Deloitte.

The Deloitte Swiss Watch Industry Study 2014
Changing times

Foreword

Welcome to the third Deloitte Watch Industry Study. Building on the success of the last two editions, more than 50 senior industry executives participated in this year's study through an online survey or personal interview. The study highlights the views of watch company executives on the key challenges and opportunities facing the Swiss watch industry.

Growth has been one of the defining features of the watch industry. But while many remain optimistic for growth over the next 12 months, weakening foreign demand is perceived as a significant risk. While the outlook is not as optimistic as it has been in the last 2 years, notably for China, new opportunities are expected in developing markets such as India and Indonesia, with European and US markets also strengthening. Product innovation and high end watches continue to be a key focus.

The buzz around smartwatches has been building momentum with new developments in functionality and content continually being introduced, each with the potential to be 'the next big thing'.

The rapid pace of adoption of social media as a primary communication forum within the watch sector has been an interesting evolution in this industry.

I wish you an interesting read and welcome your feedback.

Howard da Silva
Consumer Business Leader

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About the Deloitte Watch Industry Study

This is the third annual Deloitte Swiss Watch Industry Study. It is based on personal interviews with executives and an online survey. The 2014 online survey was conducted in June and July 2014. A total of 52 watch executives participated this year, almost evenly split between brands and component manufacturers.

Deloitte in Switzerland

Deloitte is a leading accounting and consulting company in Switzerland and provides industry-specific services in the areas of audit, tax, consulting and corporate finance. With approximately 1,300 employees at six locations in Basel, Berne, Geneva, Lausanne, Lugano and Zurich (headquarter), Deloitte serves companies and institutions of all legal forms and sizes in all industry sectors. Deloitte AG is a subsidiary of Deloitte LLP, the UK member firm of Deloitte Touche Tohmatsu Limited (DTTL). DTTL member firms comprise of approximately 200,000 employees in more than 150 countries around the world.

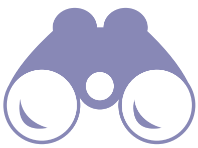
Executive summary

20.6bn Swiss Francs

Exports at record level

The watch industry is one of Switzerland's top export sectors. Exports of Swiss wristwatches reached a record value of 20.6 billion Swiss Francs (+2.0%) in 2013 despite a further decline in volumes (2013: -3.6%, 2012: -2.0%), which is mainly attributable to a decline in the volume of quartz watches.[1]

Optimism down



42%

of watch executives have a positive outlook for the Swiss watch industry over the next 12 months, down from 65% last year. Expectations of lower growth in many export markets were the main reason cited by industry participants.

Export market risks

57%

of watch executives see weaker foreign demand as a significant risk to their company over the next 12 months. The strength of the Swiss Franc is also a notable concern, although not to the same extent as in 2012.

Smartwatches

44%

of watch executives see smartwatches as the 'next big thing' for the watch industry. While relatively few view smartwatches as a threat, their introduction has been gaining momentum, leading a significant number of participants to start to take this emerging category more seriously.

1 Source: Federation of the Swiss Watch Industry FH

New products

96%

of watch executives see introducing new products as an important business strategy over the next 12 months.

What next year's watch will look like

A majority of executives point to a classical steel chronograph, costing more than CHF 5,000 being the definitive product in 2015. This confirms the trend towards more high-end watches and a return to steel from gold which has been strong over the past years.

Sales channels

97%

cite optimising sales channels as an important business strategy over the next 12 months. The opening of mono-brand or flagship stores is expected to continue.

Digital media

Watch executives rate social media as the most important marketing channel, closely followed by print and then blogs. This demonstrates the rising importance of digital media.

Also of importance is the digital sales channel. 29% of watch companies plan to put emphasis on their own e-boutiques in the next five years.

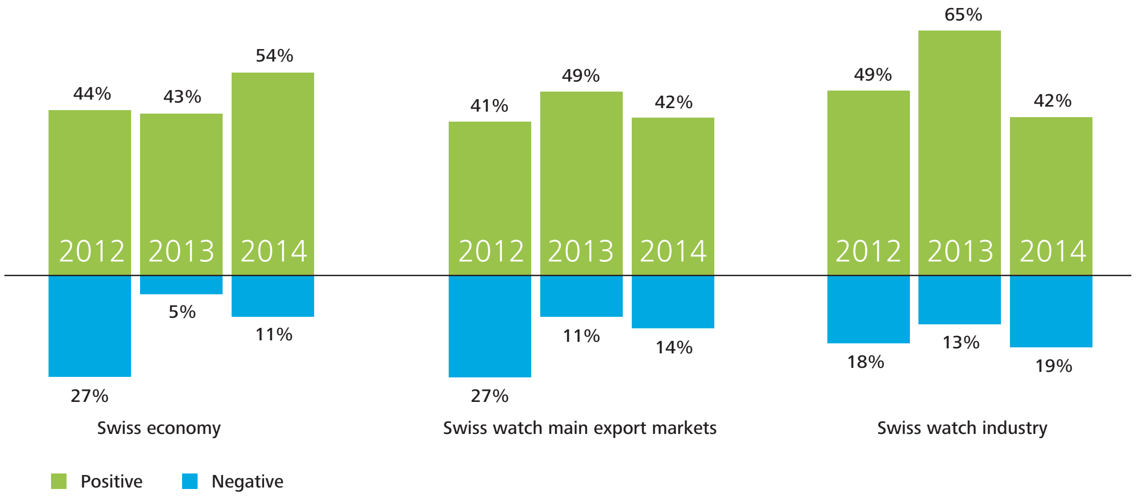
Industry outlook and demand

Overall outlook remains positive

Watch executives remain optimistic overall, but acknowledge that the global economic and industry outlooks have changed substantially compared to last year resulting in a more cautious sentiment. While optimism for the Swiss economy is up by 11 percentage points, optimism for the industry's main export markets fell seven points. This drop is significant considering that about 95% of the watch production is exported. Optimism for the outlook of the Swiss watch industry is also lower, but with 42% having a positive outlook and only 19% a negative one, the overall picture remains bright.

