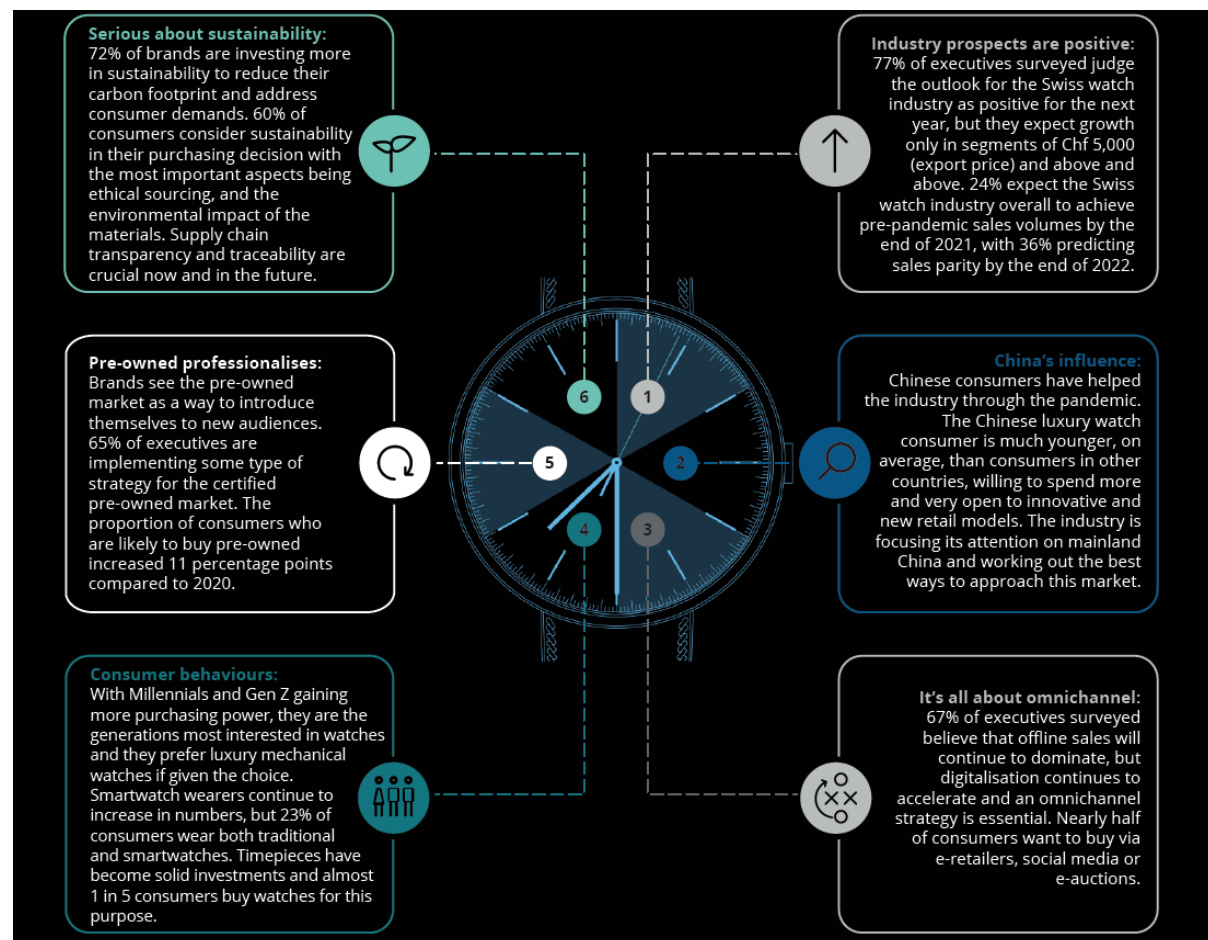


Management and Entrepreneurship M.EIC 2021/2022

The Deloitte Swiss Watch Industry Study 2021

<https://www2.deloitte.com/content/dam/Deloitte/ch/Documents/consumer-business/deloitte-ch-en-swiss-watch-industry-study-2021.pdf>



