The Deloitte Swiss Watch Industry Study 2015

Uncertain times

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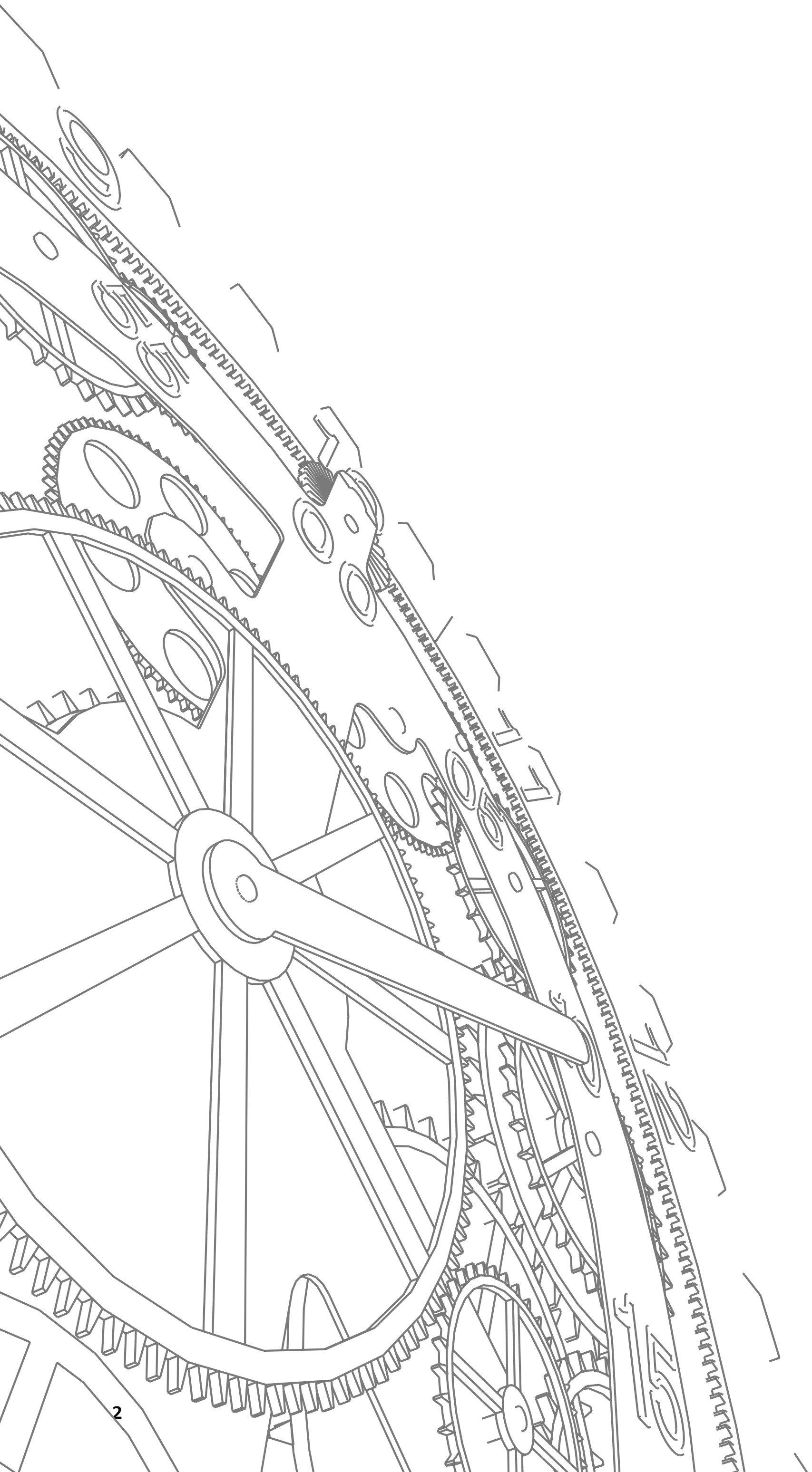

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About the study

This is the fourth annual Deloitte Watch Industry Study. It is based on an online survey and discussions with executives, and a consumer survey which was conducted among 3,000 people in China, France, Italy, Japan, Switzerland and the US by the data collection provider Research Now. The online survey with executives was conducted between May and July 2015. A total of 51 watch executives participated.

Key findings

Average price of exported Swiss watches peaked at CHF 730

Exports of Swiss wristwatches peaked at a value of CHF 21 billion in 2014, which makes Switzerland the world's leading exporter of watches in terms of value. The average price of exported watches rose from CHF 310 in 2000 to CHF 730 in 2014. However, in the first half of 2015 Swiss watch exports by value remained almost flat.

Pessimism hits four-year high

The economic outlook for the Swiss watch industry worsened substantially. 41% of watch executives surveyed are pessimistic about the economic outlook, whereas only 14% are optimistic. This is the worst result since the launch of the Swiss Watch Industry Study in 2012.

External risks are back

69% of watch executives see the strong Swiss Franc as a significant risk to their business. Another important concern is weaker foreign demand, especially in Hong Kong and China. 34% of respondents expect the demand for Swiss watches to decline in Hong Kong and China, only 27% expect an increase.

Smartwatches taken more seriously

According to the survey 25% of watch executives consider smartwatches to be a competitive threat, up from 11% in 2014. 39% of respondents indicated that following the release of the Apple watch, they are more aware of the challenge from this product category.

Significant consumer interest in smartwatches in China, Italy and France

Our consumer survey indicates that 61% of Chinese, 48% of Italian and 35% of French consumers intend to buy a smartwatch in the next 12 months. In contrast, the percentage in Switzerland is only 17%.

The rise of digital media

An increasing number of watch executives will give more emphasis to online sales channels in the next 12 months. Watch companies continue to focus on digital media in their marketing campaigns, and social media are by far the most important marketing channel in 2015.

The Swiss watch industry at a glance

World leader in terms of value

Even though Switzerland does not export nearly as many watches by volume as its two most important competitors, China and Hong Kong, no other country generates higher watch sales by value (see Figure 1). In 2014 the average export price of a Swiss wristwatch was CHF 730, compared to CHF 27 in Hong Kong and CHF 7 in China, a clear sign that many Swiss watches are in the luxury goods segment of the market. Between 2000 and 2014 the average price of an exported watch made of precious metal increased by more than 300%, from CHF 4,000 to CHF 14,600, (see Figure 2) due mainly to an increase in the price of gold. In total, precious metal watches contributed 40% of total Swiss watch sales.

Figure 2. Swiss watch exports by material

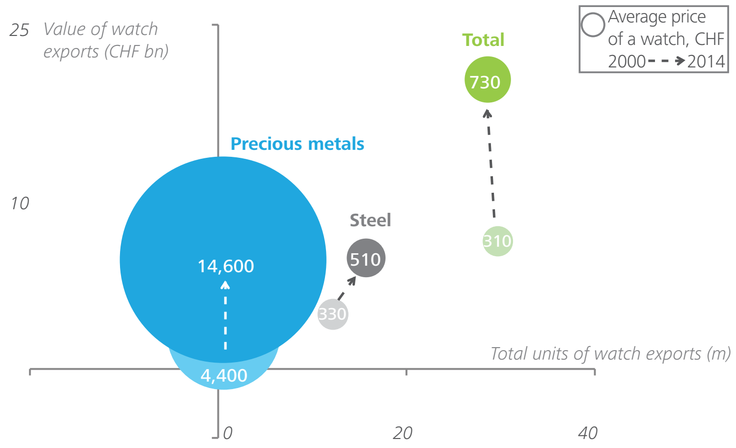
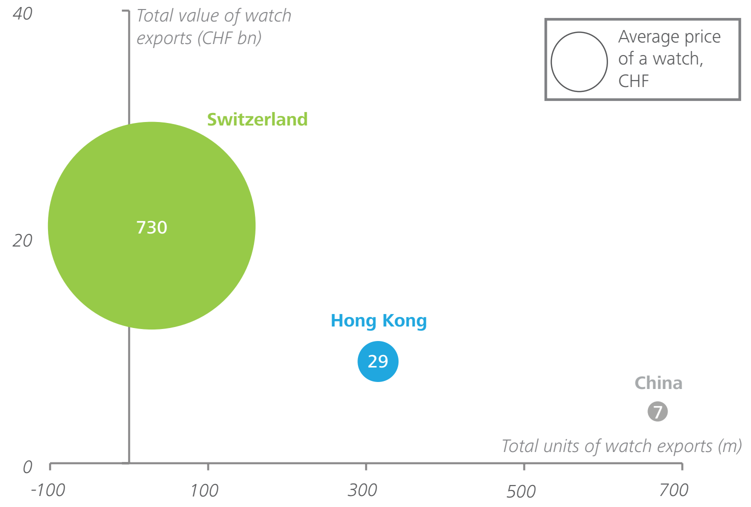


Figure 1. Top 3 exporting countries for watches



Source Figure 1 and 2:
Swiss Customs Administration, Federation of the Swiss Watch Industry FH

Exports at record level

Exports of Swiss wristwatches reached a new record of CHF 21 billion in 2014, 1.8% more than in 2013, and after two years of decline attributable mainly to quartz watches, there was also a slight increase in volume (+1.7%). Even though 2013 and 2014 represent a plateau in sales after a period of high growth, the Swiss watch industry recorded the highest growth rate (38%) among the top five Swiss export products over the period 2010-2014 (see Figure 3). Growth in these years was driven mainly by increasing demand in the US, Hong Kong and Japan (see Figure 4) although a different trend began to emerge in the second half of 2014 and the first half of 2015.

