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Watches and jewelry: Luxury Memo special report

July 17, 2018

Actor Jessica Chastain modeling Piaget's high jewelry. Image credit: Piaget

By BRIELLE JAEKEL

Watch and jewelry brands have seen a tumultuous last few years, but new regulations and evolving consumer behaviors have helped the industry see an upward trajectory.

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The new world of consumers, largely pushed by technology and millennial behavior, has left jewelry brands stumbling on how to survive. But new tariff regulations in China, the assistance of third-party platforms and innovative thinking have helped put these brands back on top.

"The overall trajectory for jewelry and watches has been interesting, because of the reluctance of brands themselves to adopt online selling," said Donnie Pacheco, founder of Donnie P. Consulting, Seattle. "Early adopters such as Blue Nile and Amazon built large unbranded jewelry businesses, and in the case of Amazon a very large watch business.

"Ecommerce presented a unique challenge to watch brands that they hadn't faced before, which was exposing grey market," he said. "This practice existed, but was much less visible because before ecommerce the issue was limited to in-store only.

"Then ecommerce came along and put it front and center for everyone to see. Brands didn't know how to handle this and instead of focusing efforts on cleaning it up or taking proactive measures, they blamed and shunned ecommerce saying it wouldn't last or that they would never sell online."

5 trends in the watch and jewelry sector:

- Millennials are buying less engagement rings
  As members of this generation age, brands need to adapt to their changing behaviors, which now often means not getting married or opting for alternatives to traditional engagement rings and wedding bands.
- Heritage jewelry brands are finally embracing digital

  The watch and jewelry industry has famously avoiding evolving into the digital age, focusing more on the in-

store experience and ignoring customers' interest in shopping online. Third-party platforms, whose digital experience is finely tuned, are helping these brands join the digital revolution.

- Lab grown diamonds are becoming commonplace

  In the past, lab-grown diamonds were not thought of as a legitimate threat to the diamond industry, but as consumers' mindsets change, these man-made stones are becoming more accepted.

- Technology becomes integrated in designs themselves

  Smartwatches were not as widely accepted as many experts predicted they would be at first launch, but now consumers are looking for more connected products that combine style and function. Even heritage brands are finding ways to integrate technology into their designs.

- Transparency and ethical business practices are vital

  More so than ever, consumers are holding brands responsible and are looking for sustainable and ethical practices in jewelry brands. However, transparency in how designs are crafted is also important for customers to know the authenticity of the products they are buying.

Jewelry and ecommerce

Luxury as a whole was notorious for avoiding the digital revolution, expecting online shopping to eventually dissipate. However, watch and jewelry brands held on to this mindset for much longer than the rest of the industry, as digital shopping became more sophisticated and consumers became completely comfortable with online purchasing for even big-ticket items.

The jewelry industry focused on the in-store experience, knowing that consumers would need to physically interact with these pieces before making their decisions.

While these brands continued to stay focused on bricks-and-mortar, seller-to-seller platforms such as eBay and Amazon allowed the gray market to flourish.

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 report by L2.

The Gray Market: Assessing Online Risk for the Luxury Watch Market report 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 (see story).

"After supporting their retailers with a brand focused online presence the watch and jewelry houses have accelerated their own retail network and then engaged in ecommerce," said Alexandre Meerson, founder and creative director at Alexandre Meerson Watches. "Starting with highly recognizable or iconic pieces, the ranges available have been progressively extended and full ecommerce is now common.

"The rise of vintage, secondhand and grey markets online, however, has caused issues for the main brands as they are undermined by discounting third parties," he said. "This phenomenon has also encouraged high-end brands to create more exclusivity and sometimes 'by request' offers that are not available online to everyone."

Thousands of third-party sellers undercut fashion brands with gray market sales. Image credit: L2

Now, the heritage jewelry houses are realizing the importance of having a digital presence, but their experience is lagging behind. These jewelers are focusing more on the brand experience rather than putting the customer first, which in turn puts them behind.

"Luxury Swiss watch brands and heritage fine jewelry brands along with every commerce enabled brand need to ensure they optimize their Web sites for mobile, this is more important now than it has ever been as millennials and centennials have stopped using laptops and computers and are using mobile/tablets only," said Marci Troutman, CEO of SiteMinis.

