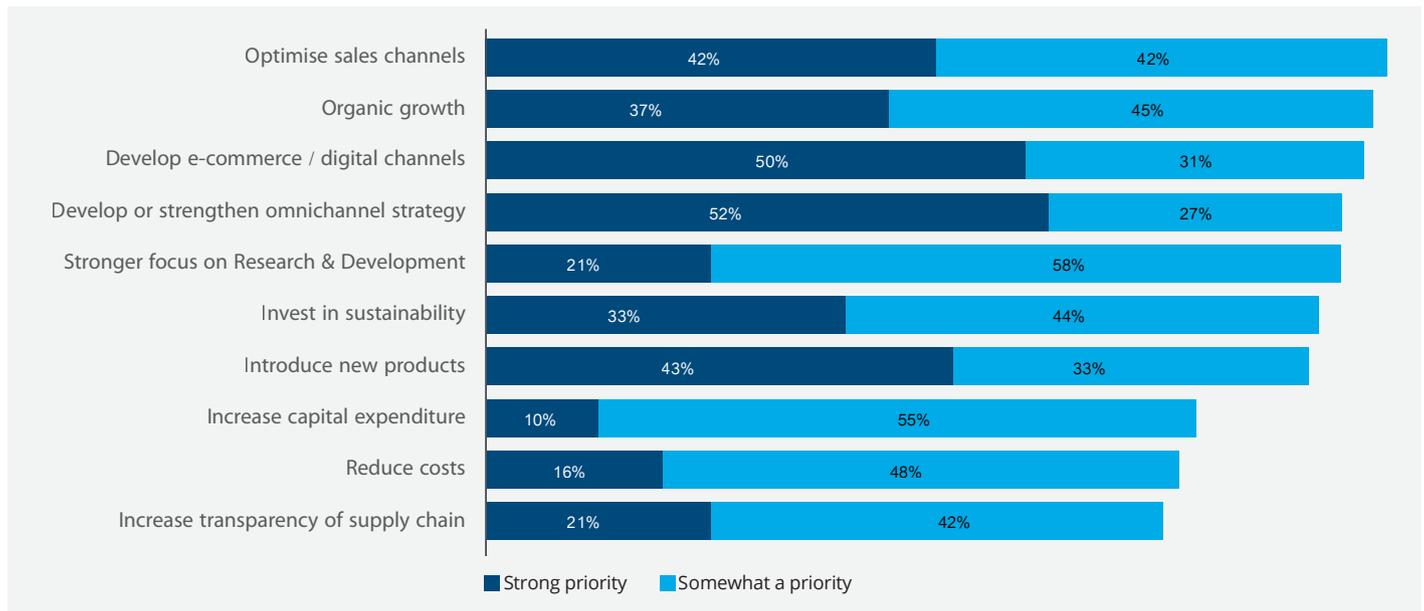
Our 2020 study highlighted the accelerated transformation of the industry. Trends that were under way or inevitable, such as e-commerce, social selling and the importance of an omnichannel strategy, were fast tracked last year.

Out of necessity, brands and retailers moved their operations online, with some expanding their existing digital channels and others scrambling to put an e-commerce platform in place. This process continues, as seen in Chart 19,

with executives still planning to prioritise the optimisation of sales channels (84%), further development of e-commerce offerings (81%) and strengthening their omnichannel strategy (79%). Developing e-commerce as a matter of high priority increased from 26 percent to 50 percent compared to our 2020 survey. Investing in sustainability and improving supply chain transparency are also priorities (see Chapter 8).

This continued expansion into e-commerce was seen as an opportunity for brands to

Chart 19. To what extent is each of the following business strategies likely to be a priority for your business over the next 12 months?



Source: Deloitte research

gain (or regain) control of their distribution channels and promotional activities. Online sales also resulted in democratisation for luxury brands: online there are no large gilded doors to dissuade the masses from entering flagship stores, unless you have invitation only platforms.

However, with countries reopening, international travel slowly picking up and digital channels often unable to replicate the in-store experience, bricks and mortar and mono-brand stores are considered the most important sales channel over the next 12 months, as shown in Chart 20. As highlighted in our 2020 report and underscored by the findings of this year's survey, the importance of a strong, consistent and seamless omnichannel

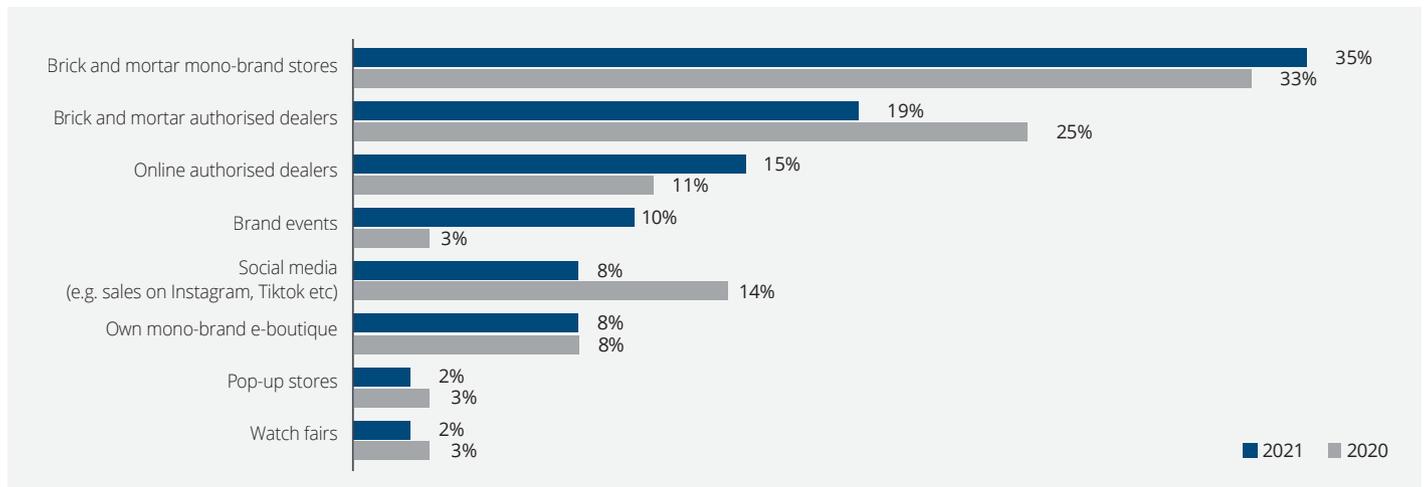
strategy cannot be overstated. The customer journey includes multiple touchpoints, online and offline, with both mediums serving as a source of inspiration for the ultimate purchase decision. Online authorised dealers continue to gain the trust of brands and are considered a more important sales channel (15%) than a brand's own mono-brand e-boutique (8%). This may also be because launching an e-boutique, including its logistics, fulfilment, payment systems and country-specific tax considerations, requires a significant investment.