Figure 3. Swiss top 5 export products, growth rate 2010-2014

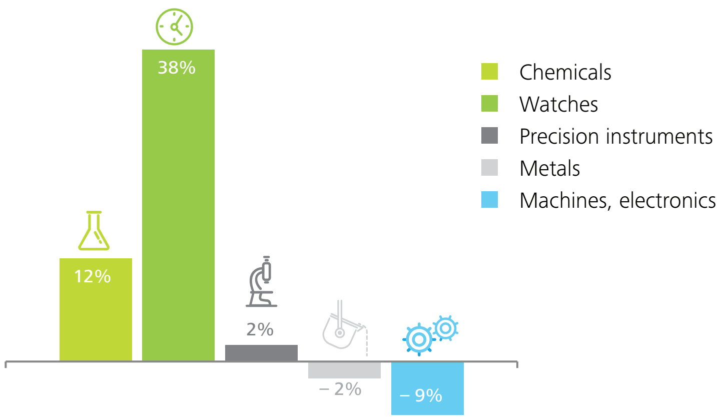
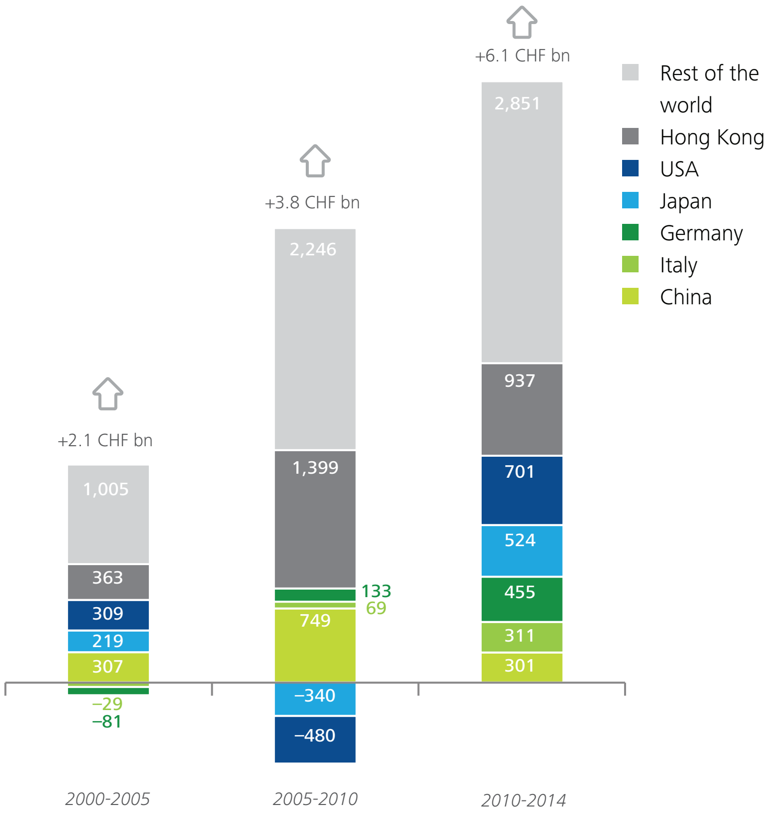


Figure 4. Growth of Swiss watch exports



Source of Figure 3 and 4:
Swiss Federal Statistical Office, Federation of the Swiss Watch Industry FH

Watch exports take a hit from weakening demand in Hong Kong

There was a sharp fall in sales to Hong Kong, Switzerland's top export market for watches, towards the end of 2014 and in the first half of 2015 (see Figure 5). After many years of strong growth, exports to Hong Kong have experienced a downward trend since 2012. This was accelerated by the Umbrella Revolution, the Hong Kong student demonstrations that started in September 2014 and had a strong negative impact on tourism and sales of luxury products, and the decline continued further in 2015. In contrast, sales to the US, the second-most important market, continue to grow and to confirm its position of one of the most consistent markets over the past two years (see Figure 6).

Figure 6. Swiss top 3 watch export markets, value in bn

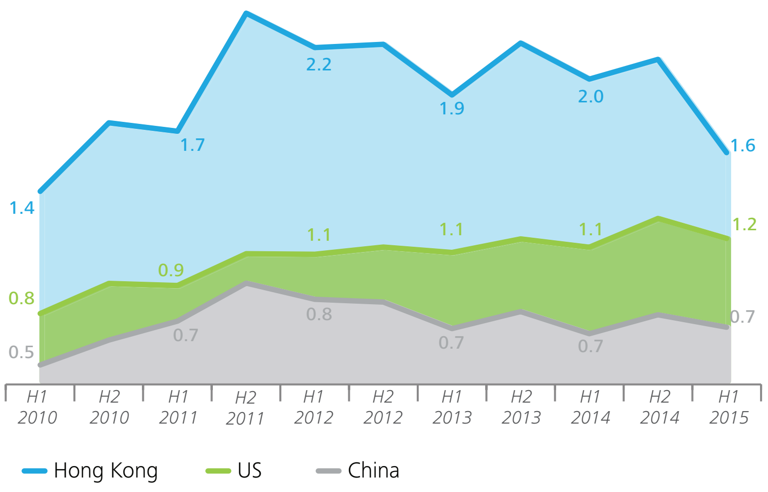
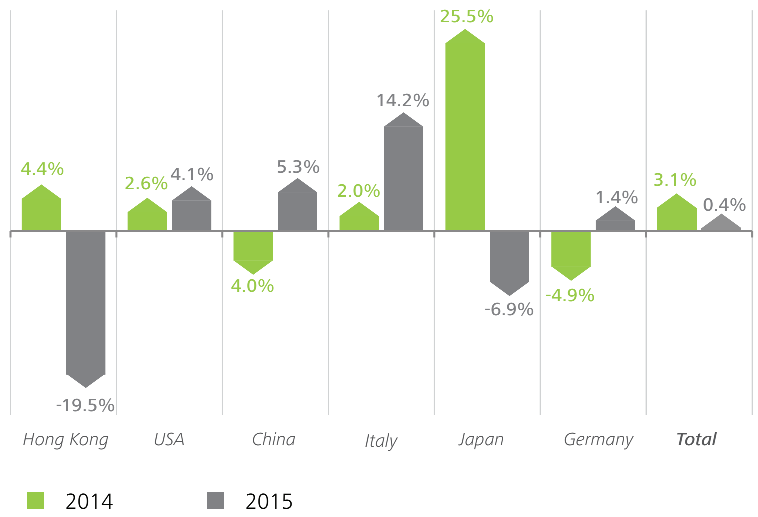