CHART 1. ECONOMIC AND INDUSTRY OUTLOOK

How do you judge the outlook for the Swiss economy, export markets and the Swiss watch industry? Percentage of respondents having a positive / negative outlook. Neutral answers are not shown in chart

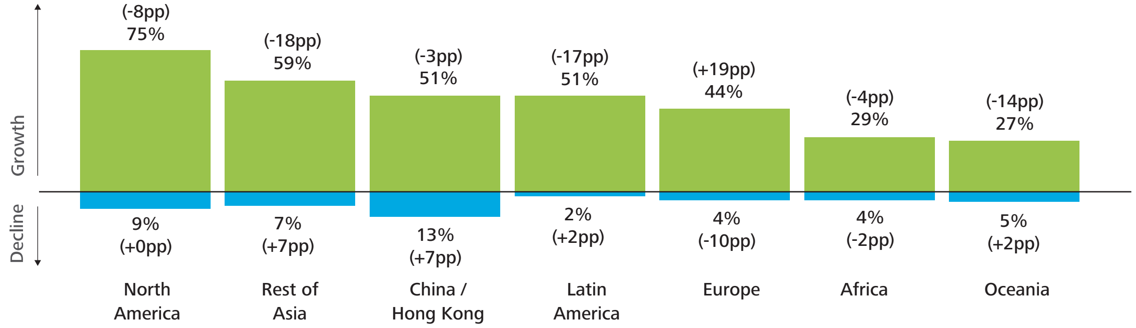


Europe is back

Optimism for most export markets remains strong, although less so than last year. The only export market experiencing a substantial improvement in sentiment is Europe. With economic growth slowly returning, expectations for Europe (luxury goods consumption) have improved, while the most highly rated market overall remains North America.

CHART 2. MOST IMPORTANT GROWTH REGIONS

What are your growth expectations for the Swiss watch industry in the following regions in the next 12 months? Neutral answers are not shown in chart



The second most highly rated export market this year is non-Chinese Asia. When asked in a separate question about the next big growth market, a number of countries were mentioned, but participants cited India and Indonesia in particular. Indonesia is a significant, fast growing emerging market with increasing consumer spending power while India remains the emerging market that is perceived to have the greatest potential for the luxury goods industry in general and watches specifically. This is highlighted by Swatch Group's recent authorisation request in mid-2014 to sell its brands directly into this market. This move comes after the announcement by Richemont in mid-2013 that they planned to invest CHF 25 million in India to build a multi-brand retail chain. Brazil was also mentioned several times, confirming the strong showing of Latin America (see Chart 2). However, the attractiveness of both Brazil and India are still handicapped by high import taxes.

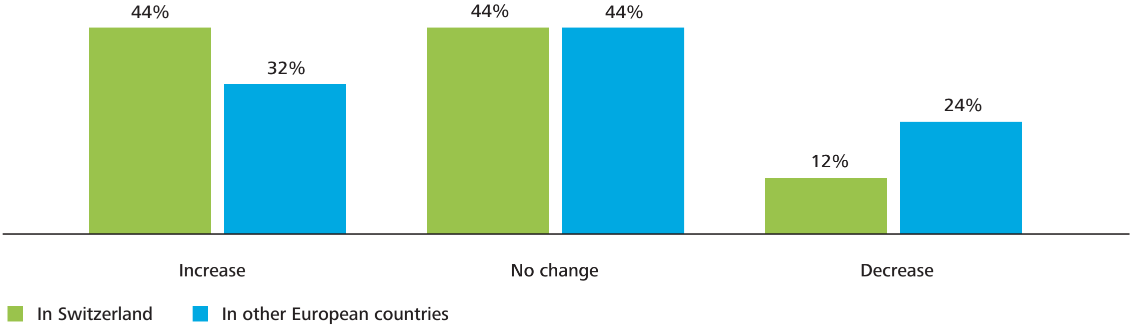
China (including Hong Kong), top export market for Swiss watches, is still viewed optimistically but less so than last year, which was also down on 2012. Significantly, 13% of watch executives have a negative growth outlook for China/HK, up from 6% in 2013. Economic growth rates for China have been declining and are forecast to decline further by at least one percentage point until 2019 (Source: International Monetary Fund). Adding to this is the introduction in China of anti-kickback and anti-corruption legislation which has led to more frugal gift-giving and spending patterns. This has had an impact on both exports to China as well as sales to Chinese tourists in Switzerland. Asked in a separate question, 80% of watch executives indicated that Chinese legislation has reduced demand over the last 12 months, with 32% seeing a significant reduction. Looking ahead, 68% expect a further reduction over the next 12 months, although only 12% expect it to be significant.

Swiss sales to foreign tourists to continue growing

An additional export channel is sales in Switzerland and other European countries to foreign tourists. While watch executives see sales in Europe over the next year as almost flat, they are broadly positive about sales in Switzerland to foreign tourists. Swiss watches are seen as one of the most quintessential Swiss products and combining a Swiss holiday with buying a Swiss watch is an attractive option for many tourists.

CHART 3. OUTLOOK FOR SALES TO FOREIGN TOURISTS

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



Switzerland continues to be a very strong player in the global luxury industry and is home to three of the world's largest luxury goods companies: Richemont, Swatch Group and Rolex – all owners of renowned brands. Other Swiss luxury watch brands are also represented in the top 10 list of the largest global luxury companies produced by Deloitte, with LVMH, Ralph Lauren and Kering having well known Swiss watch brands in their respective portfolios.

CHART 4. TOP LUXURY PRODUCT COMPANIES WORLDWIDE

Luxury goods rank FY12	Company name	Selection of luxury brands	Country of origin	FY12 luxury goods sales (US$mil)	FY12 total revenue (US$mil)	FY12 luxury goods sales growth	FY12 net profit margin[1]	FY10-12 luxury goods sales CAGR[2]
1	LVMH Moët Hennessy Louis Vuitton SA	Louis Vuitton, Fendi, Donna Karan, Loewe, Marc Jacobs, Céline	France	21,060	36,143	18.2%	13.9%	18.6%
2	Compagnie Financiere Richemont SA	Cartier, Lancel, Van Cleef, Chloe, Baume & Mercier, IWC, Jaeger-LeCoultre, Montblanc	Switzerland	12,391[e]	13,078	13.9%	19.8%	20.4%
3	Estée Lauder Companies Inc.	Estée Lauder, Aramis, La Mer, Aveda, Jo Malone	United States	10,182	10,182	4.8%	10.1%	7.5%
4	Luxottica Group SpA	Alain Mikli, Arnette, Ray-Ban, Persol, Oliver Peoples. Licensed eyewear brands	Italy	9,113	9,113	13.9%	7.7%	10.6%
5	Swatch Group Ltd.	Blancpain, Breguet, Longines, Omega, Rado	Switzerland	8,319	8,319	15.3%	20.6%	13.0%
6	Kering SA	Gucci, Bottega Veneta, Saint Laurent	France	7,990	12,522	26.3%	11.1%	24.5%
7	L'Oréal Luxe	Biotherm, Clarisonic, Kiehl, Lancôme	France	7,161	7,161	16.0%	14.2%[e]	11.2%
8	Ralph Lauren Corporation	Ralph Lauren Collection, Blue Label, Black Label, RLX, Purple Label	United States	6,945	6,945	1.2%	10.8%	10.8%
9	Shiseido Company, Limited	Shiseido, clé de peau Beaute, bareMinerals, Benefique	Japan	5,522	8,200	-0.7%	-1.9%	1.5%
10	Rolex SA	Rolex, Tudor	Switzerland	5,122[e]	5,122[e]	n/a	n/a	n/a

1 Net profit margin based on total consolidated revenue and net income
2 Compound annual growth rate
e Estimate

Source: Deloitte Global Powers of Luxury Goods 2014

High-end segment continues to drive expectations

Volume growth expectations remain strongest for high-end watches (rating of 6.1 out of 10), followed by mid-range (5.4) and then low-end (5.3) (see Chart 13).