Most industry executives (67%) also believe that offline sales will continue to dominate those conducted online which is similar to the proportion (72%) in our 2020 study.

“Boutiques are still the place for the 360-degree brand experience. We invest nearly 70% of our marketing budget into digital communication platforms. Why? Because a consumer's decision process is predominantly made online and not offline.”

Georges Kern
CEO, Breitling

Chart 20. Which sales channel do you think will be most important in the next 12 months?

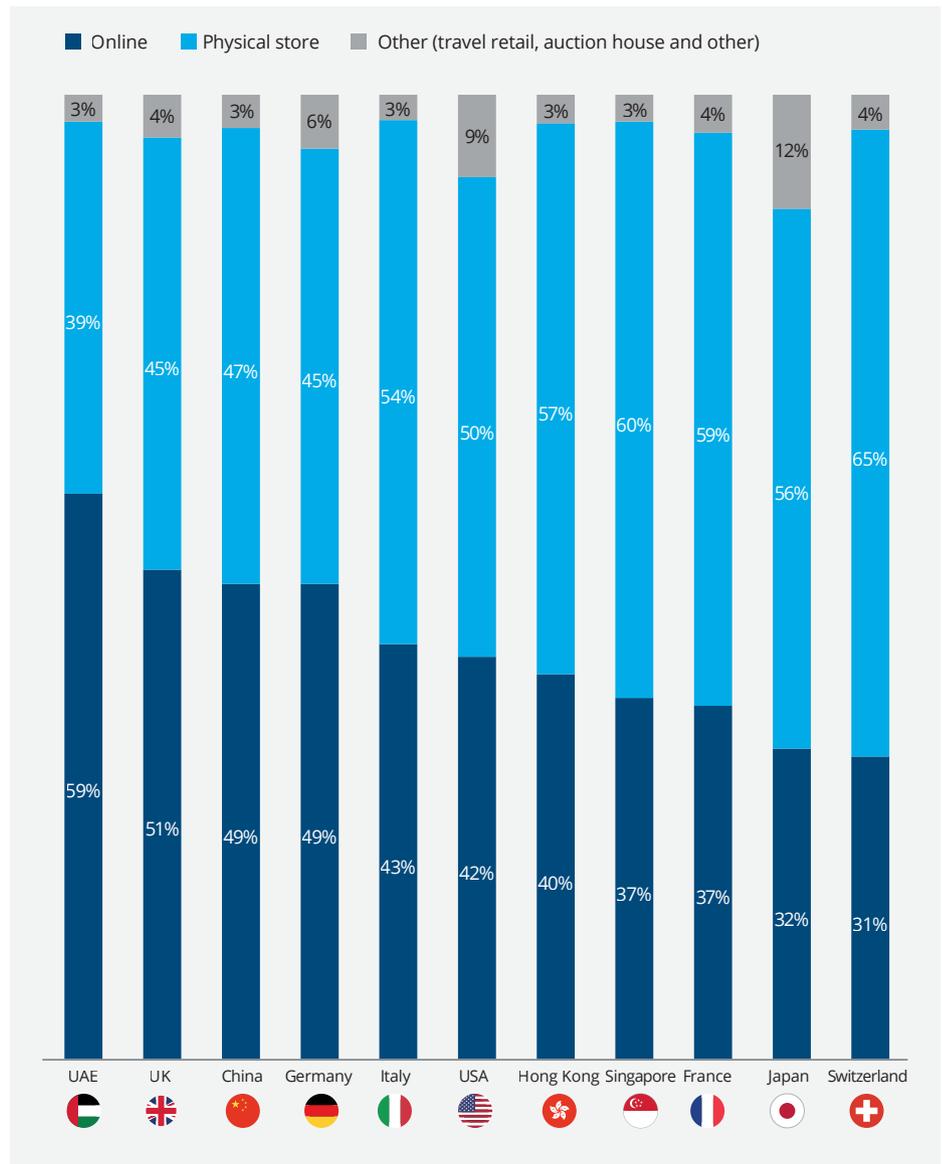


Source: Deloitte research

“One should not make a distinction between the world of online and the world of offline. In the minds of most of our customers, they don’t make a distinction. This is a wonderful evolution that has just accelerated the fact that we need to adapt to our client’s lifestyles and the way they shop and the way they experience a good shopping journey – supporting that and making it seamless.”

Frank Vivier
Chief Transformation Officer,
Richemont

Chart 21. When you buy a new watch, where are you most likely to make your purchase?



Source: Deloitte research

The findings of our consumer survey bear this out, with most respondents on average (53%) preferring to purchase watches in store. Chinese consumers are evenly split in terms of their preference for online and offline purchases. Respondents in Germany, the UK and UAE are more likely to purchase online. Respondents in the UAE were more likely to purchase via social media (14%) than consumers in other countries, but purchases made online via the brand's website were their preferred medium (36%).

Even now, most luxury watch brands are still only selling a fraction of their products through e-commerce channels. But with one-third to one-half of consumers likely to make their purchases online, brands' sales channels will need to become more 'omni'. In terms of marketing to consumers, social media is still the top channel for watch brands. According to Deloitte's Millennial survey, among Generation Z, more than 70 percent said that social media strongly influences their purchasing decisions, including looking at product promotions by influencers as their primary source for information.