Figure 5. Value of Swiss watch exports, Jan-Jun growth rates

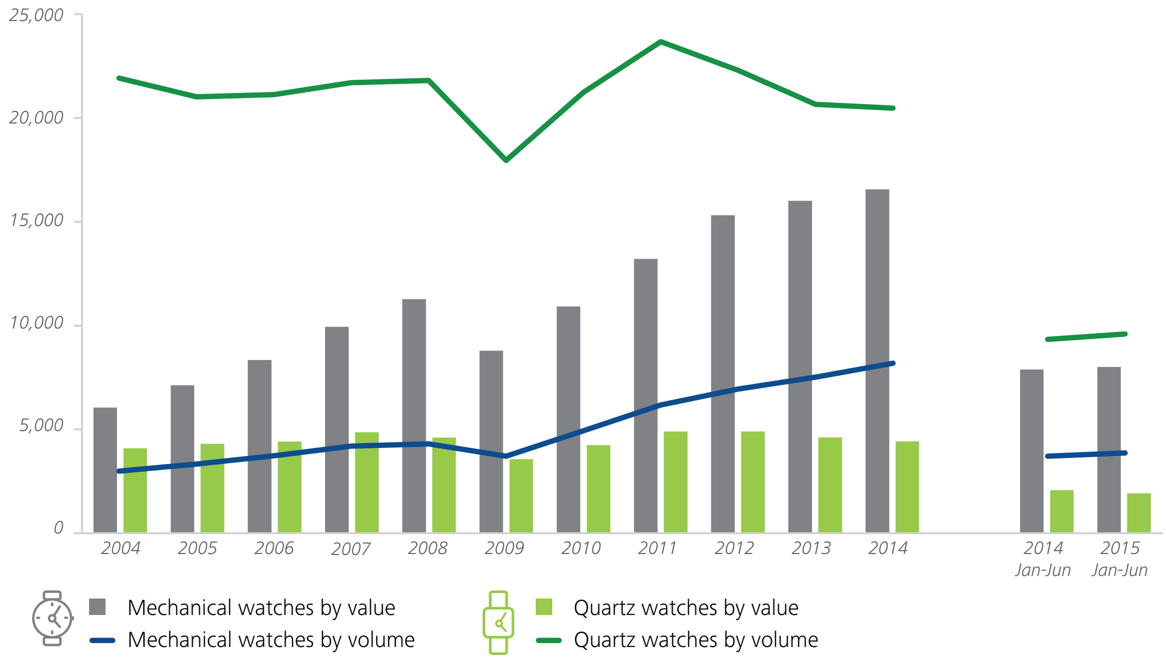


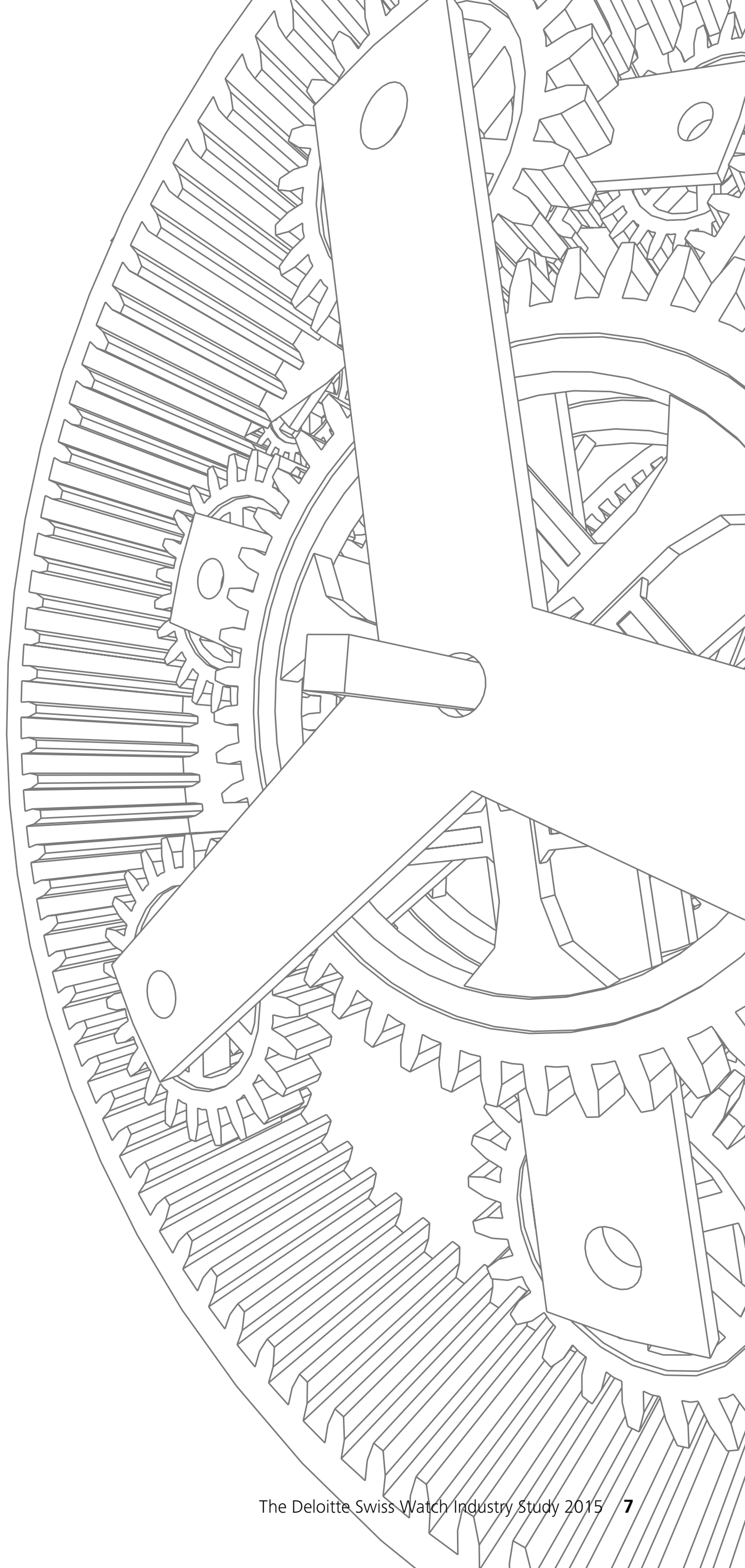
Source of Figure 5 and 6:
Swiss Customs Administration, Federation of the Swiss Watch Industry FH

Mechanical watches continue to win export share

Although lower than in 2013, growth in export sales of mechanical watches continued in 2014 with an increase of 9% by volume, while exports of quartz watches fell by just 1% (see Figure 7). After a fall of three million units in annual exports of quartz watches between 2011 and 2014, sales grew by 3% in the first half of 2015. However the rise of non-Swiss players such as Ice-Watch and growth in demand for smartwatches in the same price range should continue to put pressure on Swiss exports priced below CHF 200. According to the watch executives surveyed, volume growth expectations in the next 12 months remain strongest for high-end watches (rating 5.6 of 10), followed by low-end (4.8) and mid-range (4.7).

Figure 7. Swiss exports of mechanical and quartz watches by value (in million) and volume (in 1,000s pieces)





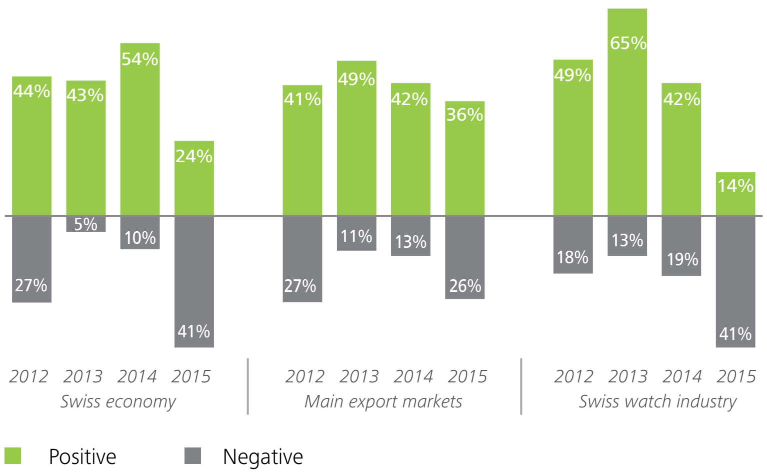
Industry outlook and demand

Economic outlook falls to record low since 2012

According to watch executives the downward trend in sales in the first half of 2015 is likely to continue over the next 12 months. For the first time since the Deloitte Swiss Watch Industry Study was launched in 2012 the percentage of respondents who are pessimistic about the outlook for the Swiss economy and the Swiss watch industry exceeded those who are optimistic (see Figure 8). There is still optimism about prospects for the main export markets, but less than last year.

Figure 8. Economic and industry outlook

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



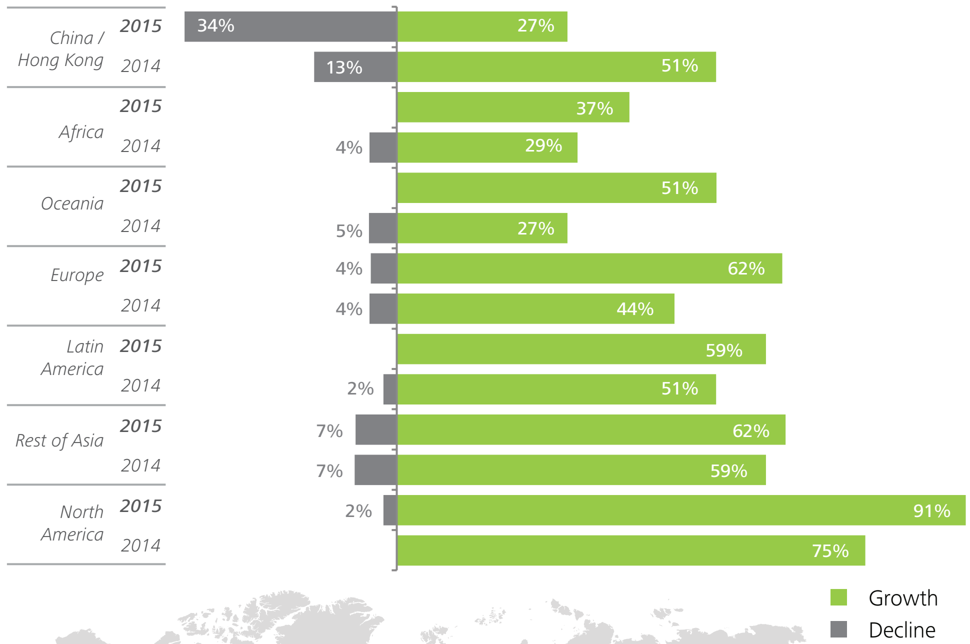
Negative growth outlook for China and Hong Kong

This pessimism is not surprising given the lower expectations for growth in China and Hong Kong. 34% of the watch executives in our survey have a negative growth outlook for the region, up from 13% in 2014 (see Figure 9). Only 27% expect demand for Swiss watches in China and Hong Kong to increase in the next 12 months. In contrast, optimism about the US market is at a record high: 91% of watch executives now have a positive growth outlook, compared to just 75% in 2014. This makes the US the most highly-rated market this year. Optimism about non-Chinese Asia, the second-most highly rated export market in 2014, remains strong this year, with 62% of watch executives indicating a positive growth outlook.