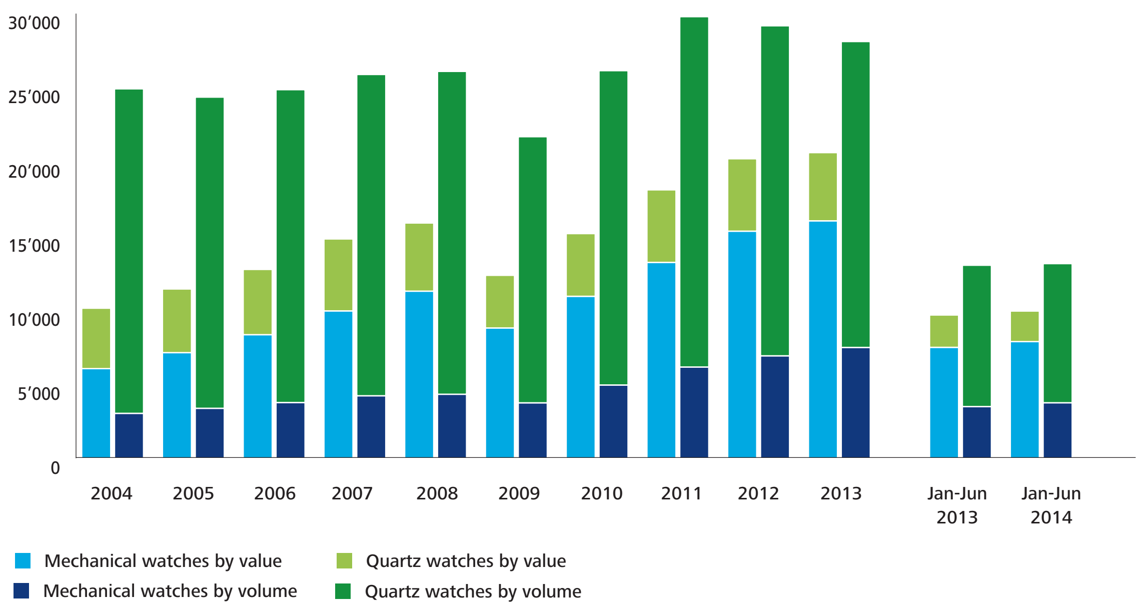
Mechanical watches win export share

Annual exports of Swiss wristwatches reached a record 20.6 billion Swiss francs (+2%) in 2013 despite a fall in volume of 3.6%. The discrepancy between value and volume was mainly due to a relatively strong growth in mechanical watches (up 8% by volume) compared to a 7% drop for quartz watches. The first half of 2014 showed an overall increase in value compared to last year (+3.1%) but no growth in volume, again due to a decrease in volumes of quartz watches while mechanical watches remained strong.

Mechanical watch exports have grown steadily over the last ten years, in terms of both value and volume. In 2013, mechanical watches accounted for 78% of exports by value and 28% by volume, an increase in both terms over 2012. Exports of watches costing less than CHF 200 (almost exclusively quartz watches) fell by a cumulative volume of more than three million units in 2 years. The decline in volumes can be attributed, among other factors, to a rise of non-Swiss players such as Ice-Watch (three million units shipped in 2013). This segment is also the most directly threatened by smartwatches (see page 15).

CHART 5. EXPORTS OF MECHANICAL AND QUARTZ WATCHES BY VALUE AND VOLUME

Value in million CHF and volume in 1’000s pieces



Source: Federation of the Swiss Watch Industry FH

Challenges and risks

Overall risk outlook

External risks are back: worries about weaker foreign demand and – to a far less extent than 2012 – the strong Swiss Franc, pose the biggest risks for watch executives.

As discussed earlier, the combination of weaker economic growth in many emerging markets, not least China, and changing demand patterns (again, China) have constrained demand and worsened the overall growth outlook. However, growth expectations remain positive, and while worries about weaker foreign demand are widespread, they are considerably lower than in 2012 (57% in 2014 compared to 66% in 2012). Worries about the strength of the Swiss Franc have fallen even more (50% versus 70% between 2012 and 2014).

A third concern is the shortage of qualified labour. This has been a persistent worry for the high-growth watch industry and was the most mentioned risk last year. While labour shortages are less prominent this year, worries about rising labour costs have increased sharply, so that qualified labour remains one of the most important issues for the watch industry (discussed in more detail on the following page). The availability of third-party external parts and movements also continues to be a concern (see page 11).

CHART 6. EXTERNAL RISKS ON THE INCREASE

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

	2012	2013	2014
Weaker foreign demand	66%	44%	57%
Strength of the Swiss Franc	70%	34%	50%
Shortage of qualified labour	39%	46%	41%
Insufficient supply of parts and movements from third-party manufacturers	18%	17%	34%
Rising labour costs	7%	15%	23%
Rising prices for parts and movements from third-party manufacturers	9%	15%	23%
Weaker domestic demand	16%	34%	18%
Rising prices for other raw materials	20%	0%	11%
Smartwatches as a competitive threat*			11%
Rising gold price	32%	7%	9%
Insufficient inhouse production capacity to meet demand	5%	12%	9%
Counterfeiting / theft / fraud	9%	10%	9%
Corruption	9%	2%	5%
Insufficient supply of gold	5%	5%	2%
Insufficient supply of other raw materials	9%	7%	0%

■ Increased risk compared to previous year ■ Decreased risk compared to previous year

* First asked in 2014

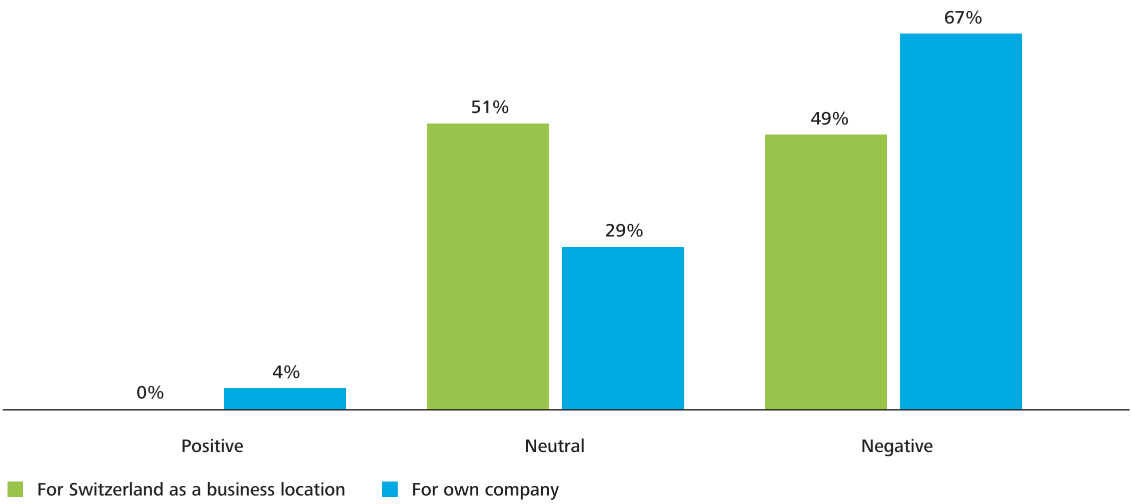
Availability of qualified labour remains a challenge

