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Will smartwatches, 3D printing save struggling Swiss watch industry?

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Promotional image for Herms Apple Watch

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As the Swiss horology industry wades further into troubled waters, 82 percent of the sector's executives have said they hold a pessimistic outlook for the category's future, according to a Deloitte survey.

The Swiss watch industry has seen a decrease in value and volume of exports over the last 14 months, with exports totaling 9.5 billion for the first half of 2016 down from 10.2 billion in 2015. While there are many factors impacting horology, ranging from decreases in tourism, new laws in markets such as China and currency fluctuations, understanding industry outlook alongside brand and consumer trends can prove useful to Swiss watchmaker's navigating a volatile climate.

"We are cautiously optimistic for 2017," said Karine Szegedi, partner, Swiss lead of fashion and luxury at Deloitte, Geneva. "2016 will probably still be difficult, but the industry still has a leading position in the luxury watch segment and we do think it has the innovation capacity to rethink strategy and adapt itself to these new market conditions.

"One cannot single out one cause, as terrorism in Europe, new laws in China and strong Swiss franc have arisen simultaneously," she said.

For its fifth annual "Watch Industry Study," Deloitte conducted an online survey with more than 50 watch brand executives, as well as consumer survey. Deloitte's consumer survey was taken by approximately 3,000 individuals in China, Germany, Italy, Japan, Switzerland and the United States. The research was conducted between May and July 2016, with assistance from data collection provider Research Now.

Time is of the essence
Although there are many factors as to why the Swiss watch sector has seen a decline in exports, weakened consumer demand is seen as the greatest risk to the sector.

Deloitte found that Hong Kong, the U.S. and China remain as the top three countries to purchase Swiss watches. But, the rate at which watches are purchased have declined.

Asia, for example, known for its passion and interest in fine watch gifting, saw watch exports total $4.718 billion in the first half of 2016. To compare, in the first half of the year-ago, Swiss watch exports for the Asian market were at $5.402 billion.

In Hong Kong, there has been a 57 percent decline in exports, and the decrease is expected to continue. Similar rates of decline have been recorded in Europe, North America and the remainder of the world's markets.

Longines watch featured in a DFS promotional image

Declining exports have caused Swiss watchmaker executives to hold a negative outlook for the future of the industry. According to Deloitte's executive survey, 54 percent of respondents are pessimistic about Switzerland's economy while 65 percent are pessimistic about the exports market in general for the year ahead.

Since the 2015 Watch Industry Survey, nearly double the amount of executives are worried and pessimistic for the Swiss watch industry at 84 percent.

Causes of this internal pessimism include weak foreign and domestic demand, the strength of the Swiss franc, competition from smartwatches and counterfeiting.

Previously, the Swiss franc exchange rate was seen as troubling for watchmakers, but current fluctuations concerns have been replaced by demand anxieties. Seventy-nine percent of watchmakers are now concerned that weak consumer demand will damage business further in the coming year.

Tech time
As worrisome as external factors are, the watch industry's internal happenings have also proved impactful.

Smartwatches have risen in visibility from consumer electronics brands such as Apple and Samsung, but connected timepieces developed by Swiss watchmakers have also increased awareness.

Swiss watchmakers becoming a true part of the smartwatch conversation is a change from Deloitte's 2015 Watch Industry Survey. Tag Heuer, for instance, has succeeded at ensuring visibility for its Tag Heuer Connect through fashion and sports alliances, as well as sponsored content with leading publications.

Tag Heuer Connected smartwatch

In May, Tag Heuer showcased the capabilities of its Connected timepiece in a fashionable way.

The brand partnered with British GQ on a short social video, which shadowed the magazine's editor Dylan Bruce as he went about his day in London. While Tag Heuer had previously aligned with sports stars and other personalities to promote the Connected smartwatch, this collaboration likely helped market the timepiece as a functional, stylish accessory (see story).

In Switzerland, the U.S., Germany, China and Japan the Apple Watch finds itself among the top three smartwatch types consumers are interested in purchasing. For the first time, Tag Heuer has placed within the top three for Japanese consumers.

Apple Watch

Smartwatch technology is not the only internal industry change affecting the horology industry.

As with the fashion sector (see story), 3D printing is gaining importance in traditional Swiss watch manufacturing. Constructing a high-end timepiece is complicated, costly and needs expert talent to produce, but 3D printing can lessen expenses and time needed to build watch mechanisms and movements.

Per Deloitte, 64 percent of watch executives have began using 3D printing technology as a tool for concept and prototype design. At this time, 32 percent do not use 3D printing at all, and a small amount, around 4 percent, have brought 3D-printed watch parts to market.

By 2020, 32 percent of executives see 3D printing becoming a very likely aspect of the watch industry.

"It is certainly not the definitive answer but technology, such a mobile devices, social media and 3D printing become more and more part of the brands strategy and will participate in its adaptation to these new market conditions," Ms. Szegedi said.

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