When asked about the next big growth market, our survey participants mentioned several countries, but the US and India in particular. Thanks to its fast recovery from recession, the USA economy is strong and consumer spending has increased sharply in the past few years. Compared to the US, the market in India for luxury products (and watches in particular) is still at an early stage of development. However, given its growing population and increasing wealth, India is the emerging market that is seen to have the greatest potential for the luxury goods industry in general and watches specifically. According to Jewellery Net Asia, the luxury watch market in India is growing by 20% every year.[1] Moreover, the low and middle segments are expected to grow partly due to the fact that Apple launched its smartwatch there in July 2015.

Figure 9. Growth regions

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



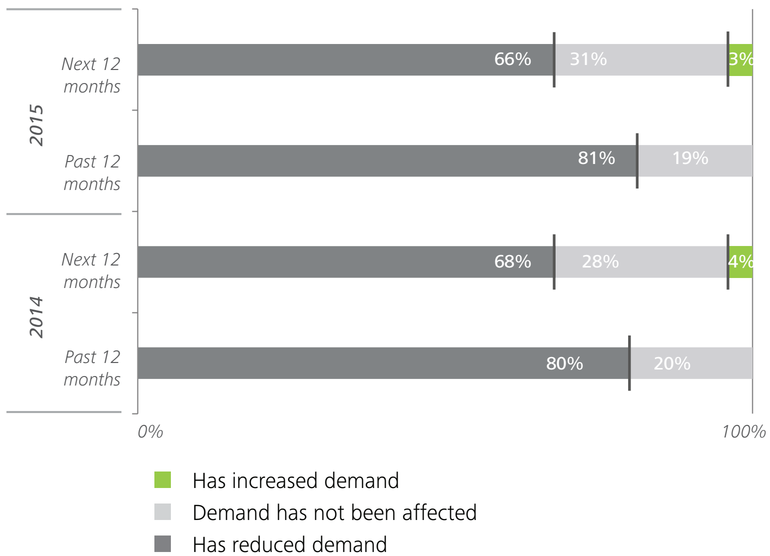
The pessimism about China and Hong Kong can be explained by the lower rates of growth in the economies of many emerging markets, and also the anti-corruption and anti-kickback legislation in China: these developments have led to a fall in the sales of luxury products. The picture for Hong Kong is even worse, taking into consideration the combined effects of the strong Swiss Franc, falling tourism from China to Hong Kong (also due to less stringent conditions for Chinese people to get travel visas to other destinations) and the effects of the Umbrella Revolution.

This decline has started to create a build-up in inventory in the region, a situation similar to 2008/2009. In response to the situation HK Watch, the Federation of Hong Kong Watch Trades and Industries Limited, sent a letter to Swiss manufacturers in April 2015, asking them to help by granting a discount.[2] According to HK Watch, inventories have reached 6 to 10 months of sales for some brands. For example Patek Philippe and Panerai announced a reduction in their product prices in Hong Kong, by 7% and 5% respectively. Swatch however stated that they will not cut prices, as this would be detrimental to the watch market as a whole.[3]

81% of watch executives indicated that demand in China has fallen over the past 12 months due to anti-corruption legislation (see Figure 10). It is interesting to note that in 2014 only 68% had expected demand to fall over the next 12-month period. This suggests that market conditions have been worse than expected. Looking ahead, 66% of watch executives in our 2015 survey expect a further fall in sales over the next 12 months.

Figure 10. China's anti-bribery legislation

How do you rate the impact of the change of Chinese anti-bribery and anti-kickback legislation on Chinese demand for Swiss watches in the past 12 months and over the next 12 months?

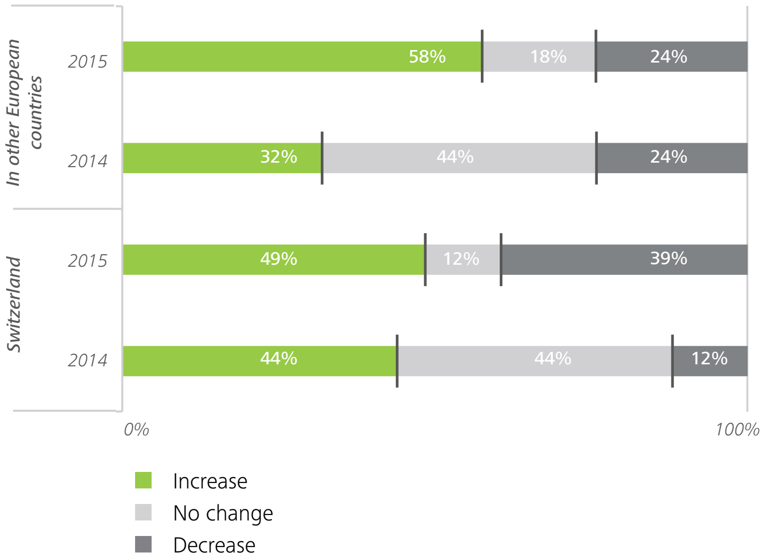


Sharp increase in expected sales to foreign tourists in Europe

An additional export channel is sales to foreign tourists in Switzerland and other European countries. Sales to tourists in Switzerland are not officially measured, as the FH (Federation of the Swiss Watch Industry) tracks only export statistics; however they are estimated to make up 5% of the global market. Compared to last year, watch executives are now much more positive about sales to tourists in other European countries than about sales in Switzerland (see Figure 11). This can be explained by the strong Swiss Franc, which makes Switzerland less attractive to foreign tourists than in previous years.

Figure 11. Outlook for sales

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



Challenges and risks

Rising worries about strength of Swiss Franc

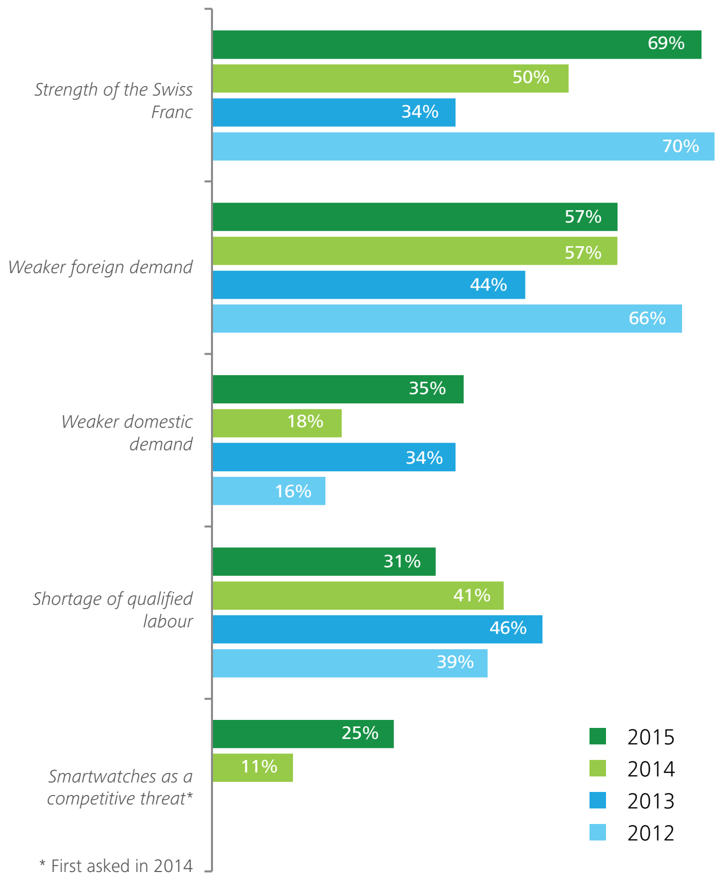
As discussed earlier, weaker economic growth in many emerging markets and decreasing demand especially in China and Hong Kong have weakened the overall outlook of the Swiss watch industry. 57% of watch executives see weaker foreign demand as a significant risk to their business over the next 12 months (see Figure 12). Even so, the strength of the Swiss Franc is a greater risk. After the Swiss National Bank (SNB) removed the currency cap on the euro in January 2015, the Swiss Franc appreciated in value by 15 – 20%. Helped by its ability to pass on increases in prices, mostly in the high-end segment, the Swiss watch industry has coped better than most export sectors with the strong Swiss Franc in the past, but a critical point now seems to have been reached, especially in the low- to mid-price range segments of the market.

The availability of qualified labour, one of the top concerns of executives in the last three years of our survey, is considered less important this year, due to changes in market conditions.

