

JEWELRY

Watch sector's digital shortcomings drive sales to gray market, says L2

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IWC Pilot's Automatic 36 stainless steel watch on Net-A-Porter

By JEN KING

Watchmakers' ecommerce and digital hesitations have given way to the rise of gray market sellers, which has caused declines in watch brands' sales and profitability, according to a new report by L2.

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L2's Insight Report "Gray Market: Assessing Online Risk for the Luxury Watch Market," explores the impact of the gray market on luxury watchmakers and how watch brands should counter the rise of this category of sellers. L2 describes a gray market seller as an online point of sale that sells legal, non-counterfeit products, commonly sourced from overflow stocks, via an unauthorized distribution channel often with discounted prices and savvy digital practices to court consumers.

"The gray market threat will be one of many that continuously push luxury watch brands to invest in digital and sell online via their site or partnerships," said Sam Romanoff, research associate at L2, New York. "It will contribute to their lack of online sales and traffic that coincides with outdated, confusing and information-less brand sites.

"For many brands, this past year saw successful experiment like IWC x Mr Porter, Vacheron x Hodinkee or the Omega Speedmaster 'Speedy Tuesday' limited edition watch, which sold out online in only 4 hours and 15 minutes," he said. "Some brands think that consumers may never flock to their sites to buy watches due to the price point or the in-store experience.

"However, the success and growing number of gray market sites shows otherwise, indicating that luxury watch brands are out of touch with the consumer and how they shop. Gray market sites and the success of the online experiments show the need to embrace the digital shopping world."

For the [Gray Market: Assessing Online Risk for the Luxury Watch Market](#) report, L2 surveyed 36 high-end watchmakers including Omega, Jaquet Droz, Shinola and Rolex. The online sites of those watch brands were then compared against four gray market sites: Ashford, Jomashop, Chrono24 and Authentic Watches.

Gray skies ahead

With watchmakers seriously lagging in terms of ecommerce and digital practices, gray market retailers have

capitalized on the timepiece sector's lack of a branded online retail presence.

In its report, L2 found that gray market sites offer steep discounts for high-end watches. On average, gray market discounts were found to range from 28 to 49 percent.

Discounts within this range can see watch prices drop by \$1,000 to \$5,000 for the highest products sold. These hefty price decreases may sway a consumer's purchase due to a good deal and also give less affluent shoppers the ability to buy a watch from a brand they had otherwise been priced out from.

Besides slashing prices, gray market sellers rely on paid search visibility to ensure that their sites are higher up in the results when a consumer searches for a particular high-end brand.

L2 also found that watchmakers are losing ground in paid listing ads (PLA) results. Per L2, 53 percent of high-end watchmakers still lack ecommerce entirely, and only 19 percent of those with ecommerce appear in PLA results for brand-related search terms.

In an April 2016 report, L2 noted that the luxury watches and jewelry sector has begun embracing various SEO/SEM strategies on the category level, after having been virtually invisible on Google search results in the past.

L2's report found that of the watchmakers evaluated, 90 percent of site traffic for these brands was generated from organic and paid search results. Propelling the search was the use of branded terms, such as the direct use of a watchmaker's name ([see story](#)).



Watch brands versus gray market sites; Image courtesy of Chanel

"Paid search is one of the biggest ways gray market sites are seen when searching for watches on Google," L2's Mr. Romanoff said. "As huge investors in PLAs, consumers will see the gray market sites selling the watches they are looking for right away. A lot of the time, it's even the first PLA result they see.

"Paid search is an important tool gray markets use to increase their awareness and divert traffic to their sites," he said. "If brands invested more in paid search, consumers would be less likely to see gray market site results that show the watches that are selling their products at lower prices.

"Therefore, consumers would be less likely to see that the watch they are looking to buy is available at a discount, and would instead go directly to the brand site to purchase/research the watch. If brands invest in paid search, they will reduce traffic and awareness of the gray market sites while increasing the traffic directed to their own."

Another way watchmakers have facilitated the rise of gray market sites is by not offering transparent pricing. L2 found that 44 percent of the watch brands indexed do not list prices online, instead a "price upon request" prompt is shown.

Since so much of consumer's pre-purchase research occurs online, the lack of transparency from watchmakers is frustrating. Gray market sites then intercept those consumers because prices are listed within a product description.

Needed advice

To combat gray market sellers poaching potential consumers, L2 suggests that watchmakers should consider paid SEO, branded online experiences and an openness of changing retail behavior.

In the case of watch brands online L2 explains that first impressions truly matter. If a consumer cannot locate what they are searching for online from a brand-operated site, they are more likely to be wooed by a gray market point of sale.

Watch brands should increase paid search investments and optimize Web sites for organic search. Doing so will help reclaim online market share from unauthorized sellers and will also promote brand awareness, site traffic and ecommerce conversions.



Vacheron Constantin Historiques Cornes de Vache 1955 Limited-Edition for Hodinkee (see story)

L2 also stresses that watchmakers use "breadcrumbs" to guide consumers toward an online purchase. These breadcrumbs include a focus on improving site experience and providing as much information about a product as possible, including pricing.

Lastly, watchmakers can no longer get by foregoing online commerce as today's luxury consumers are well accustomed to buying high-priced goods via ecommerce, including timepieces. If a brand is not yet convinced online selling will work, L2 suggests considering working with an online partner to reach consumers.

For example, Swiss watchmaker IWC Schaffhausen selected ecommerce retailers Net-A-Porter and Mr Porter as the brand's first online-only retail destination.

The jewelry and watch sector has been notoriously slow to jump on board ecommerce due to the high price of most items and the limitations digital selling presents for a business firmly rooted in physical try-ons. Slowly, but surely, high-end watchmakers and jewelers have embraced ecommerce players by choosing partners with an established and strong consumer base of affluent clients (see story).

"Gray market sites offer the most popular watches that are also being showcased, and some for sale, on the brand sites and in the brand stores for significant discounts," L2's Mr. Romanoff said. "These watches are real, brand new and always cost less than buying directly through the brand.

"As luxury consumers continue to have an increasing number of places to spend their money, and as they spend more money on experiences and less on products, these savings can deter a consumer from buying through the brand when they know they can find the same product for less on a gray market site," he said. "At the end of the day, it is all about brand value.

"As gray market sites are selling the same product for less, they are damaging the luxury brand prestige and perceived product value."