The continuing growth in demand for qualified labour is perceived as a potential risk for watch industry executives, who are concerned about the availability of qualified sales as well as production personnel. In a separate question, 52% of participants claimed that qualified sales personnel are hard to find. This represents a threat to both large groups opening mono-brand stores and independent dealers who need to offer a better customer experience.

The 'mass immigration' initiative could also impact the future availability of qualified labour in Switzerland. In response to a separate question, watch executives expect a negative impact on both Switzerland and their own company. The initiative aims to regulate cross-border commuters, and with many watch production plants located close to the French border, this could have an additional impact on the watch industry.

CHART 7. IMPACT OF 'MASS IMMIGRATION' INITIATIVE

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

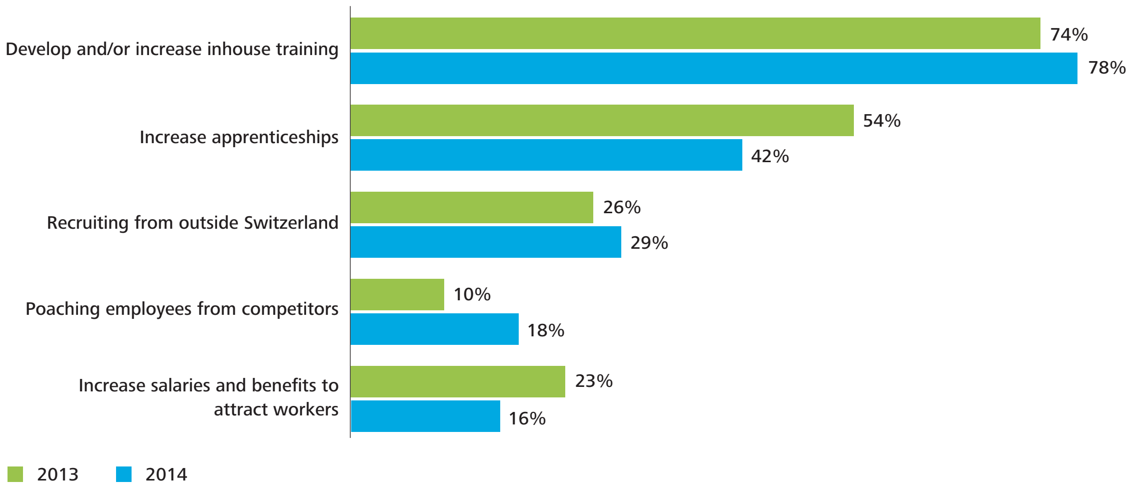


Watch companies are reacting to labour shortages with a range of measures, the most important being in-house training. It was ranked slightly more important than last year and training programs have been undertaken by the vast majority of watch companies surveyed. Apprenticeships are considered the second most important method. Recruiting from outside Switzerland and poaching from competitors have gained in importance, while increasing salaries was mentioned less often. This is following the recent rejection of the initiative on the minimum salary in May 2014 and ongoing discussions for minimum salaries in specific cantons (such as Neuchâtel which voted for the introduction of a minimum monthly salary of CHF 3,640 for 2015). However, according to the CPIH (the industry professional body) the industry is already at or above this minimum.[2]

2 Source: CPIH (24 April 2014), L'horlogerie dit NON au Smil, press release (available in French and German)

CHART 8. MEASURES TO INCREASE THE SUPPLY OF QUALIFIED LABOUR

What measures are you currently implementing to increase the availability of qualified labour? (multiple answers possible)



Availability of parts and movements seen as a continuing challenge

Worries about insufficient supply of third-party parts and movements have increased again this year (see Chart 6).

One important factor has been the decision of the Swiss competition watchdog (COMCO) to allow Swatch Group to restrict supply to competitors. After several years of deliberations, COMCO decided in October 2013 to allow Swatch to stop the supply of ETA mechanical movements to non-Swatch brands by the end of 2019. Supplies would be reduced in several stages until then: 75% of the average 2009-11 level in 2014-15, 65% from 2016 and 55% from 2018.

The decision can still be reassessed depending on market conditions, and while hardship clauses are included, it will still have a significant impact. At the moment the ETA competitors are still rated as inferior in most aspects by watch executives. 71% think ETA movements are of superior quality, while only 4% prefer their competitors (Chart 9A), 38% of watch executives rate the availability of alternative sources of parts as "hard to get" (Chart 9B) and 72% rate ETA movements as cheaper (Chart 9C). A cheaper, superior, more available product is a difficult one to replace. Fifty-five per cent of respondents still expect some brands to disappear due to the required switch to ETA alternatives, which is 7 percentage points higher than last year.

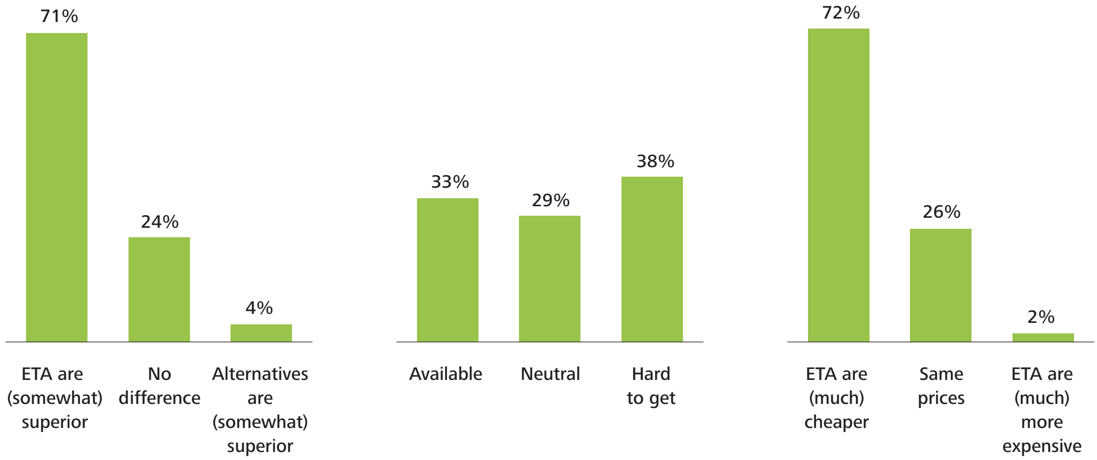
COMCO decided against allowing a reduction of assortments / escapement parts (which form the essential components of a mechanical movement), citing insufficient availability of alternatives. A reduction could be allowed in future, depending on how market conditions develop.