2.1 On the road to recovery

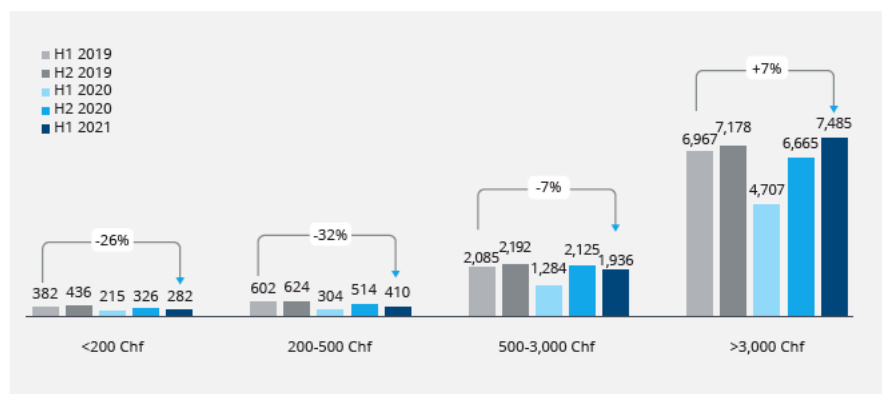
The pandemic has left its mark on the Swiss watch industry. Lockdowns and the cessation of international travel provoked a historic collapse in production and sales in the second quarter of 2020. But at the same time, as we wrote in our 2020 study, an accelerated transformation is taking place in the 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. 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 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.

Overall, mechanical watches have proven to be more resilient at weathering the crisis, as was also the case after the 2008 financial crisis. 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 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.

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.

3. Digital watches (<https://www.linkfluence.com/blog/luxury-watch-innovation>)

It's also important to touch on digital smartwatches. While they fall into a different price segment, Apple smartwatches outsold the entire Swiss industry of traditional watch brands in 2019. An estimated 30.7 million units of Apple smartwatches were sold globally in 2019, compared to 21.1 million of all Swiss watch brands combined. The report findings confirm that younger consumers are favoring smartwatches and electronic wrist wear, while analog watches continue to be popular among older consumers.

But, Apple's capabilities are also appealing to older segments aged 45 and above. The series 4 watches and successor generations are able to take an electrocardiogram, detect irregular beats and automatically call an emergency contact if the wearer falls. Though Apple isn't considered a luxury brand, it innovated technologically before traditional Swiss watchmakers and eroded some demand for traditional watches. Brands below the one thousand dollar segment face the biggest challenge.

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.

5.1. Consumer behavior

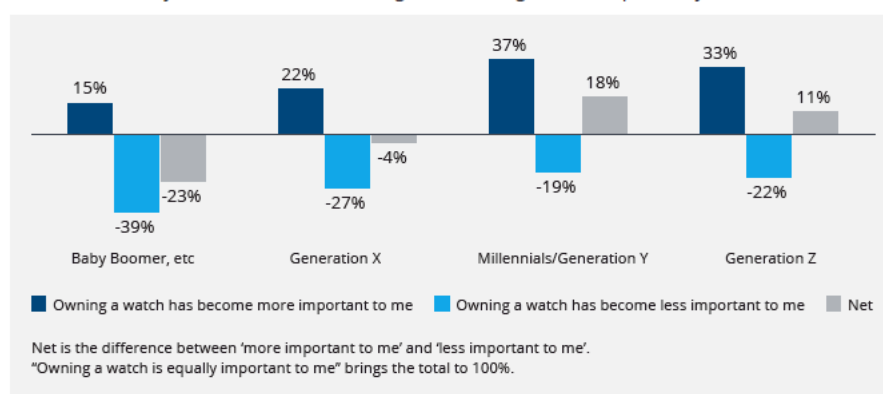
Chapter highlights

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.

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.

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



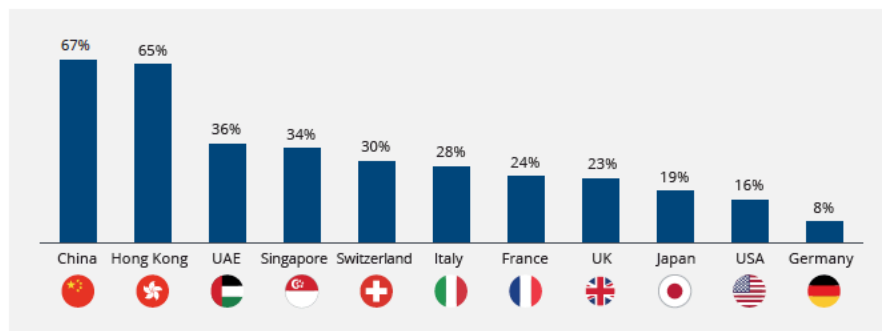
Source: Deloitte research

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.

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



Source: Deloitte research

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



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

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. 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.

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. 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 specification, 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.

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.

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.