"Mobile only/mobile first is something all brands need to be aware of in the very near future, they will lose customers if they don't start paying attention to this environment," she said. "Mobile can no longer be ignored."

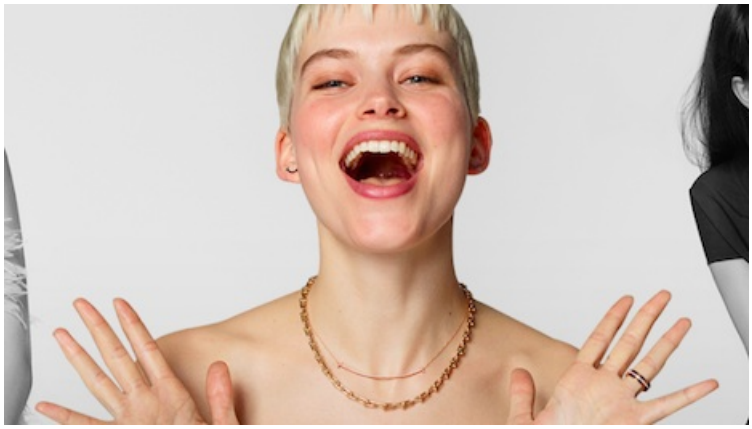
Official online retailers have helped these brands bridge the gap into digital. Recently, there has been a boon in ecommerce platforms launching their own hubs that focus exclusively on fine jewelry and watches.

Net-A-Porter invested in yielding high-end jewelry brands who lack an online retail presence to help affluent shoppers accomplish all of their buying needs within its platform.

The ecommerce platform launched a flagship jewelry store online, where it has brought in couture watch and jewelry brands, many of whom have never had a digital retail presence. A dedicated hub for prestigious brands such as Cartier, Jaeger-LeCoultre, Piaget and Chopard includes heightened customer service elements to better cater to the high-net-worth shopper including a "try before you buy" service (see story).

Farfetch similarly launched two of these jewelry platforms, also partnering with some of the biggest brands in jewelry a month later in April.

Fine jewelry and fine watches each now have their own separate hubs online on Farfetch's platform. Jewelers from Chopard to Tiffany & Co. to David Yurman are represented on Farfetch (see story).



Farfetch's new jewelry hubs feature brands from David Yurman to Tag Heuer. Image credit: Farfetch

Following Farfetch in June, LVMH began spotlighting high-end jewelry on its multi-brand online platform 24 Svres, which similar to Farfetch and Net-A-Porter is a multi-brand ecommerce site.

A report from Technavio last spring predicted that the online jewelry market would grow by 16.59 percent from then until 2021, while Research and Markets forecasts the digital jewelry sector will make up 10 percent of the market by 2020, leading these third-party platforms to invest (see story).

"While third party retailers/platforms play a small role in these categories today, they are likely to play a much larger role going forward," Donnie P. Consulting's Mr. Pacheco said. "If done well, there is a large opportunity for both rental and resale.

"Both categories hold value for high-value items, which plays into both rental and resale, particularly if they operate with transparency and build trust with customers," he said. "Retailers like Net-A-Porter also present major opportunities for brands.

"Because many brands were so slow to adopt ecommerce, they are way behind and many still don't do a good job of presenting or selling product online. Net-A-Porter has created a wonderful customer experience and already has built in traffic and customers. It is both difficult and expensive to build traffic, so being able to leverage a trusted site that is also brand friendly is paramount."

Tiffany's spring campaign

Other platforms such as WatchBox, who focuses solely on pre-owned watches and Flont, a subscription service that loans out fine jewelry, are also making an impact in the industry.

These platforms open the fine jewelry industry up to a variety of consumers with a range in income.

They could also help attract consumers early on while they are younger, and turn them into lifelong customers for brands, extending loyalty into adulthood when they have more money to spend.

The new bricks-and-mortar
The in-store experience will always be important for jewelry brands, as nothing can replicate physically interacting with the pieces and seeing them up close.

But these brands need to balance omnichannel, as well as transform their bricks-and-mortar experiences.