CHART 9. ETA MOVEMENTS REMAIN CHEAPER, SUPERIOR AND MORE AVAILABLE THAN ALTERNATIVES

A) How would you rate the technical reliability and quality of ETA movements compared to alternative movements?

B) How would you rate the availability of current alternatives to ETA movements?

C) How would you rate the prices of current alternatives to ETA movements?

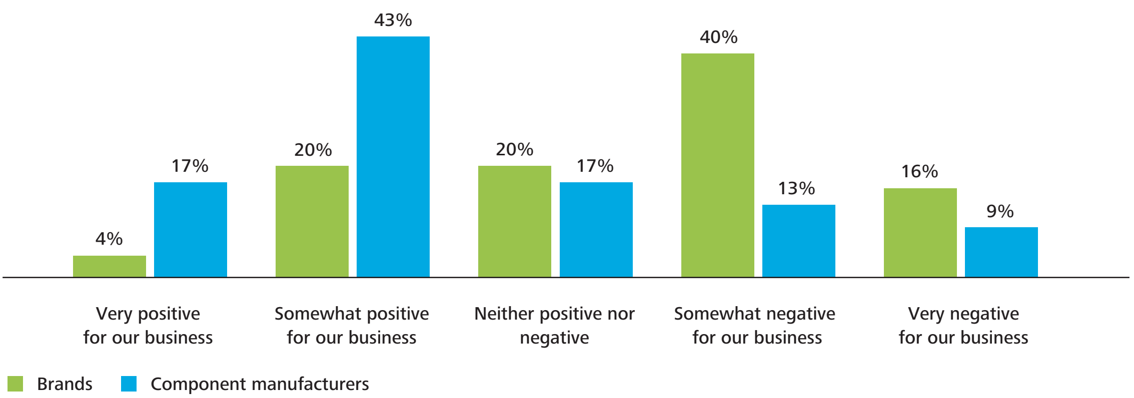


Unsurprisingly, the COMCO decision is viewed differently by brands and component manufacturers (Chart 10). While 60% of component manufacturers rate the decision as positive for their business, only 24% of brands do. As always, large brands/groups with sufficient financial means to build new facilities and/or acquire suppliers are less likely to be affected than smaller independent brands, for whom the reduced availability of movements and lack of alternatives could pose a bigger threat.

Although both type of players are likely to see additional pressure on their margins, large groups/brands are also better placed to pass on price increases to their customers. Take for example the price increases introduced by Breitling, IWC and Cartier in recent years as a result of replacing ETA movements with in-house movements.

CHART 10. SPLIT OPINIONS ON THE COMCO DECISION

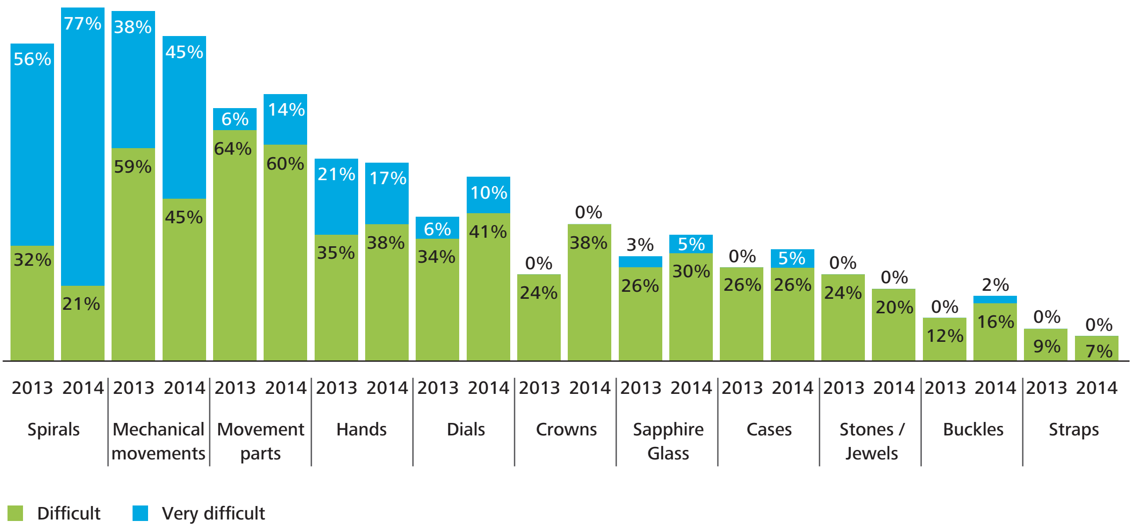
How do you judge the decision of COMCO to allow for the gradual reduction of deliveries of ETA movements to third parties until 2019?



According to the survey, straps and buckles are the least difficult parts to procure, while mechanical movements and spirals are considered the most difficult. Indeed the supply situation has actually deteriorated for movements and spirals, with participants claiming they are even more difficult to procure this year than in 2013.

CHART 11. DIFFICULTY OF PROCUREMENT

In your view, what parts are the most difficult to procure? Answers for "not difficult to procure" not shown in chart