Based on the findings of our survey, consumers also consider social media/influencers to have the most bearing on their decision to buy a watch; radio and television tied for second and in-store events rounded out the top three. Social media/influencers, in-store events and print media were the top answers in our 2020

survey. There are geographical differences, with Italians consulting their personal network, the French enamoured with billboard ads, and those in the UK and Japan influenced by radio and television.

6.2 Who is the fairest of them all?

Watch fairs, either cancelled or virtual in 2020, are still important to three quarters of industry executives. Most executives (80%) said that watch fairs will continue to be important in the future with the hybrid phygital format seen as most likely (52%), followed by physical (24%). Approximately one-fifth (19%) said watch fairs will no longer be important. Last year, almost one-fourth of executives (36%) believed that the industry would benefit from smaller, more personalised events with selected partner brands. This was the aim for Geneva Watch Days which promotes itself as a decentralised, self-managed and multibrand watch event, and also phygital. Launched in 2020, it was founded by 25 brands, and after two consecutive years, it is planned to be held again in September 2022.

In addition, the EPHJ trade show, dedicated to precision watchmaking technologies and components, took place live in September 2021 after a hiatus of more than two years.

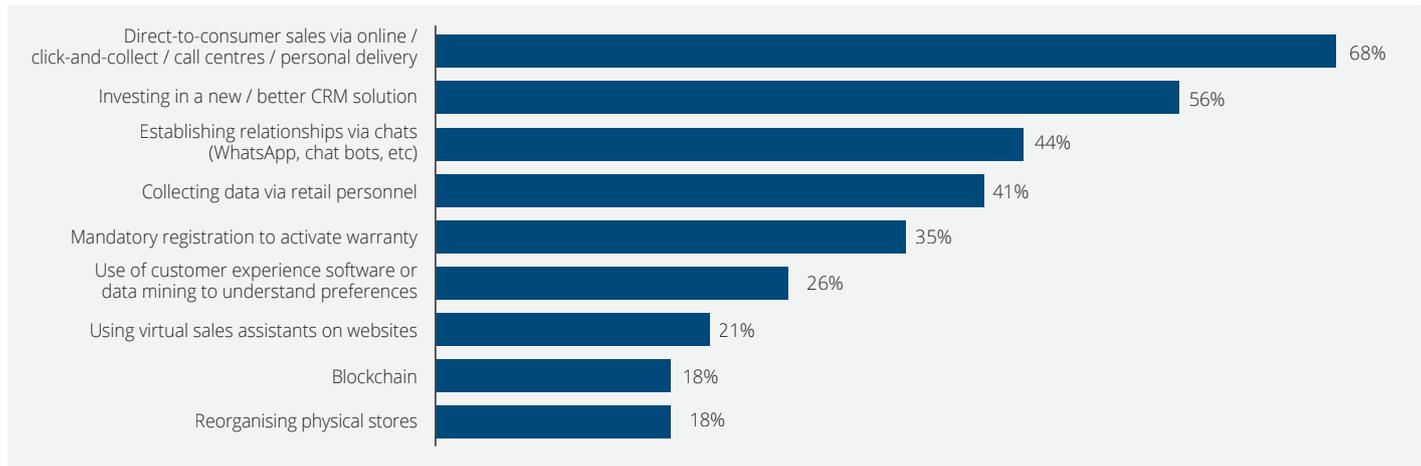
With the proliferation of online channels and the democratisation that the internet provides, watch enthusiasts (and buyers) can reside anywhere. Watch fairs in contrast take place in a selective number of

locations. Last year showed the importance of staying close to your consumers and reaching them on the channels on which they are active. Several brands successfully launched new products virtually to a global audience, using the digital tools to which we all grew accustomed in 2020. Breitling launched its latest products ahead of the April 2021 Watches & Wonders Geneva fair and its October 2020 launch was watched by four million people.¹⁶ However, many in the industry also see watch fairs as a necessary medium that brings together brands, watch enthusiasts and the media. There is no shortage of opportunities to bring these stakeholders together, with Watches & Wonders continuing in Sanya (on Hainan island in China) from October to December 2021, Dubai Watch Week in late November, Baselworld planned for early spring 2022 and Watches & Wonders returning to Geneva physically at the end of March 2022. Time to Watch, a new event for independent watch brands, is also planned to take place in Geneva in March and April 2022.

6.3 Know your customer

Each time consumers interact with brands, either physically or digitally, they reveal insights into their preferences. Brands and retailers are taking steps to better understand their customers via direct-to-consumer (DTC) sales (68%), investing in or upgrading their customer relationship management (CRM) system (56%) and establishing relationships via chat functions (44%).

Chart 22. What actions have you taken to better know your customers? (Please select all that apply)



Source: Deloitte research

This isn't a one-sided relationship. Customers increasingly expect brands to offer something in return for sharing their data – whether through personalised products or messaging, tailored recommendations or a seamless customer journey.

Centralised platforms to analyse and action real-time insights and adjust messaging or product recommendations accordingly will ultimately drive customer-centricity and cultivate lasting relationships.

6.4 Be approachable and build relationships

If struggling to understand what consumers want now and in the future keeps watch executives awake at night, the democratisation of social media and digital

channels provides a real opportunity for brands, and their CEOs, to engage directly with end consumers. Consumers want to interact with brands. Building long-term relationships is key. Giving customers, particularly younger ones, the ability to get to know the brand is key to creating a relationship. Storytelling is important. Consumers want to understand a brand's heritage and what it stands for and are more likely to purchase from brands that align with their values. Equal parts authentic and aspirational, brands need to appeal to the emotional rather than the rational, especially given that a luxury timepiece is not a necessity.

“Covid made us rethink the way we communicated with our clients. We bonded much more strongly with our clients because instead of waiting for them to physically come into the stores, we were constantly interacting with them on digital platforms. We are way stronger today than we were two years ago.”

Maximilian Büsser
Founder and Creative Director, MB&F

“We are a complementary sales channel to traditional retail. With customers looking for experiences that go beyond transactional, we provide tailored and unique watchmaking experiences for each maison and our members. Qlock is bringing the watch brands closer to the end customer.”