Another concern that has grown substantially since 2014 is the competitive threat from smartwatches. In 2015, one in four respondents expects smartwatches to pose a significant threat to the business over the next 12 months, compared to just one in ten in 2014.

Figure 12. Top 5 external risk factors

Which of the following factors are likely to pose a significant risk to your business over the next 12 months?

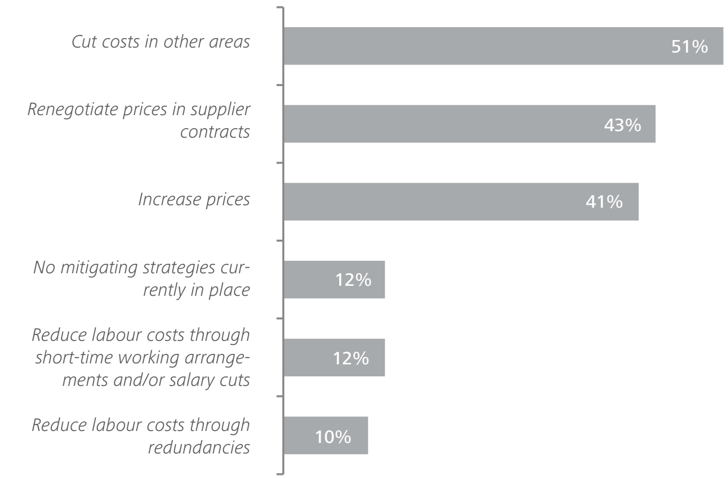


Cutting costs to counter the strong Swiss Franc

Watch companies are reacting to the strength of the Swiss Franc with a range of measures. By far the most important strategy is cutting costs, excluding labour costs. One half of our respondents say that this strategy is being implemented to counter the strong Swiss Franc (see Figure 13). Many watch companies have also increased or renegotiated prices. Montblanc, Audemars Piguet and Jaeger-LeCoultre, amongst others, took an immediate decision in February to increase their prices in the Eurozone by 5 to 7%, but this is a strategy that not all brands can adopt, especially in the lower-priced market segments. The fact that only 12% of the companies in our survey do not currently have a strategy in place to counter the strong Swiss Franc indicates the seriousness of this threat to the Swiss watch industry.

Figure 13. Strategies to counter the strong Swiss Franc

What strategies are you implementing to counter the strong Swiss Franc?

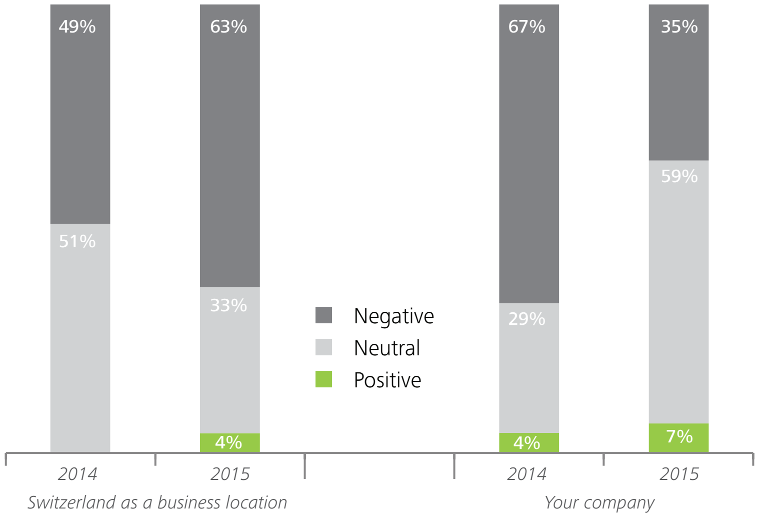


The Swiss watch industry is not on a hiring spree

According to our survey, the perceived impact of the 'mass immigration' initiative has changed substantially compared to 2014 (see Figure 14). While opinions about the long-term effects on Switzerland as a business location are slightly more negative, the number of watch executives expecting an adverse impact on their own company fell sharply, from 67% in 2014 to 35% in 2015. This change in perception can be attributed amongst other things to continuing uncertainty about the eventual impact of this initiative and the fact that the Swiss watch industry is not on a hiring spree at the moment due to current market conditions.

Figure 14. Impact of 'mass immigration' initiative

How do you rate the long-term impact of the 9 February 'mass immigration' initiative?



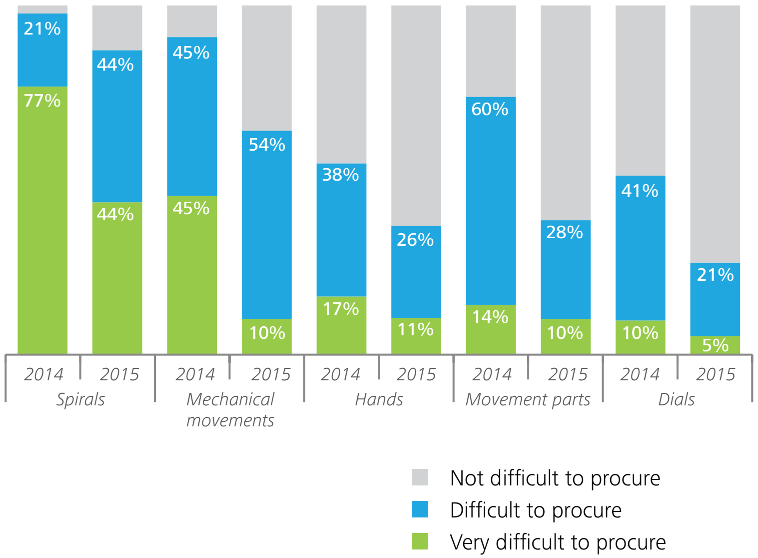
Reducing difficulty with procurement

Spirals, mechanical movements and movement parts still remain the most difficult parts to procure, but difficulties with procurement have fallen (see Figure 15). Each part is less difficult to procure than in 2014. In 2014 74% of watch executives indicated that movement parts were difficult or very difficult to procure, only 38% of this year's respondents hold this view. This change can be explained by the current context of slower growth and rising concerns about the accumulation of stocks in China and Hong Kong.

The number of watch executives who consider the amount of investment in production facilities to be too low has fallen from 39% in 2014 to 26% in 2015. Even so, this percentage is greater than the proportion of executives who consider the amount of investment as too high (21% in 2015 compared to 11% in 2014). The industry continues to invest heavily in production capacity, as shown by Hublot's new 8,000 m2 manufacturing facility in Nyon, the Richemont facility under construction in Meyrin (although this decision dates back to 2012), Louis Vuitton's new manufacturing site at Meyrin which opened in late 2014, and the extension of the Vacheron Constantin headquarters in Plan-les-Ouates completed early 2015. Jaeger-LeCoultre also recently announced an extension to its manufacturing site in Le Sentier and the transfer of part of its management in Geneva. Many of the large luxury watch brands have therefore increased their production capacity recently or are in the process of doing so. Although it has experienced a number of ups and downs, the Swiss watch industry has an overall track record of growth, and it is not surprising to see watch brands continuing to invest, even in the current environment.

Figure 15. Difficulty of procurement

In your view, what parts (internal and external) are the most difficult to procure?



