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JEWELRY

Watches a barometer of the post-Brexit luxury market?

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Tag Heuer Formula 1 TWG Limited Edition watch. Credit: The Watch Gallery

By STAFF REPORTS

A sliding pound sterling has been at the forefront of the news since the United Kingdom voted June 23 to leave the European Union in a referendum.

The financial panic that followed the vote saw an estimated $2 trillion wiped off the markets within 24 hours. Marmite and Birdseye fish fingers have hiked their prices by 12 percent.

But for luxury watch retailers, decline for the mass has proved to be beneficial for the minority. Britain's luxury watch retailers are seeing an unprecedented hike in sales and profits. How long will the music last?

Time is telling
London has felt the biggest Brexit boom.

The opposite of dampening sales, the sliding sterling appears only to have driven revenues higher for retailers of the most popular luxury brands.

In August at Heathrow Airport, $5 million alone was spent on Rolex watches and sales in the luxury watches and jewelry category was up a staggering 74 percent.

Sales of luxury watches in the U.K. rose by 53.5 percent in October, according to the latest monthly retail analysis by market researcher GfK.

"October was another impressive month for sales of luxury watches in the GB market," said Paul Mitchell, GfK account director for watches.

"We saw many of the largest luxury watch brands see strong volume and value growth last month versus October 2015," he said. "This was a combination of an increase in demand higher volume and an increase in average sale price."

According to GfK, sales of watches priced at more than $12,320 were up 67 percent in the British capital in September, compared with the same period last year. And the figure was almost as high outside London, up 56 percent.

The growth is even faster than in September up 39.7 percent and contributes to a growth rate over the past 12 months of 25.1 percent for watches priced at more than $1,250.

Richemont Group, LVMH Group and Rolex have all raised U.K. prices by around 10 percent since Britain's vote to leave the U.K. triggered a plunge in the value of the pound and made luxury watches in the U.K. about 20 percent cheaper than the rest of the world.

The Federation of the Swiss Watch Industry reported that exports to Britain were up 32.4 percent year over year in September, making the country the world's fourth-largest importer of Swiss watches. In 2015, it was eighth.

Second that

David Coleridge, chairman of The Watch Gallery, which operates showrooms in Selfridges on Oxford Street in London and in Manchester, as well as a Rolex boutique in the luxury apartment building One Hyde Park in Knightsbridge, said Brexit had created the perfect storm.

"The sliding sterling has meant good news for luxury retail, and we have further expansions planned for 2017 and beyond," he said. "We have a massive expansion planned in 2017 for the Selfridges Wonder room, but this was planned long before Brexit.

"Other plans for 2017 again were formulated well before Brexit. We are even more positive about these as a consequence of Brexit. Plans for 2018 onwards are under discussion now.

"We are working on the presumption that the weak pound is here to stay for the next few years. This will cause more tourists to come to London and therefore positively effect our sales we are very London centric."

The Watch Gallery is the leading independent British luxury watch retailer.

Graham Painter, CEO of premium and luxury media agency Cream UK, which is The Watch Gallery's media and marketing agency, is also on the same wavelength.

"The watch Brexit boom is, of course, exceptional, but the luxury landscape in general has performed positively," Mr. Painter said.

"Cream is still planning ambitiously for the future," he said. "Although the fluctuating sterling has seemingly affected consumer confidence, the luxury market seems heartened. This is most evident with the post-Brexit luxury watch boom.

"The tourist bounce created by a weak sterling has been enormous and is only set to increase, which will boost central London retail sales, luxury goods and therefore increase the demand for advertising amongst those braver brands looking to grow quicker than rivals in 2017.

"Expertise from media and marketing agencies on where, when and how to best place advertising will be under even greater demand as competition increases. Of course, challenges remain in the business uncertainty created by the political hesitation of Brexit, but taking all aspects into consideration, Cream is increasingly buoyant and optimistic about 2017 and beyond."

Cream's clientele includes Charlotte Tilbury, Land Securities, William & Son and Boodles.

Ticking up

Mr. Painter said that by using access to Cream's luxury clients' ecommerce data, the agency has compiled a year-on-year comparison of businesses in the sector from January to August.

This data has shown that luxury online conversion rate is up 38 percent, the average order value is up 12 percent and revenue is up 69 percent. This reflects that confidence in the luxury end is unaffected by Brexit and is, in fact, looking very healthy, Mr. Painter pointed out.

"The fact that these statistics relate solely to online sales reveals a dramatic insight," he said. "It is not just foreign tourists who have an increased appetite for luxury goods. It is also a large number of domestic consumers who are shopping online."

The glaring question now is how long will luxury retailers be able to benefit from this fertile environment?

Too much utopia is not always a good thing.

However, in the extreme case of luxury watches, Britain was on an upward curve of significant growth even before the results of the referendum.

London had been puffed up as key tourist shopping destination over the past decade, as a center of financial expertise and has also mopped up additional sales from the continent, where tourists were dissuaded from shopping by cause of security issues.

Also, London benefits from the variety of its tourist customers.

"Compare London to Hong Kong it's suffering because it's so reliant on Chinese customers," The Watch Gallery's Mr. Coleridge said. "London has a mix. We're even selling to Americans now. Rolexes are 35 percent cheaper here than in New York."

FOR NOW, the benefits of the sliding sterling seem to be here to stay, and businesses continue to remain positive.

Mr. Painter stressed that "for luxury brands, and Cream, Brexit appears to be one of the smaller challenges facing the industry, and the weaker pound will help London, retail and luxury goods."

Mr Coleridge agreed.

"In terms of the future of our business, we think generally positively," he said. "We trust the brands to keep any price rises realistic, otherwise they will kill their business with U.K. consumers.

"In this context, a price advantage will exist, even if small, for the foreseeable future. That will be very good for our business. While not economists, we presume inflation will start again in 2017, but cannot assess the impact on our costs yet. It is safe to predict it will not affect the first half of 2017, but thereafter who knows?"