Benjamin Ranchoup and Charles Defrance
Co-founders, Qlock

6.5 New ways of retailing

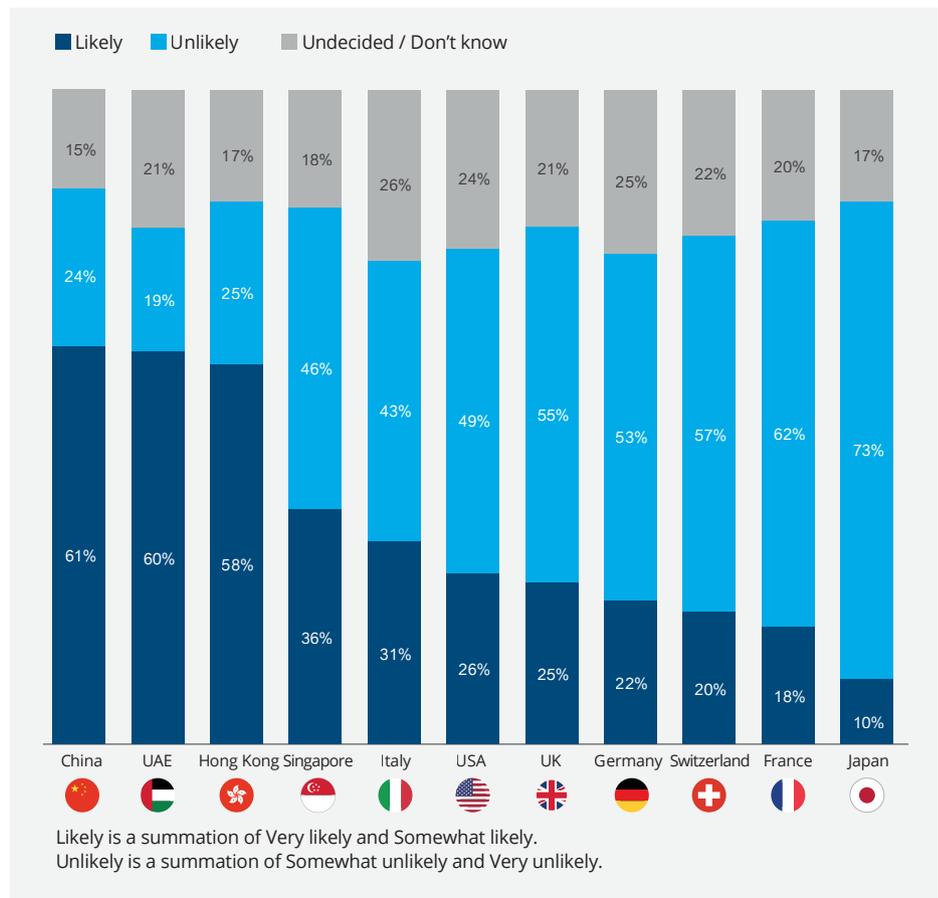
The nature of retail is changing. Brands need to find new ways to differentiate themselves and interact with consumers wherever they shop, both offline and online. Founded in 2005, QoQa is a Swiss-based digital retail platform that offers products for a limited time, only 24 hours. Qlock, their Swiss watch specific channel, gives brands the ability to sell their products and engage with their community. In Qlock’s world, customers are not only buying a product or a brand but also an experience and want to have the opportunity to learn more about the brands they are purchasing. Qlock offers its users unique and targeted experiences, conveying the DNA of each brand by involving the community in the design of

new models (crowdsourcing) or bringing a customer to the manufacturer to help assemble or finish his/her timepiece. In a world of anonymous technology consumers are looking for opportunities to enjoy a personalised experience. Those

brands and retailers who can put the customer at the centre of a purchasing experience will succeed.

Hodinkee, the New York-based horological website, offers its community content to

Chart 23. Would you consider companies or member clubs that offer watch rentals (both new models and second-hand) for a defined period of time?



Source: Deloitte research

commerce. Its content tells the stories of products and brands and its collaborations with them and watchmakers provide watch enthusiasts with limited-edition timepieces. Collectors can buy new or pre-owned pieces and carefully curated vintage watches directly from Hodinkee: it offers a 360° experience for watch enthusiasts.

6.6 Changing business models

The watch industry, like others, needs to find ways to attract and engage with new audiences. Breitling is taking a page out of the subscription model playbook, perfected by Netflix, with their #BreitlingSelect service, launched in the US in March 2021. Upon registering and signing up for a 12-month contract, subscribers have the opportunity to try three watches from a selected portfolio, with the option to purchase one as part of a special offer. They pay a one-time fee of US\$450 followed by monthly payments of US\$129. The service will be extended to Austria, Germany, France, UK and Switzerland in the future.¹⁷

The concept of leasing or subscribing to a timepiece may seem antithetical to the exclusive nature of luxury. But with more fluid views on the concept of owning luxury proliferating and more brands seeing the pre-owned market as a way to become accessible to new audiences (see Chapter 7), luxury may be being democratised slightly. The consumers surveyed, especially those in China, Hong Kong and the UAE, might consider membership of

clubs or brands offering watch rentals for a certain period. However, there is less appetite for a service of this kind in Japan, France, Germany and Switzerland, as shown in Chart 23.

6.7 Two become one

Watch collaborations continue to increase as brands use these innovative linkups to introduce themselves to a different and, they hope, new audience. Hublot and TAG Heuer were probably not household names in electronic music circles but their collaborations with two French music producers, DJ Snake and David Guetta, respectively, introduced their brands to this young audience. Rado has collaborated with several creative designers to create

a series of unique timepieces, most recently with Indian artist duo Thukral and Tagra. Luxury brands operating in different sectors but sharing principles of craftsmanship and creativity can make for natural bedfellows, as is the case with Audemars Piguet's partnership with the Ralph & Russo fashion house. The long love affair between those appreciating horsepower and timepieces is evident in the partnerships between Tudor and Ducati, TAG Heuer and Porsche, and Girard-Perregaux and Aston Martin. The motivation to collaborate can also be born from the desire of two artisanal brands to create exquisite pieces together, as is the case with MB&F and many of the brands it collaborates with.