Business strategies

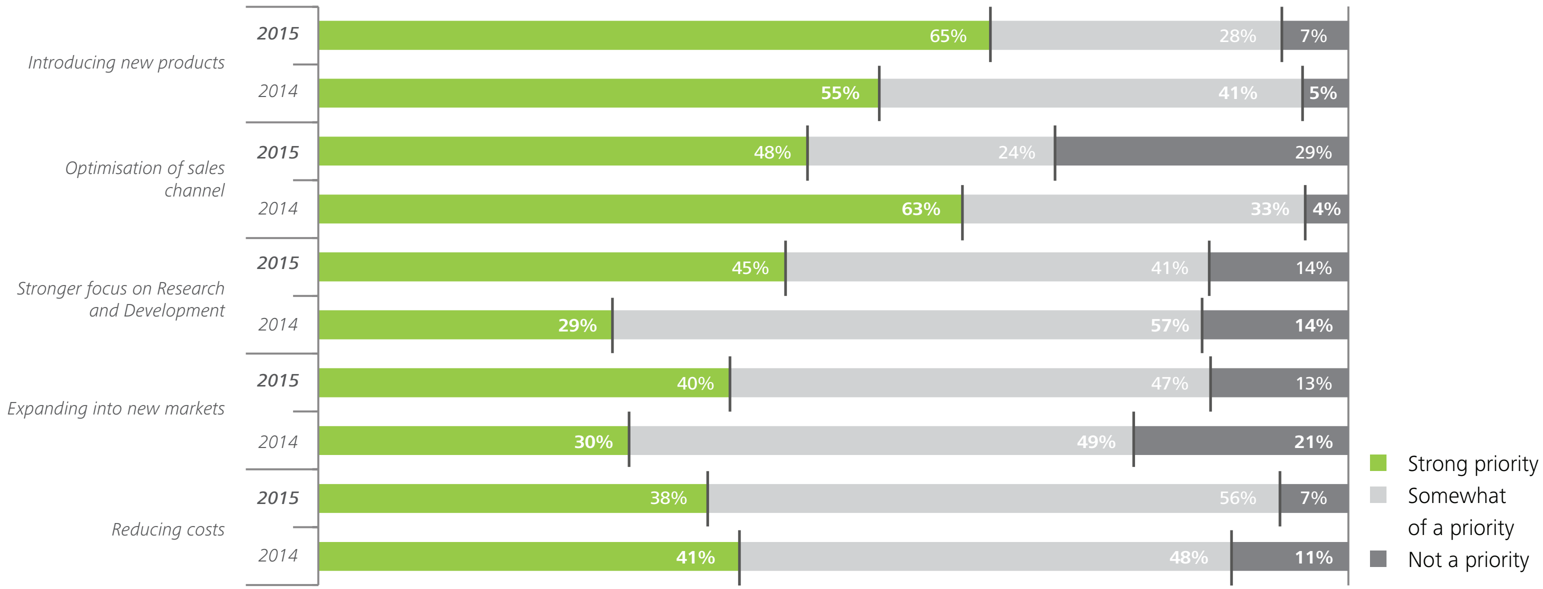
Growing importance of new products

When looking at the top business strategies for the next 12 months, the introduction of new products stands out in particular. 65% of watch executives consider this to be a priority, up by ten percentage points compared to 2014 (see Figure 16). New products may be in the form of entirely new models, or they may be revisited models inspired by the heritage of the brand, such as Tag Heuer's new Carrera line using vintage looks and the former Heuer logo or Longines' vintage models. There are also limited editions dedicated to brand ambassadors or specific events and partnerships linked to sports or art. Jaeger-LeCoultre recently announced that they will add a seventh product line to their catalogue this autumn, priced between CHF 10,000 and CHF 20,000, a move rarely seen at a time when a number of brands are trying to rationalise their offering and reduce the number of products in their portfolio.

According to our survey, for most watch executives design is still the most important aspect of product development, followed by complications. Asked about style and complications, 45% of respondents indicated that a classical style will be the most successful over the next 12 months, compared to 21% who favoured sport designs as well as jewellery. As in previous years, the most popular complications are expected to be chronographs.

Figure 16. Top 5 business strategies

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

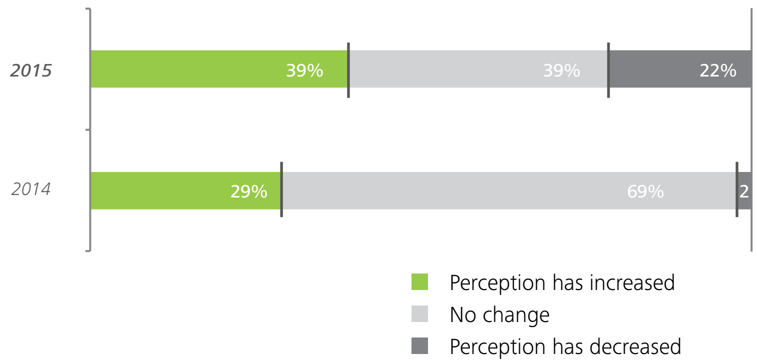


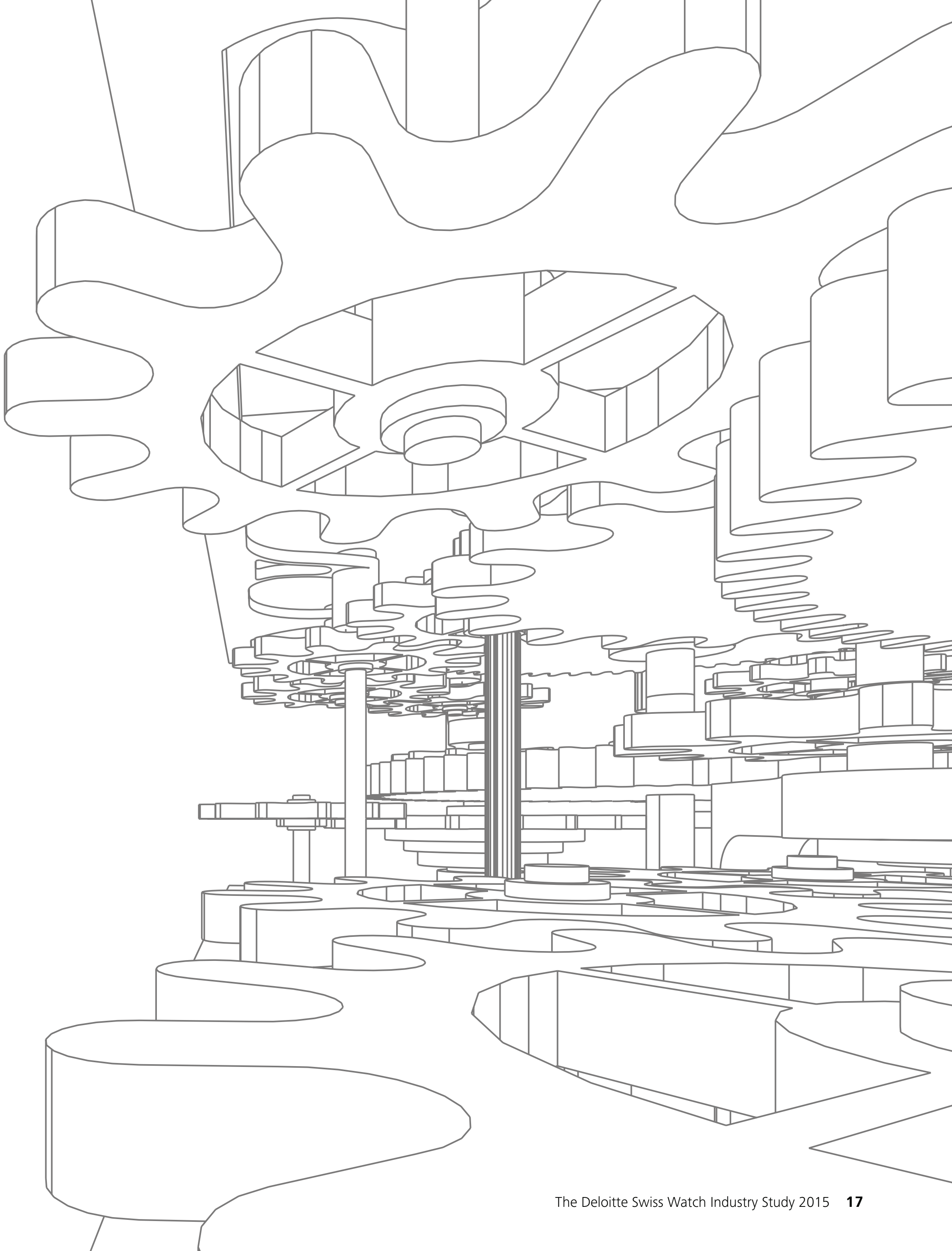
Perception of smartwatches has changed

The high number of watch executives who consider the introduction of new products to be a strategic priority is likely to be related to the fact that a quarter of surveyed watch companies expect smartwatches to be a growing threat (see Figure 12). When asked about the next 'big thing' for the Swiss watch industry, the highest proportion of respondents (28%) cited smartwatches. Smartwatches have become a 'hot topic'. There was an increase from 29% to 39% in the proportion of watch executives saying that the release of the Apple Watch (and other major smartwatches) has increased their awareness of this disruptive market (see Figure 17).

Figure 17. Release of smartwatches

Has the release of the Apple Watch (and other major smartwatches from Samsung, Motorola and others) changed your perception of this potentially disruptive market?





A booming market where Swiss watch brands still have a role to play

The release of the Apple Watch marked the beginning of a new era for the smartwatches industry. Even though the Apple Watch is still a first generation product and is not revolutionising the genre, it is positioned as a fashion accessory, a feature that other smartwatches have lacked. The presentation late 2015 of the Apple Watch Hermès, equipped with high-end leather bands and a dedicated Hermès dial, and sold in Apple and Hermès stores confirms this positioning. Opinions are also unanimous that the built quality and upmarket finishes of the Apple Watch are unrivalled by other smartwatches currently on offer.

But the major competitors of Apple (Motorola, Samsung, LG and Sony among others) have started to react, as evidenced by the 2015 edition of the IFA in Berlin (a large international electronics show) by unveiling new models with more upmarket finishes and closer to traditional watchmaking codes by adopting a round form factor. While Motorola already had a round smartwatch, the Moto 360, the latter is now available in several sizes and versions: sport, luxury, man, woman. Samsung also seems to want to edge closer to traditional watchmaking with the "classical" version of his Gear S2 equipped with a rotating bezel to select applications. The smartwatches market therefore seems to be evolving to try to appeal to a less tech-friendly clientele. According to the latest estimates from Smartwatch Group (an independent research organisation in the sector), the global market for smartwatches grew by 82% in 2014, from USD 711 million in 2013 to USD 1.3 billion, and could rise to USD 8.9 billion in 2015, with growth led by the Apple Watch.[4] In spite of all these new products, however, the smartwatches market is young and Swiss companies still have a window of opportunity to develop their own alternatives.