The in-store experience needs to be frictionless, not intimidating, and provide useful and entertaining experiences. Shoppers come to physical locations to learn, and brands need to help facilitate this as well as be transparent and show the heart of their businesses.

This also includes connecting the experience across channels. Swiss watchmaker Hublot unveiled a digital boutique that aims to make the online shopping experience more compatible with what customers would see when going into a physical store.

The Hublot Digital Boutique allows any customer the ability to discuss the intricacies of different products with Hublot sales associates in real time, just as they would if they went into the store. The digital boutique is part of a larger trend in physical retail that sees brands more closely integrating their online and offline experiences (see story).

Concept stores and pop-up shops have helped these high-end houses experiment with what the role of the store is today.

For instance, French atelier Chanel shared its stylistic vocabulary with New York-based retailer Bergdorf Goodman's consumers via a four-day pop-up.

The Jewel Box opened in September 2016, and introduced Bergdorf Goodman consumers to Chanel's Coco Crush jewelry collection for fall (see story).

Chanel's The Jewel Box at Bergdorf Goodman

Precision-cut crystal maker Swarovski engaged shoppers last holiday season through environments that blended physical and digital experiences.

In Toronto and Milan, the brand digitized the store concept with spaces that featured activations such as virtual reality and digital walls. The physical store no longer needs to be tied to traditional formats, allowing brands to incorporate digital as a means of immersing consumers in their worlds (see story).

Cartier also showcased its artistry and craftsmanship in an exhibit at its New York mansion.

The Cartier Haute Joiallerie Exhibition, staged last October at the Fifth Avenue flagship store, showcased both modern and archival jewelry, gemstones, watches and objects. This marked the first time that the largest collection of Cartier's high-jewelry was on public view in the United States (see story).

These pop-up shops are important for brands to show their heart and connect with consumers, but many are incorporating these concepts into their flagship stores.

Designers are having to rethink their store strategies to stay afloat. Responding to the need for change, jeweler Tiffany & Co.'s flagship store in New York is getting a major renovation next year.

Tiffany celebrates a first with multichannel campaign and Elle Phanning debut. Image credit: Tiffany.

The Manhattan store has been at the same location on Fifth Avenue since 1940, but now it will be receiving a significant visual makeover. The renovation is expected to help Tiffany draw in more customers to the brand's legendary location (see story).

"In-store is still essential for jewelry and for new and rare products," Mr. Meerson said. "Iconic and 'standard' models are so documented online and available that they can sell online without being touched.

"The biggest change is a shift from traditional watch stores to high-end fashion and concept' stores where there is an emphasis on storytelling, introduction of new products, service and attention to design and fit," he said. "Jewelry stores continue to thrive as a destination, but watch stores are now neglected because they lack added value and innovation.

"Many are considered boring and soulless."

Role of the trade show

As watches become less important as a status symbol in the eyes of younger consumers, the importance of the trade show in the watch industry is changing.

As this year's Baselworld drew to close, the theme of announcements from timepiece manufacturers revealed that the watch industry has finally embraced the digital world.

After years of watchmakers refusing to accept the shift to ecommerce and digital, this year's trade show in Switzerland indicated that the time has finally come. Hublot and Frederique Constant are a few of the heritage watch brands who are innovating in smartwatches, while others such as Tag Heuer and Richemont are betting big on ecommerce, but Baselworld's significance might be shrinking due to the digital uprising (see story).

Tag Heuer appears in Baselword

Swiss watchmaking group Swatch is officially pulling out of Baselworld, of which it has been a part for decades.

The company cites the soaring expenses of exhibiting at Baselworld as well as the event's growing irrelevance to the way customers buy watches today for its decision. Swatch Group follows a few other high-end watch brands who have all stopped exhibiting at the event (see story).

While Baselworld remains expensive and unadapting, other shows such as SIHH and Watches and Wonders are evolving to better capture this audience.

For its 28th edition, the Salon International de la Haute Horlogerie (SIHH) in Geneva, Switzerland organized by the Fondation de la Haute Horlogerie (FHH) reported that attendance rose by 20 percent from 2017 to almost 20,000 visitors.

With six additional luxury watch brands joining this year's event bringing the total number of exhibitors to 35 it is clear that the high-end watch fair is growing in stature. The event, which used to be closed to trade only, has opened up to the public and has also focused on integrating digital experiences and social media at the show (see story).