SWATCH

<https://www.swatchgroup.com/en/companies-brands/watches-jewelry/swatch>

TIME IS WHAT YOU MAKE OF IT

An iconic provocative timepiece that saved the Swiss watch industry, thanks to its visionary founder Nicolas Hayek. Colorful, happy, loud, shrill and forever re-interpreted in different ways. Swiss Made and, thanks to industrial production and only 51 parts, available at a democratic price. Since the “second watch” was born in March 1983, hundreds of millions have been sold. In a very short space of time Swatch has become one of the most famous brands in the world – and all the while remaining true to itself. On average, a new Swatch design is created once every one-and-a-half days, keeping time as part of a Spring-Summer, Fall-Winter or as a Special Collection.

Known for revolutionary concepts, creative models and the pleasure it takes in provocation, Swatch loves to keep on surprising its audience. Swatch watches are a popular canvas for artists working in a great range of styles, and arguably the world’s largest art gallery on the wrist. The Swatch Art Peace Hotel in Shanghai offers (artistic) freedom for artists-in-residence from all over the world. With its commitment to niche sports and the Swatch Proteam, the watchmaker has paved the way to popularity for disciplines like Freestyle Skiing, BMX and Drone Racing. But be careful – Swatch is addictive: Swatch Club numbers several hundred thousand members.

The Swatch price ranges between 42€ and 260€.

OMEGA

<https://www.swatchgroup.com/en/companies-brands/watches-jewelry/omega>

A Pioneer in Watchmaking and Beyond

Founded in 1848, OMEGA is a watch brand synonymous with excellence, innovation and precision. The company has constantly been defined by its pioneering spirit, demonstrated by its conquests of the oceans as well as space. Since 1965, the OMEGA Speedmaster has been

worn on each of NASA's piloted missions including all six moon landings and many of history's greatest explorations beyond Earth.

As well as this, no brand is more actively involved in sports timekeeping. In addition to partnerships in golf, sailing, athletics and swimming, OMEGA has served as the Official Timekeeper of the Olympic Games since 1932. This role has not only involved the precise timing of many different sports and disciplines, but also the consistent development and evolution of the vital equipment that today's athletes rely on.

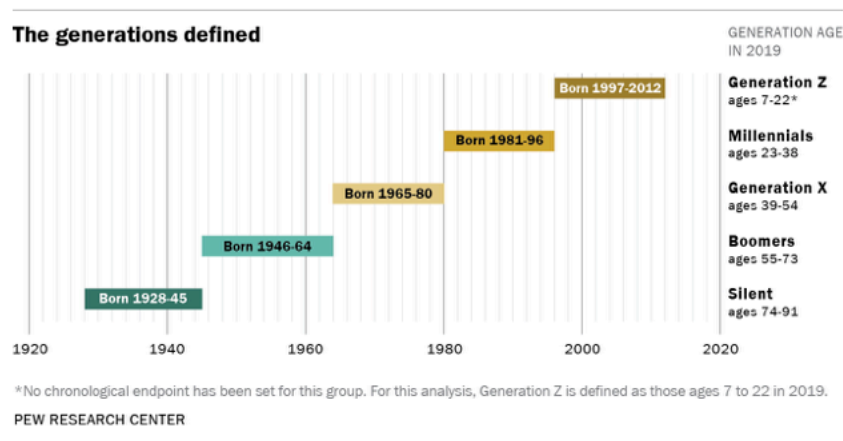
In watchmaking, OMEGA's history has been dedicated to a quest for perfection. This legacy continued in 1999 with the launch of the revolutionary Co-Axial escapement and, in 2015, with the world's first Master Chronometer. Approved by the Swiss Federal Institute of Metrology (METAS), Master Chronometer certification today represents the Swiss industry's highest standard of precision, magnetic resistance and chronometric performance.

Perhaps the most famous name to choose OMEGA is James Bond. Since 1995, the spy and his Seamaster have been inseparable and the partnership is one of OMEGA's most recognized around the world.

The brand's real-life roster of ambassadors includes George Clooney, Nicole Kidman, Cindy Crawford, Eddie Redmayne, Daniel Craig, Kaia Gerber, Presley Gerber, Rory McIlroy, Sergio Garcia, Michael Phelps, Chad Le Clos, Liu Shishi, Michelle Wie, Buzz Aldrin and Thomas Stafford.

In regards to its social causes, OMEGA has a dedicated partnership with Orbis International, whose Flying Eye Hospital takes high-quality eye health care to some of the world's remotest regions.

The Omega average price range is between 5.200€ to 7.150€, but it can go from 2.000€ up to 60.000€+.



Questions:

1. Characterize the segments of the watch consumers
 - a. Which segmentation variables may be relevant?
 - b. Which segments can you find, based on these variables?
2. Define the target segments for Omega and Swatch
3. Define the positioning for Omega and Swatch