Breitling Top Time Deus Limited Edition. Photo courtesy of Breitling.

7. Pre-owned professionalises

Chapter highlights

1. Brands are starting to see pre-owned as positive and a way to introduce their brand to new audiences.
2. Consumers are more likely to consider pre-owned with Millennials and the Gen Z leading the way.
3. The majority of brands are moving into the certified pre-owned space, technologies like blockchain will help with authenticity.

There was a time when luxury watch brands considered the pre-owned market (second-hand watches) to be a threat to their business. This is no longer the case, with only seven percent of executives surveyed seeing the pre-owned market as a threat to new watch sales. The introduction of certified pre-owned (CPO), a concept used by the automobile industry for decades, has allayed fears for many brands in terms of the quality, reliability and authenticity of their timepieces on the pre-owned market, though it is not a panacea. CPO is a process whereby brands or retailers inspect timepieces, their movements and components to confirm their authenticity, test the functionality and conduct any necessary repairs.

7.1 Increasingly attractive and lucrative

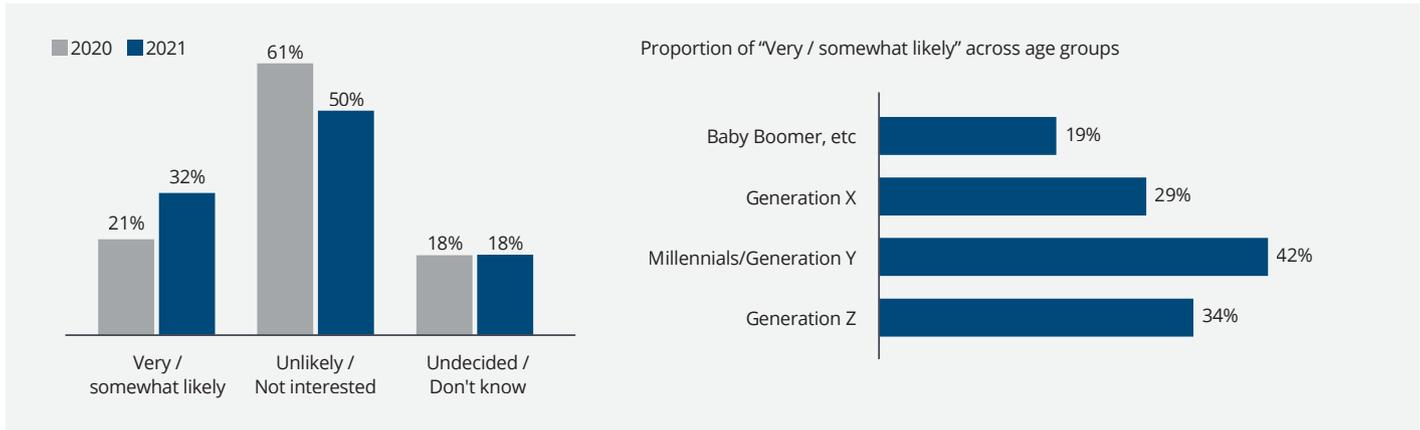
The brands surveyed see the pre-owned market as an opportunity to allow new clientele to experience the brand or enter the luxury market in general (67%), as a positive influence on brand perception and value (67%) and a source of awareness and visibility for the industry overall (63%).

The size of the pre-owned market is estimated to be around US\$20 billion. Historically fragmented, the pre-owned watch segment has professionalised, organised and attracted strong interest from financial and strategic investors. After the notable acquisition of Watchfinder & Co. by Richemont in 2018, M&A activity in the segment is gaining momentum. Watches of Switzerland Group acquired Analog Shift in 2020, its pre-owned and vintage watch partner in the US since 2018. In 2021 Hodinkee acquired US-based pre-owned specialist Crown & Caliber and Germany's Watchmaster acquired France-based MMC. More recently Chronext has scheduled an IPO on the SIX Swiss exchange and Chrono24, a global marketplace, secured €100 million in Series C funding in August. The potential of the pre-owned watch market is huge given that it is still composed of smaller players. It is likely to continue to consolidate and attract interest from investors.

“We see a major shift in the buying behaviours of younger generations where circularity has become increasingly important. The rise of vintage and pre-owned sectors in the last 18 months is tremendous and not only fuelled by value-for-money, but also by the rise of a more circular, and hence responsible economy.”

Pascal O. Ravessoud
Director of External Affairs &
Watchmaking expert,
Foundation de la Haute Horlogerie

Chart 24. How likely is it that you will buy a pre-owned/second-hand luxury wristwatch in the next 12 months?



Source: Deloitte research

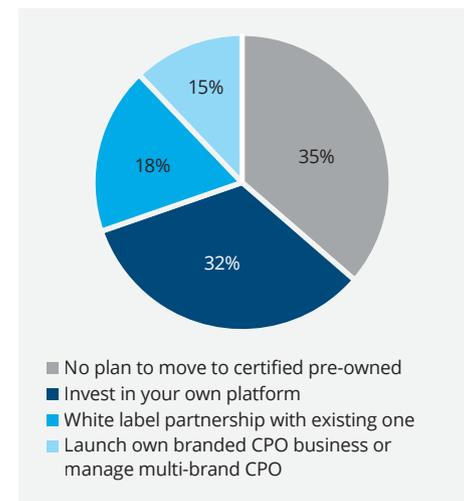
As seen in Chart 24, we see an increase in the number of consumers who are very or somewhat likely to buy a pre-owned luxury timepiece in the next 12 months compared to our 2020 survey. Millennials and Gen Z are most likely to purchase pre-owned watches.

Whether because of the sharing economy, experience with such firms as Rent the Runway, which rents out designer clothing, or being more socially conscious, there is far less stigma among younger consumers today about buying items that were previously owned. This generational shift will continue to benefit the pre-owned watch industry in the years ahead.