Indeed, in the 2015 edition of Baselworld there were signs that some of the traditional Swiss watch brands most directly targeted by smartwatches (mainly watches priced below CHF 1,500) are finally starting to react. Frédérique Constant, with its Horological Smartwatch, is an example: this is a conventional watch using hands - without a digital display - and some complications provided by fitness tracker technologies hidden in the movement. Some of these technologies were soured by the CEO himself, Peter Stas, from California-based Fullpower Technologies, the company that makes the sensors and firmware for the fitness trackers of Apple, Nike, Pioneer and Jawbone. The Horological Smartwatch should also be able to evolve in the future by means of component updates. Swatch also announced recently that its first real smartwatch will soon be released, using the Group's internal know-how and technologies to provide a highly energy-efficient product. In late 2015, Breitling is due to release B55 Connected, its first connected chronograph that will have a titanium case and be equipped with two small LCD displays dedicated to pilot functions. TAG Heuer recently provided more details about its upcoming smartwatch, the Carrera Wearable 01, developed in partnership with Google and Intel: this is a watch that should be very close to the mechanical version of the Heuer Carrera 01 and retain all the DNA of the brand. Unlike Frédérique Constant, Swatch and Breitling, the Carrera Wearable 01 will run on Android Wear and will therefore be in direct competition with Apple, Samsung and LG. It will compete strongly on battery life, with a promised 40 hours, a record for an Android Wear watch. The Carrera 01 Wearable, like the Horological Smartwatch, is expected to be upgradable and to allow updates to the technical components to achieve a longer product life. With a price estimated at around CHF 1,300, the Carrera will compete in the high-end market segment for smartwatches and against the 'Watch' version of the Apple Watch, a stainless steel version priced at CHF 1,249.

The impact of the Apple Watch and other models by its main competitors on the smartwatch market and its indirect influence on the Swiss watch industry are still uncertain. The willingness and ability of Swiss brands to offer smartwatches at Swiss-quality standards and with a long battery life could potentially payoff as a successful competitive strategy.

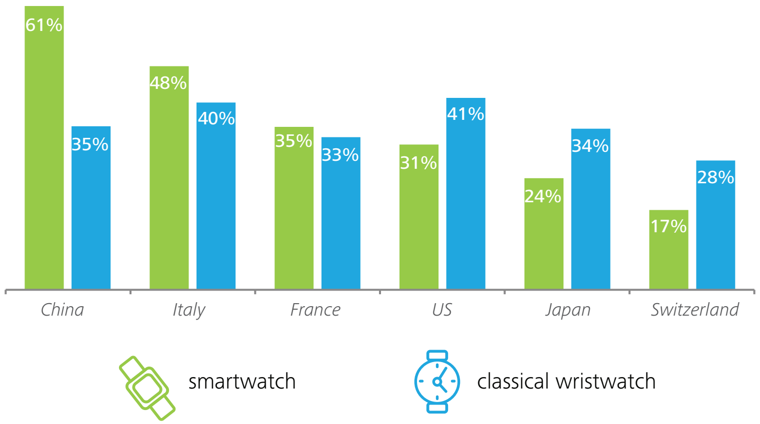
Where are consumers likely to buy a smartwatch?

Deloitte commissioned an online survey into the use of smartwatches among consumers in China, France, Italy, Japan, Switzerland and the US, which was representative in terms of age, gender and region. The results show that in China more than 60% of respondents intend to buy a smartwatch in the next 12 months (see Figure 18), which is not surprising given the above-average penetration of smartwatch owners in the market (45%). More surprising is the high number of respondents in Italy who intend to buy a smartwatch. Consumers in Italy seem to be much more in favour of smartwatches than in the other Western countries. With more than 60% of respondents unlikely to buy a smartwatch in the next 12 months, Japan and Switzerland rank at the bottom of the list.

According to the consumer survey, the proportion of people intending to buy a smartwatch is greater than the proportion intending to buy a classical wristwatch. This seems to confirm what some international forecasts predict: smartwatches have the potential to be highly successful and are likely to dominate the low-end market segment for watches. Even though some analysts recently cut their Apple Watch forecasts for 2015, there is no doubt about the growing market share of smartwatches in the low-end watch market. This makes it even more important for the Swiss watch industry to focus on luxury watches, while thinking about the alternatives discussed above.

Figure 18. Intentions to buy a watch

Proportion of consumers likely to buy a smartwatch/classical wristwatch in the next 12 months



Apple is the most popular brand among consumers

Our consumer survey shows that Apple is very popular among consumers (see Figure 19). Among those who are likely to buy a smartwatch, Apple ranked first in four out of six countries as the brand they prefer. Samsung also ranks among the most popular brands and Swatch is among the top three brands in Italy, Japan and Switzerland. This does not come as a surprise, considering Swatch's history of innovation, strong brand image and portfolio of in-house technologies.

For the vast majority of consumers in the survey, a long battery life is the most important feature of a watch. 61% of consumers consider that every smartwatch should have a long battery life and long battery life was the most important feature for consumers in five out of the six countries surveyed. It is therefore not surprising that many market players are trying to increase battery life. TAG Heuer will start selling its smartwatch in late 2015 with a battery life of 40 hours, a big improvement over other Android Wear watches and the Apple Watch: even so but this will still require users to recharge their watch every two days. Swatch meanwhile is working on a battery that will last for six months. Currently, the choice made by Frédérique Constant/Alpina and others such as Withings with its 'Activité', of having no LCD screen and limited functions, remains the best solution for battery life as the battery lasts for two years.

Figure 19. Brands

Which brands of smartwatches are you most likely to buy?

Switzerland	US	France	Italy	China	Japan
Apple	Apple	Samsung	Samsung	Apple	Apple
Samsung	Samsung	Apple	Apple	Samsung	Sony
Swatch	LG	Sony	Swatch	Sony	Swatch

According to the consumer survey the main reason why people do not want to buy a smartwatch is the price (see Figure 20). Also important is the fact that almost everybody has a smartphone already. For many people this makes buying a new smartwatch unnecessary.

Figure 20. Reasons people do not buy smartwatches

Why is it unlikely that you will buy a smartwatch in the next 12 months? Top 3 answers

Switzerland	US	France	Italy	China	Japan
Not in favour of smartwatches at all	Too expensive	Too expensive	Too expensive	Smartphone makes smartwatch redundant	Too expensive
Too expensive	Not in favour of smartwatches at all	Smartphone makes smartwatch redundant	Smartphone makes smartwatch redundant	Too expensive	Smartphone makes smartwatch redundant
Smartphone makes smartwatch redundant	Smartphone makes smartwatch redundant	Not in favour of smartwatches at all	Not in favour of smartwatches at all	Latest operating systems/ smartphones are required and not all compatible	Not in favour of smartwatches at all

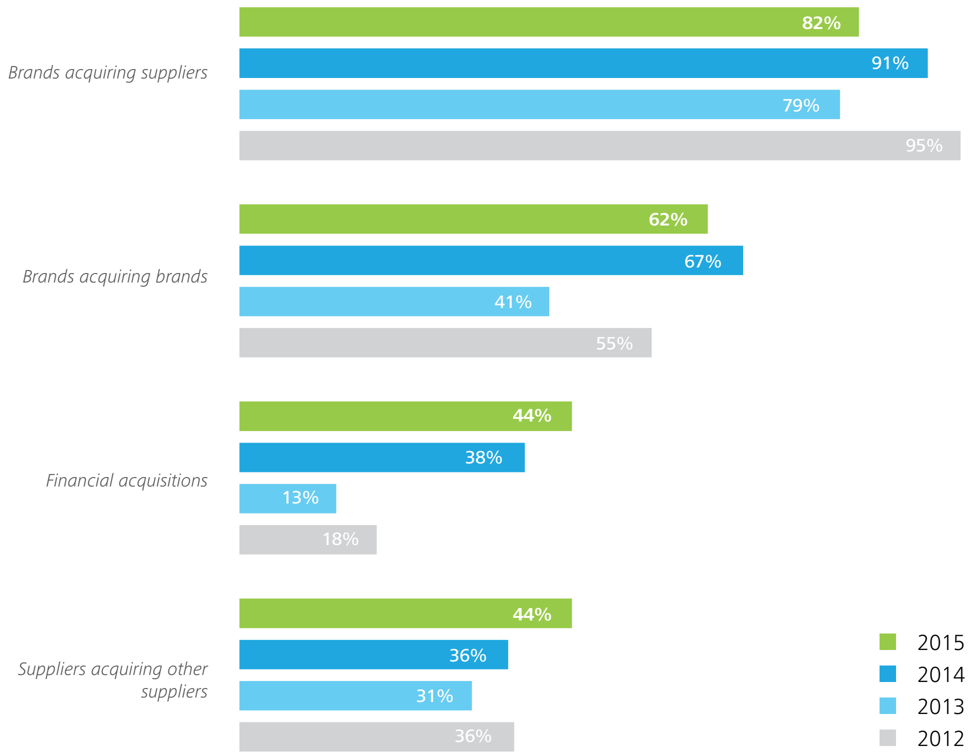
M&A activities set to continue

While no major deals happened in the first half of 2015, 52% of watch executives still expect M&A activity to increase over the next 12 months, and only 8% expect a decrease. This survey result is similar to the previous year. As in previous years, vertical integration is also most commonly-expected type of M&A transaction, with 82% of all respondents expecting acquisitions of suppliers by brands (see Figure 21). Still on the rise 44% of watch executives expect acquisitions by financial buyers over the next 12 months, up from 38% in 2014. This is not surprising, since financial buyers have been making acquisitions, mainly of suppliers, in order to build independent platforms of watch component manufacturers; and they are still looking at further potential acquisitions of components manufacturers. Some private equity houses that focus on branded companies also tend to look at the Swiss watch industry, but brand acquisitions are more likely to be made by industrial companies, due to the unwillingness of private equity houses to pay the high premiums required.