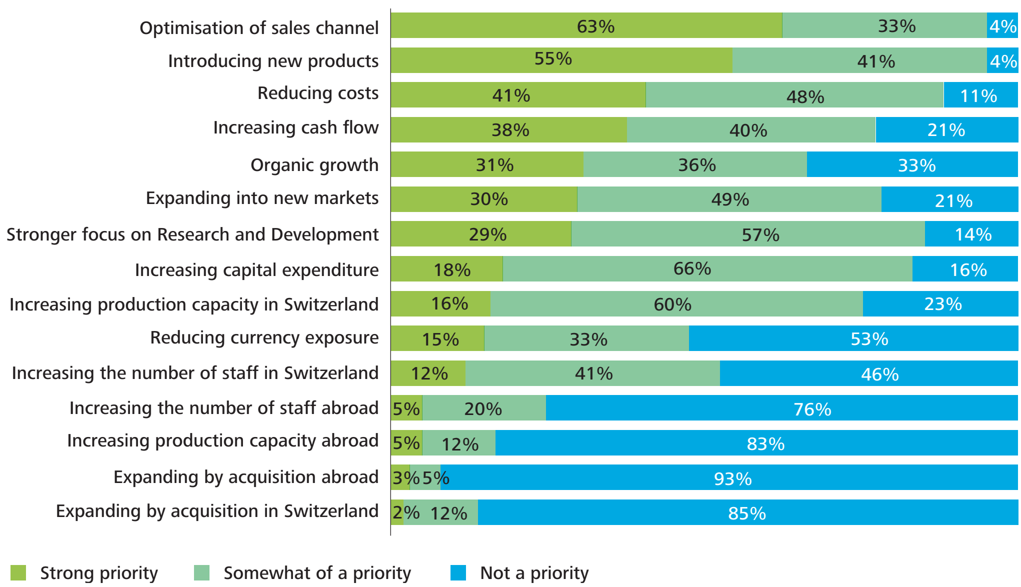
More executives view the amount of investment in production facilities as too low overall (37%) rather than too high (11%). This is also illustrated by the numerous investment projects recently completed or being planned / constructed in Switzerland. These include Richemont and its campus under construction in Meyrin, recently completed construction and/or expansion of movement and movement components manufacturing for Cartier and Vacheron Constantin and the ongoing construction of a new facility in Neuchâtel for Panerai. Swatch Group has recently completed new facilities for dials and components in Granges, Villeret and Boncourt while Hublot has recently started expanding its facility in Nyon. Some independent brands also have expansion plans, for example Frédérique Constant plans to start expanding its Geneva facility in 2015.

Business strategies

When looking at the business strategies for the next 12 months, two stand out in particular: optimisation of sales channels, which is discussed further on page 17, and the introduction of new products.

CHART 12. 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?



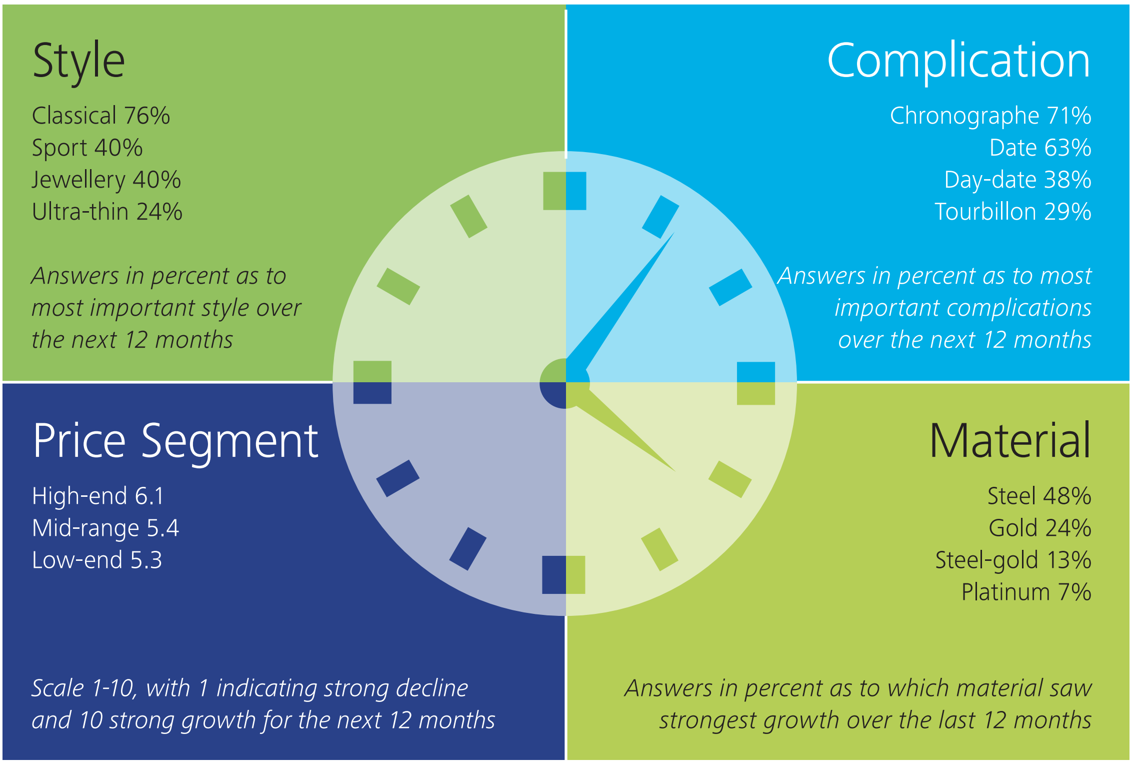
New product trends

It is important for watch companies to capture new trends and fashions, or even better to shape or kick start those trends. New products can be in the form of new models (Sky-Dweller introduced by Rolex in 2012), entirely revamped lines (Cellini collection revamped by Rolex in 2014) or variations of existing models (using new materials, innovations and/or limited editions). They can also be introduced through the revival of brands like Chopard's relaunch of Chronometrie Ferdinand Berthoud.

According to industry executives, design is the most important category in product development, followed by movements and material. Asked about style and complications, respondents indicated that classical will be the most important style for the immediate future followed by sports watches. The most popular complications are expected to be chronographs and date/day-date. The material that had the strongest growth in the last 12 months was steel, followed by gold and steel-gold. This is a change from 2012-13, when gold was preferred.

CHART 13. WHAT NEXT YEAR'S WATCH WILL LOOK LIKE

Answers to several questions, multiple answers possible for each question



Smartwatches: Still a simple buzzword or a new electronic revolution?
As briefly discussed earlier, low price Swiss quartz watches, which have recently suffered a decline in volume, are the most directly threatened by smartwatches. Smartwatches were considered quite 'immature' until 2014. Several problems prevented them from really taking off including the overall aesthetics, compatibility with a limited number of smartphones, redundancy with smartphones, limited autonomy and screen size.

While some of the above problems remain true, progresses have been made recently both on the software and hardware sides. With the version 8.0 of iOS and Android Wear, Apple and Google have respectively released versions of their mobile operating systems dedicated to wearable devices and health applications to offer a more compelling user experience. On the hardware side, progresses in aesthetics and overall quality have been made with some of the latest releases like the Moto 360 providing more upmarket finishes normally found on luxury watches such as a sapphire crystal glass, a machined steel case and interchangeable leather/steel straps. Apple, with its recently announced Apple Watch to be launched in 2015, even brought things to another level by including a ceramic back and offering 18-Karat yellow and rose gold versions. The fact that Apple will be providing two different case sizes, 38 and 42mm, to also address the women market is another parameter that could have a strong impact on the development of the smartwatch market.

Although 69% of our respondents reported that their unimpressed perception of smartwatches has not changed, and only 11% cited smartwatches as a risk to their company (see Chart 6), in a different question, 44% consider this category as the 'next big thing". To be noted that that sentiment was gathered before the latest releases of Samsung, LG, Sony, Motorola and ASUS and before the presentation of the highly anticipated Apple Watch. As the latest developments outlined above bring much more evolved and high-end products to the market and considering the fact that the Apple Watch will also have an integrated heart rate sensor and contactless payment system, 2015 could potentially be a pivotal year for the smartwatch market.