Executives note that one of the benefits of the pre-owned market is that it gives new audiences the chance to experience their brand or perhaps take their first steps into a world of luxury timepieces.

Consumers surveyed consider pre-owned watches because of their lower price (44%), the opportunity to purchase a discontinued model (31%) and for investment purposes (26%). There are geographical differences, with respondents in the US, France and Switzerland finding cheaper prices the greatest incentive for delving into the pre-owned world while those in Singapore, Hong Kong and the UAE seek discontinued models. Pre-owned watches are seen as sound investments in Singapore, Hong Kong and China. However, when asked what type of watch one would buy when given Chf 5,000 (or local currency equivalent), of the 11 countries surveyed an average of only 13 percent would choose a pre-owned, with the majority (48%) opting for a new mechanical watch or a smartwatch (39%).

Chart 25. What strategy do you plan to implement for the certified pre-owned market?



Source: Deloitte research

“We support the vintage market by allowing owners of watches over 30 years of age to obtain a Certificate of Authenticity issued by our experienced watchmakers based on a thorough examination of the watch as well as our records.”

Raynald Aeschlimann
CEO, OMEGA

7.2 Show me some certified (pre)love

There continues to be an increase in options and platforms on which to purchase a pre-owned watch from physical retailers, both mono and multi-brand, and digital platforms. Over 60 percent of respondents are implementing some type of strategy for the certified pre-owned market (CPO), whether investing in their own platform (32%), partnering with an existing one (18%) or launching/managing their own branded CPO business (15%). Surprisingly, 35 percent are not capitalising on the ability to generate incremental revenues from the secondary market and have no plans to move into the CPO market.

In 2020 Richard Mille Asia launched its own retail outlet in Singapore called The Value of Time focused solely on selling pre-owned timepieces. Together with Watchfinder, IWC is giving consumers the ability to upgrade their timepieces. First piloted at their London boutique, this service has rolled out to select boutiques in France, Germany, Hong Kong,

Switzerland, the UK and US.¹⁸ MB&F is selling their own select CPO timepieces directly on their website.

Many of those brands which have no intention of moving into the CPO market will continue to cultivate brand loyalty by providing services such as maintenance and authentication.

Even eBay is getting into the authentication business. This free service uses third parties to authenticate timepieces and is currently available to buyers in the US for timepieces costing upwards of US\$2,000 and from sellers in seven countries.¹⁹

With the introduction of technologies such as blockchain, brands are going further to certify the authenticity of their timepieces digitally, as Vacheron Constantin, Roger Dubuis and Breitling

have done with Arianee, a protocol platform. The AURA Consortium founded by LVMH, Prada Group and Richemont also uses blockchain to authenticate luxury items using a non-fungible token (NFT). Qibee, a Swiss technology company, uses blockchain to facilitate loyalty programmes. Together with Louis Erard it released the industry's first NFT for a limited edition Louis Erard x Alain Silberstein timepiece. Origyn, Swiss-based start-up, launched an app that uses high resolution photography to create a biometric fingerprint for watches and other luxury items. Digital solutions are useful to irrefutably authenticate new timepieces, but more vintage pieces remain challenging. Unless there are detailed records from the manufacturers, including descriptions and serial numbers for each of the components used, it is difficult to guarantee with 100% certainty the authenticity of a timepiece.



Le Triptyque Louis Erard x Alain Silberstein. Photo courtesy of Louis Erard.

“The rarity of certain timepieces, the movement towards independent watch brands and the transparency of today’s market have strengthened the connection of the primary market with the secondary market. Brands that are healthy and strong in the secondary market are the same brands that are strong in the primary market.”

Patrik Hoffmann
Executive Vice President, WatchBox

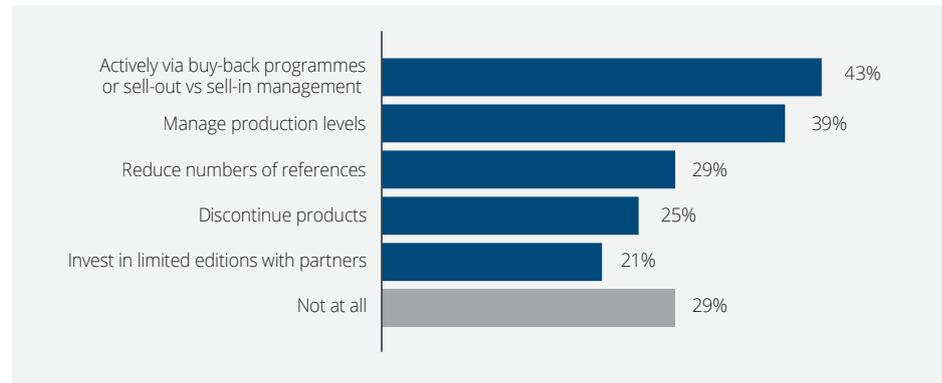
7.3 The importance of value

The pre-owned market is an exceptional gauge of value, whether real or perceived. Brands such as Rolex, Patek Philippe and Audemars Piguet, and increasingly Richard Mille and F.P. Journe, are consistently sought after in the pre-owned and auction markets, with their watches retaining their value or even appreciating over time.

Brands can influence the value of their pre-owned watches, primarily through restricting supply in some way or another. Of the brands surveyed, 43 percent deploy buy-back programmes and 39 percent manage production levels, while 29 percent do not intervene at all.

Cartier intervened in the market in 2016, buying back €200m worth of stock, most of

Chart 26. How consciously do you manage the value of your watches on the secondary/pre-owned market? (Multiple answers possible)



Source: Deloitte research

which was destroyed to recycle the gold.²⁰ Production shutdowns during the pandemic restricted the supply of watches in 2020, causing a global shortage of inventory and making certain brands, most notably Rolex, even more coveted, especially in the pre-owned and auction markets.