Expectations are now lower for horizontal integration at brand level. This is probably due to the fact that no major acquisitions have occurred since last year's acquisition by Kering of Ulysse Nardin, one of the last sizeable remaining independent Swiss luxury watch brands. Further horizontal integration might be anticipated from LVMH and Kering, to further strengthen their respective watch divisions, if interesting targets come to the market. Swatch Group and Richemont already have comprehensive brand portfolios and are less likely to look at acquisitions unless a unique opportunity arises. Asian groups, such as Japan's Citizen and China's Citychamp (formely known as China Haidian) might also look to expand their respective portfolios.

Figure 21. Most important M&A activities

In your view, which type of acquisitions are most likely to happen (please choose up to 3)?

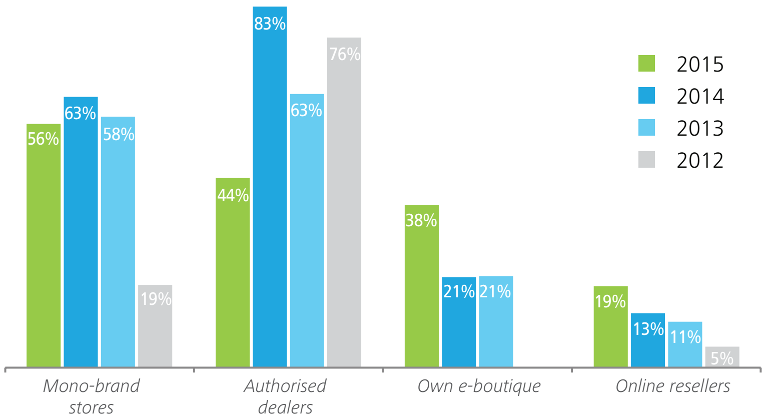


The rise of digital sales and marketing channels

Optimisation of sales channels is an important business strategy for watch executives (see Figure 16). Compared to previous years, there is less emphasis on using authorised dealers. This year only 44% of watch executives will be giving most of their marketing effort to authorised dealers in the next 12 months, compared to 83% in 2014 (see Figure 22).

Figure 22. Sales channels

On what sales channels will you be putting the most emphasis in the next 12 months? (multiple answers possible, answers only from brands)



There was a slight reduction in emphasis on opening new mono-brand or flagship stores: 56% of participants from brands (compared to 63% in 2014) say they are likely to open new stores within the next 12 months. Mono-brand and flagship stores give watch companies greater control over their customers' sales experience, with in-brand store design, a specialised sales force and better controls over inventory and pricing. However they also involve risks, due to high rents for prime locations, and large investments in leasehold improvements and inventory.

Our survey indicates that in the next 12 months a majority of companies plan to open stores in Asia (although only 53% in 2015 compared to 85% in 2014), compared to 44% in North America (up from 30% last year) and 41% in Europe (down from 55% last year). These changes reflect the current decline of the Asian market and hopes for the US market to continue driving growth in the coming months. Jaeger-LeCoultre's recent opening of six new mono-brand stores in six months in the US is a sign that the perceived potential of this market remains strong. Their CEO, Daniel Riedo, also announced mid-2015 that they will further expand their own-stores network, by opening 20 to 25 new boutiques over the next two years. On the other hand, the current market uncertainty in China and Hong Kong could potentially lead to some store closures.

Online sales channels continue to grow. 38% of respondents consider that 'own e-boutique' will be the most important sales channel in the next 12 months (up from 21% in 2014). 'Own e-boutiques' offer similar advantages to mono-brand stores: they could tap into additional, online-savvy customer segments and help reduce the attraction of the grey (online) market. However, the characteristics and high prices of Swiss watches have been obstacles to online sales and explain why the online market for luxury watches has yet to take off, although major brands are starting to invest more in this area. Panerai recently re-launched its website which now contains an e-boutique that includes a wide range of watches exclusively for the US market. The US market is still used as a pilot online market by a number of brands. In 2014 brands such as Cartier, Jaeger-LeCoultre, Tag Heuer and Louis Vuitton extended their pilot projects to selected European countries such as the UK and France. This trend should continue in the coming months. Online retailing is also on the rise. Examples are still limited in Europe but Tourneau, one of the largest retailers of luxury watches in the US, now sells some Swiss luxury watch brands online.

Watch companies continue to focus on digital media for their marketing campaigns. Social media has been gaining importance over the past few years, and bloggers are now also another integral part of the communication environment for watch brands (see Figure 23). Print media and radio and television are now less important for marketing than bloggers.

A downside to the growing importance of digital media is reputational risk. According to watch executives the risk of social media has increased as well. 52% of respondents consider that the biggest reputational risk comes from social media, an increase of 33 percentage points since 2012. Reputational risks from the grey market or counterfeit are considered the most important by fewer executives (37% and 11% respectively).

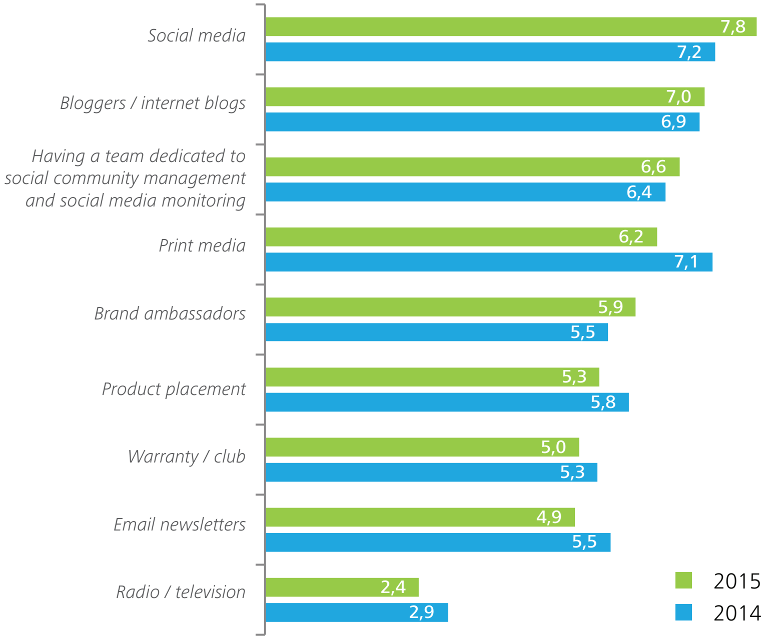
The major brands also continue to focus on sponsoring selected sports events to strengthen their brand positioning and image. Tag Heuer has started to sponsor the Formule-E Championship and also became the partner and official timekeeper of the marathons in New York, Chicago, Berlin, Paris, Oslo and Moscow. Brands such as Hublot and IWC are sponsoring selected events and teams (soccer teams, F1 racing teams and sailing teams). Rolex invests heavily in sponsoring Formula 1, 24 Hours of Le Mans, and equestrian, golf and tennis events; and Longines sponsors the International Equestrian Federation, and tennis and alpine skiing.

Product placement and brand ambassadors are also important for marketing. For many years, the watch industry has used product placement in films, but it has been gaining in importance courtesy of recent blockbusters. The use of brand ambassadors such as Roger Federer for Rolex continues to be important. Tennis players such as Rafael Nadal or Stanislas Wawrinka now wear watches while playing.

Product placement and brand ambassadors are more often used by large brands that can afford them. Small independent brands, which usually have limited marketing budgets, tend to focus more on social media and the internet, as these offer a better opportunity to reach a global audience and engage with target customers at a lower cost.

Figure 23. Marketing channels

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



Acknowledgement

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Endnotes

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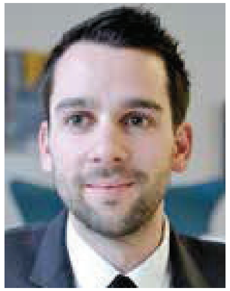

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