It is still too early to assess the impact, both in terms of opportunities and threats, that a boom in the smartwatch market would have on the traditional offerings of the Swiss watch industry. It will largely depend on the strategic decisions taken by the industry in terms of its own development as well as potential partnerships. One subject of uncertainty also remains the possibility of both types of products to exist side by side. Smartwatches do have the potential to bring a whole different type of customer into the watch-wearing population that could have strong positives for the overall watch market.

One thing is clear, the Swiss watch industry is facing a different issue than the arrival of quartz technology in the 1970s. At that time, two technologies were competing to give the same information. This time it is two very different product offerings that are competing against each other.

Vertical integration to continue, while horizontal integration is also becoming more important

Watch executives expect lower M&A activity over the next 12 months than last year, but 53% of participants still expect an increase (60% in 2013), while 9% expect a decrease (0% in 2013). Top end brands will continue to attract significant interest from international buyers, at top end prices, as indicated by Kering's recent acquisition of Ulysse Nardin at «over 13 times» annual earnings (EBITDA) according to the Kering CFO, Jean-Marc Duplaix.[3]

At the same time M&A activity is becoming more focused. This year almost all respondents expect deals driven by vertical integration, i.e. brands acquiring suppliers, which was also the most commonly expected transaction in previous years. Vertical integration can help alleviate supply problems, which continue to be a significant risk for watch companies (see Charts 6 and 11).

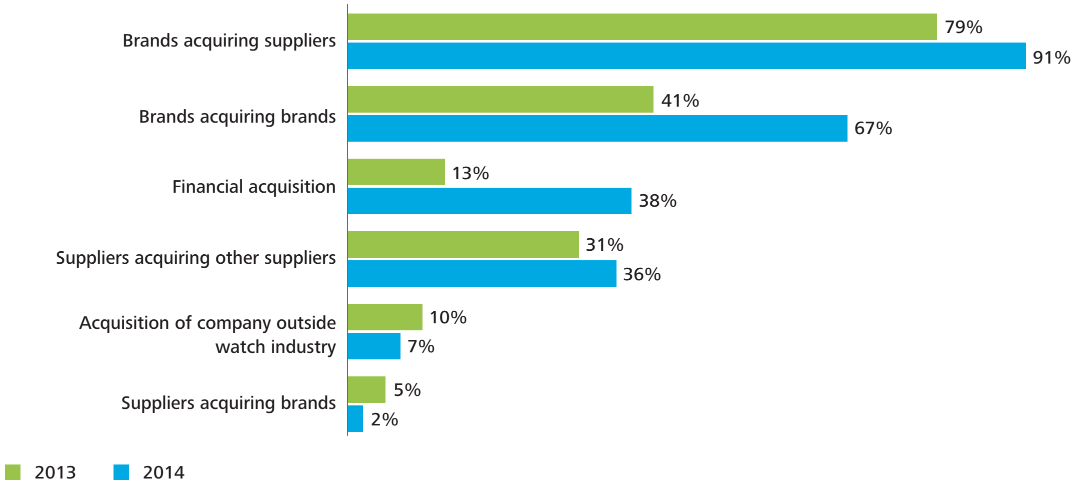
Expectations for horizontal integration at brand level, and to a lesser extent supplier level, are also increasing. More horizontal integration could be anticipated from LVMH and Kering as they further strengthen their respective watch divisions. Swatch Group and Richemont already have comprehensive brand portfolios. Asian groups, such as Japan's Citizen and China's Citychamp (formerly known as China Haidian) are also still looking to expand their respective portfolios.

3 Source: Forbes (30 July 2014)

A third noteworthy category of M&A transactions this year is acquisitions by financial buyers. Nearly three times as many respondents as last year expect such transactions to occur over the next 12 months. This comes as no surprise since financial buyers have already been making acquisitions (mainly of suppliers). As for brands, some private equity houses that focus on buying well known brands took a closer look at the Swiss watch industry last year. However, brand acquisitions are more likely to remain in the hands of trade buyers due to the high premiums commanded by watch brands, that private equity houses are generally not willing to pay.

CHART 14. M&A ACTIVITIES TO BECOME MORE FOCUSED

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



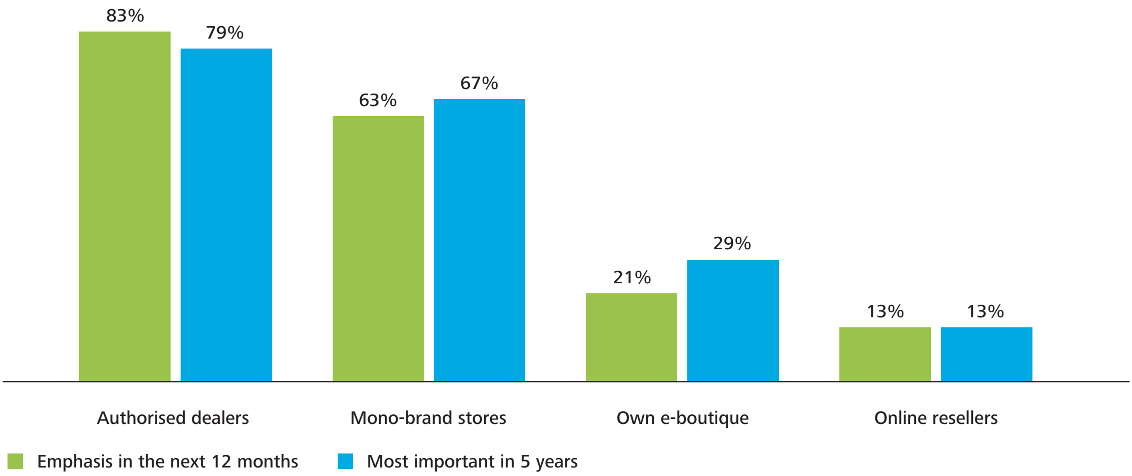
Component manufacturers perceive the increasing verticalisation of large groups as a far greater threat than last year. Eighty-one percent of suppliers see it as a threat, while only 43% of brands do. As a result, 62% of all respondents anticipate the formation of large suppliers groups, up from 54% in 2013.

Marketing and distribution – Sales channels

The most important business strategy for watch executives this year is the optimisation of sales channels (see Chart 12). Authorised dealers and mono-brand stores remain the two most important sales channels both for the next 12 months and the next five years. Both have gained in importance compared to 2013. Own e-boutiques are viewed more as a sales channel for the future, being mentioned significantly more often as being important over 5 years than over 12 months.