7.4 Going once, going twice

Luxury goods are considered sound investments in times of uncertainty, and this proved true during the pandemic: watch auctions enjoyed tremendous success in 2020 and 2021. In 2020 virtual or e-auctions increased in frequency and provided opportunities for watch enthusiasts to acquire rare and collectible timepieces. In 2021 more than half the auctions took place online and brought a new and often younger clientele into the mix. The vast majority of the top buyers now come from Asia, a number of whom are under the age of 30 and are particularly

active in the ‘superstar’ watches category, ranging from US\$3 – 4 million. For the other price categories, Asia remains the primary region, with a growing interest from Millennials followed by the USA, EU and the Middle East.²¹ However, when the stakes and sums are much higher, the virtual atmosphere cannot replace the exhilaration of live auctions.

“E-auctions have been established for a while now for watches at 5, 10 or 15,000 francs. The minute you go into the 6 and 7 digits, the drama, the uniqueness, the chase, the adventure, the adrenalin are very important.”

Aurel Bacs
Senior Consultant, Phillips in Association with Bacs & Russo

8. Serious about sustainability

Chapter highlights

1. Focus on sustainability stemming from desire to reduce carbon footprint, consumer demands and to comply with regulations.
2. Most important aspects for brands are ethical sourcing, and the environmental impact of the materials in the product and packaging – and consumers agree.
3. Supply chain transparency will be crucial and blockchain will help with traceability and transparency.

the opportunity to create value, explore new opportunities and differentiate themselves in a competitive marketplace. Over the next 12 months approximately one-third (32%) of brands said they would invest in sustainable product development, the top answer even ahead of new designs (29%).

8.1 What is your why?

However, sustainability scepticism persists and the industry still suffers from greenwashing and makes sustainability claims that lack substance. We asked watch

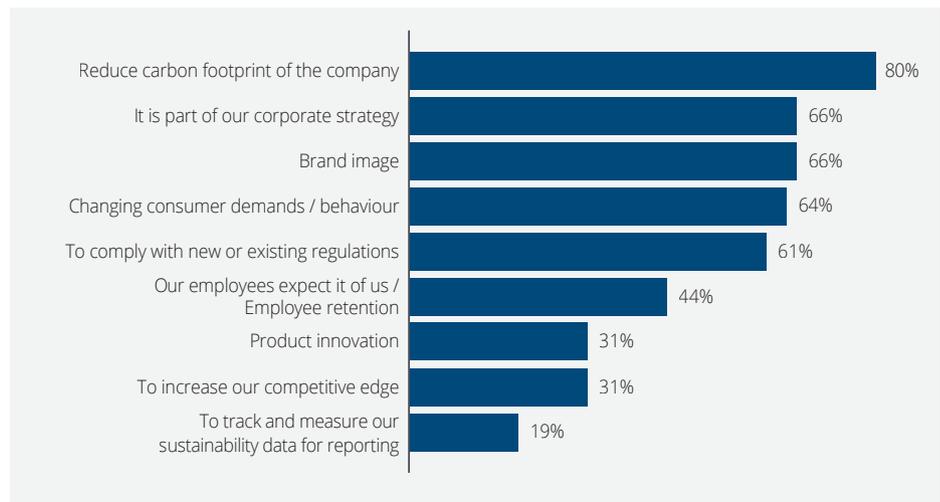
brands about their motivation for investing more in sustainability and, as shown in Chart 27, the top answers were to reduce their environmental impact and because sustainability is part of their corporate strategy. Kering, the French luxury group, has enacted an Environmental Profit & Loss (EP&L) account to measure its emissions and environmental impact and is sharing this model so that other companies can do the same.²²

Changing consumer behaviour has been a catalyst for the sustainability

Industry executives unilaterally (93%) agree that sustainability is an important topic for the industry in 2021 and beyond. The watch industry, like many others, is affected by changing consumer behaviours, media scrutiny and a stricter regulatory landscape necessitating this shift.

Approximately three-quarters (72%) of watch brands are investing more in sustainability, while 16 percent say they do not yet, but have a desire to do so. Brands are changing their business strategies, taking a hard look at complex supply chains and bringing in external players to audit and certify their efforts. This is giving them

Chart 27. Why are you investing more, or would like to invest more, into sustainability? (Multiple answers possible)

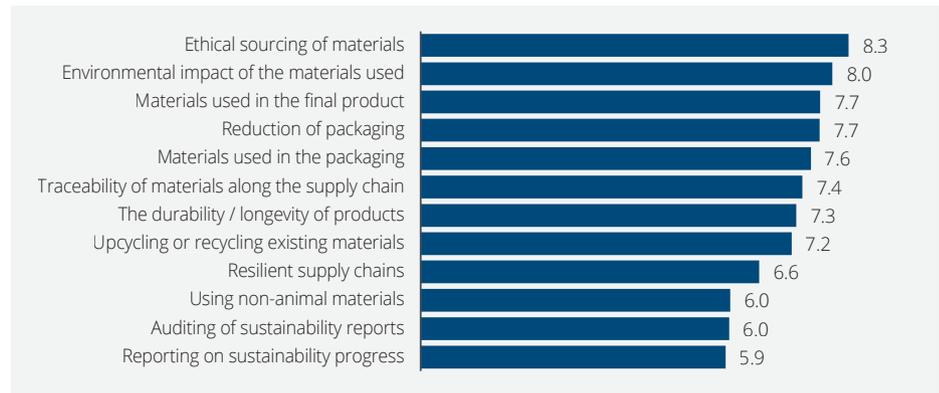


Source: Deloitte research

shift happening across many industries. It has impelled watch brands to invest more in sustainability, with 66 percent doing so to polish up their brand image and 64 percent in response to changing consumer demands and behaviours. Looking at the consumers we surveyed in 11 countries, an average of 60 percent consider sustainability when purchasing a watch, with a higher proportion for Millennials and Gen Z. One in four consumers are considering pre-owned watches also because they are seen as more sustainable. To continue to attract and retain environmentally conscious consumers, brands will need to show what they are doing to minimise their impact on the environment.

The changing regulatory landscape (61%) is also accelerating the need for brands to invest in and report on their sustainability activities. This is especially the case for the larger groups in Switzerland who will need to comply with the Task Force on Climate-related Financial Disclosures (TCFD) and the Responsible Business Initiative counterproposal disclosure requirements (Article 964) in the years to come. For those companies with business operations in the European Union, the EU's Non-Financial Reporting Directive (NFRD) requires disclosures on environmental matters and respect for human rights, and the upcoming Corporate Social Responsibility Directive (CSRD) will introduce even stricter and more detailed reporting requirements, particularly related to critical raw materials such as gold.