CHART 15. SALES CHANNELS

On what sales channels will you be putting the most emphasis in the next 12 months / What sales channels do you think will be most important in 5 years? (multiple answers possible, answers only from brands)



The opening of new mono-brand or flagship stores continues apace: 63% of participants from branded watch companies say they are likely to open new ones within the next 12 months. Eighty-five percent of companies plan to open stores in Asia, 55% in Europe and 30% in North America. Mono-brand and flagship stores give watch companies an opportunity to provide better costumers' sales experience, and allow for a customised in-brand store design, a specialised sales force and better inventory and pricing controls. Own e-boutiques offer similar advantages online. But the high level, technical characteristics and high prices of many Swiss watches are obstacles to online sales and explain the continuing concentration on traditional sales channels. Still, recent developments in e-boutiques from large brands in European countries (previously mainly restricted to the US market and pilot projects) such as Tag Heuer in the UK, Louis Vuitton, Cartier and Jaeger-LeCoultre highlight a change in strategy. Another example is the recent declaration from the CEO of Audemars Piguet, François-Henry Bennahmias, who expects to open an e-boutique in the next two years.[4]

Authorised dealers remain the single most important sales channel, as they typically have longstanding relationships with watch companies. However, the increasing emphasis that large brands are putting on their own sales channels could have a negative impact on smaller authorised dealers, as well as smaller brands, for which opening mono-brand stores is not an option. More than 60% of respondents view increased vertical integration at the distribution level as a threat for smaller retailers and smaller brands.

4 Source: Bilan (2013), L'horlogerie se prépare à vivre une révolution (available in French)

Marketing – Traditional and digital

As with sales channels, watch companies use both traditional and digital media in their marketing campaigns. However, their major focus is on social media, closely followed by print media and internet blogs. This demonstrates the increasing importance of social media for an industry that historically relied on print to support its marketing efforts.

Bloggers have also been gaining in importance over the past five years and they now form an integral part of the communication environment of watch brands. Their strong presence at Baselworld with live pictures, interviews and direct feedback from the show floor to their readers, is a prime example of how communication is evolving in the industry.

Large brands have also been focusing on sponsoring sporting events. Hublot was the official timekeeper of the 2014 FIFA World Cup and clocked up more than 20 minutes of air time by equipping the fourth official during the games.[5] Other brands are also investing heavily in sponsoring sporting events, such as Rolex's association with Formula 1, Le Mans, equestrian, golf and tennis events. Another major brand, Longines, is involved with the International Equestrian Federation, tennis and alpine skiing events among others.

5 Source: L'Agefi (9 July 2014), La visibilité démontrée du marketing Hublot (available in French)

Product placement and brand ambassadors also represent important forms of communication. The watch industry has used product placement in films for decades, but has been gaining in importance courtesy of recent blockbusters. The use of brand ambassadors, although widespread, is more limited due to cultural differences between countries. Overall, these two types of communication are more often used by large brands that can afford it.

Small independent brands, which often have limited marketing budgets, tend to focus more on social media/internet, as they offer a greater opportunity to reach a global audience and engage with a community of enthusiasts at a lesser cost.

CHART 16. MARKETING CHANNELS

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

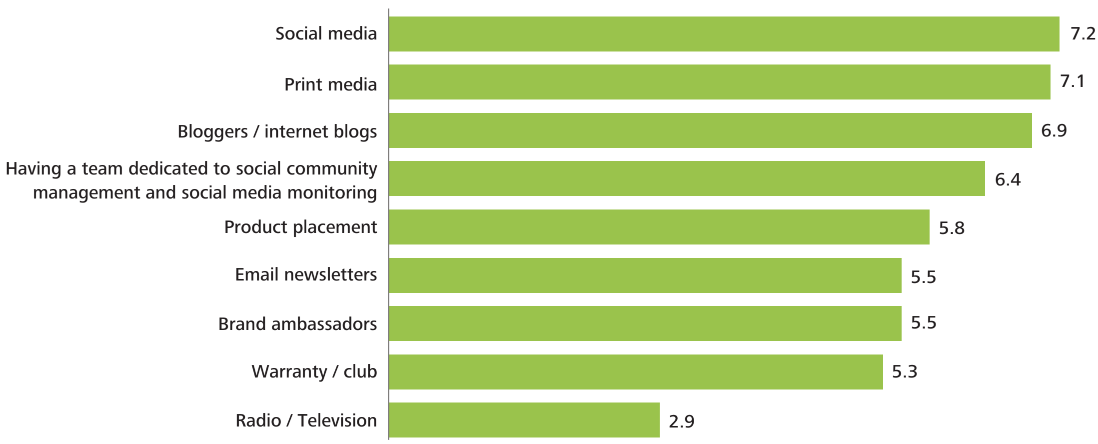
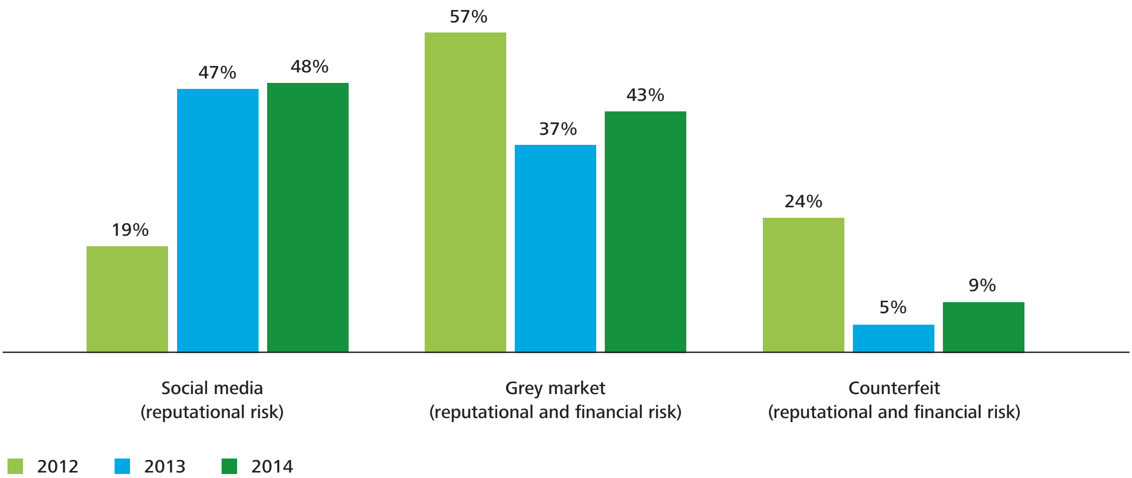


CHART 17. REPUTATIONAL RISK FROM SOCIAL MEDIA

In what area of online marketing and distribution do you see the biggest risk exposure? Answers only from brands



In line with increased emphasis of online and social media channels the perceived risk of social media has increased as well. Watch executives continue to regard reputational risks from social media as one of the highest risks in online marketing and distribution.

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Notes

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