Chart 28. In your opinion, how important are each of the following sustainability aspects? Scale from 1 (least important) to 10 (most important)



Source: Deloitte research

8.2 Shiny and (re)new

When we asked industry executives what the most important sustainability aspects were, they mentioned above all ethical sourcing, the environmental impact of the materials used in the final product and the materials used in packaging, as illustrated in Chart 28. Consumers surveyed also rated the ethical sourcing of raw materials from an environmental and human perspective (i.e. working conditions) as the most important element.

The end-to-end production of a watch can have a substantial ecological impact, from the extraction and refining of metals and gemstones to the tanning of leathers, and the supply chains are complex. Of the executives surveyed, 90 percent believe that supply chain transparency will be important or very important in the next five years and 74 percent of respondents

“If the watch industry, similar to any other industry, wants to have an exponential impact on society, they need to look at the entire ecosystem rather than the individual actions of their particular brand. They need to approach sustainability collectively.”

Dr. Stéphane J.G. Girod
Professor of Strategy and
Organizational Innovation,
IMD Business School

“At the moment, blockchain is about traceability and authenticity. Ultimately, blockchain is all about sourcing. Consumers want to know where this leather, gold and diamonds come from – from which mines, how is it produced, who are the producers? Increasingly you will see total transparency of the production process and the supply chain.”

Georges Kern
CEO, Breitling

are working with raw material suppliers who sustainably and ethically source materials for watches. Ulysse Nardin is using blockchain technology not only to guarantee the authenticity of its timepieces but also the traceability of its materials.²³ Chopard uses certified ethical gold, either produced by artisanal and small-scale mines in South America or purchased through the Responsible Jewellery Council’s (RJC) certified refineries.²⁴ Hermes and Richemont use recycled gold, with the latter’s usage certified by the RJC.

Although brands rated the use of non-animal materials as less important comparatively, several brands have been introducing vegan leather or eco-friendly straps. This summer, Greubel Forsey announced that all its straps will be free of animal leather as of January 2022, joining the likes of Tissot and Cartier who offer vegan strap options. IWC offers paper-based TimberTex straps for its Portugieser and Portofino models. Swatch, one of the original purveyors of plastic watches, is focusing on composite materials, including those comprised of ceramic and bio-sourced plastic.

8.3 The future is circular

The luxury watch industry is sustainable to its very foundations. It produces products that are made to last and to be passed down, resold, auctioned, repaired and gifted in perpetuity. But the insufficient supply of raw materials poses a risk to the industry, and so brands looking to introduce new products will need to

consider recycled or upcycled materials to alleviate supply strains. Oris, long committed to cleaning up our oceans, not only achieved climate neutrality in August this year but also released a new Aquis Date Upcycle watch that uses upcycled PET plastics, resulting in random patterns and unique dials.²⁵ Panerai has gone even further with their Submersible eLAB-ID comprised of 98.6% recycled-based material by weight, and their Luminor Marina eSteel features recycled steel alloy.²⁶

The past year has underlined the impact of our behaviour on the environment. Consumers are making more environmentally conscious decisions, yet we have reached a point where they are no longer wooed by ethical, sustainable and responsible business practices, they have come to expect them. By seizing the opportunity to make itself more sustainable in all aspects of production, sales and distribution, and by stressing the enduring value of its high quality craftsmanship, the Swiss watch industry can guarantee for itself a healthy and sustainable future.

9. Conclusion

The pandemic disrupted the Swiss watch industry and proved a catalyst for some much-needed change. The executives surveyed are now far more optimistic about the outlook for the industry, though they do continue to have significant concerns, some of them exacerbated by the pandemic.

Labour and raw material shortages are affecting supply chains, and scarcity remains a problem. A reduction in volumes is straining the interconnected and complex ecosystem of Swiss watchmaking. Smartwatches, meanwhile, continue to find their way on to wrists in greater numbers. But the news is not all bad; consumers are increasingly wearing both smartwatches and more traditional ones. Connectivity and craftsmanship do not need to be mutually exclusive and the traditional brands are themselves blending both.

Millennials and Generation Z are gaining more purchasing power, and the majority are digital natives. Brands will need to continue to adapt to customers who cannot be confined to traditional sales funnels, target group personas and linear decision-making processes. Consumers are interacting with brands and purchasing products on their own terms and via their preferred channels. Data can help better

understand what customers are searching for and what is important for them.

Storytelling brings brands to life, highlighting their history and personality, their values and their uniqueness. Consumers expect an authentic story and a consistent experience, across all touchpoints. Understanding how to create a connection with consumers that transcends channels will be paramount. Brands will need to understand how their heritage and values align with those of their consumers. Rarity and exclusivity were safe bets in the past but younger generations prize social attributes, such as sustainability and inclusivity.

The pre-owned segment is a way for brands to expand their audience base, gauge their value and generate incremental revenue. It provides an opportunity to be more accessible to consumers, and it is circular and sustainable by default. The potential is great and the pre-owned space is becoming increasingly sophisticated. But it also comes with its challenges. The important word 'certified' needs to be protected and not cast around too freely. Brands controlling their timepieces through their own certified pre-owned programmes and technologies such as blockchain can help with authenticity and traceability.

Today's consumers make their purchasing decisions with an awareness of the impact of industries and products on the environment. Ethical sourcing of materials, the ethical treatment of workers, the impact of materials used in the products themselves and in packaging are important to them: they are holding brands to account. The industry is making progress, but much more can be done in terms of the traceability of materials, circularity and communication about shortcomings and what is being done to address them.

Over the past 18 months the Swiss watch industry has undergone an acceleration of digitalisation and this continues. But the shift was borne out of necessity. In the future, proactively recognising, anticipating and adapting to the demands of a changing landscape will make the difference between those in the industry who simply survive and those that thrive.

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