This year's SIHH provided luxury brands with a platform to establish their role in the digital realm while providing attendees with authentic, human experiences, thus affirming its growing influence in the watch industry. Image credit: SIHH

Leading watchmakers such as Cartier and Piaget gathered in Hong Kong to display innovative timepieces for a discerning audience of horologists at the annual Watches & Wonders fair, which only launched in 2013.

The watch fair brings together the industry's premium brands to showcase new timepieces and grant consumers and collectors alike face time with watchmakers. Exclusive industry fairs target connoisseurs and those with a deep appreciation for a product sector, but social media has opened events to a larger audience by sharing brand happenings (see story).

Millennial behavior

These changing factors for watch and jewelry brands are largely pushed by millennials' shifting behaviors.

Millennials are savvy shoppers who are more interested in experiences over goods, and are looking to buy a story rather than just an artifact. This makes showing off craftsmanship and designing unique goods with a transparent business model important in connecting with these consumers.

In addition to values in terms of ownership changing, millennials are changing what traditional values in personal lives mean. They are getting married less frequently and later on in life, as well as looking for an alternative to diamonds.

Russian jeweler Faberg prompted consumers to look beyond diamonds for their engagement rings with a colorful digital campaign.

The brand's #SayYesInColour film tells color -coordinated stories of proposals to showcase the brand's emerald, ruby and sapphire engagement ring collection. While still an unconventional choice, depicting the women's enthusiastic responses may help convince consumers to consider a colored stone (see story).

"Millennials have played a big role in both categories in the sense that brands need to speak and market to them differently," Donnie P. Consulting's Mr. Pacheco said. "Millennials aren't as interested in spending money for audacious pieces or just to buy something expensive to show off.

"They are more interested in transparency and connecting with a brand. With watches, there is a big need for education to communicate the craftsmanship that goes into high end timepieces and to showcase a brand's heritage," he said. "With jewelry, there needs to be much more transparency and more options.

"Millennials are less interested than previous generations on spending a lot on diamonds and engagement. The category needs to figure out a different spin on what was traditional and learn how to better engage with this customer segment."

Lightbox Jewelry will be more affordable compared to De Beers. Image credit: Lightbox Jewelry

Millennials are also more concerned with humanity and sustainability compared to other generations, and as they age into the prime shopping group, jewelry brands need to rectify past practices.

As the blood diamond industry has been exposed and more unsavory findings are revealed in relation to the jewelry industry, consumers have looked for other options, such as lab-grown diamonds.

The lab-grown diamond industry is poised to explode in popularity in the near future, thanks to high interest from young consumers and millennials who are willing to spend big on created diamonds.

A report from MVI found that 70 percent of consumers said they would purchase a created or lab-grown diamond for their engagement rings. This represents a 13 percent increase in interest over last year's survey that asked the same question (see story).

British jewelry group De Beers' introduction into the synthetic diamond market could also allude to the shift becoming more widespread, but will also likely impact the industry in unexpected ways.

De Beers is now offering a line of lab-grown diamonds, launched in September under the name Lightbox, but its prices will be listed far below competitors'. The low price point will allow the line to become widespread but positions synthetic diamonds as far below natural diamonds (see story).

Verge Science takes a look at lab grown diamonds

As the diamond industry is expected to see a dip this year, compared to 2017's 2 percent increase, jewelry brands need to focus on millennials and Gen Z to sustain their future.

Demand for diamonds increased to $82 billion in 2017, thanks to the United States and China. But this growth is not expected to continue into 2018, according to a new report from De Beers, which is urging the industry to focus on Gen Z, despite the age group's lack of funds (see story).

"The younger generations are increasingly looking for meaningful and valuable keepsakes," Mr. Meerson said. "They seem to be tired with generic and standard products and to look forward to creating their own heirlooms by investing in personal and unique pieces."

Best practices tips for luxury watch and jewelry marketers:

- Alexandre Meerson, founder and creative director of Alexandre Meerson Watches
    - "High-end watches are now becoming much more popular with women and fashion-focused consumers. Traditional Swiss brands have to find their way as they lack innovation and style and focus on older designs."
    - "Consumers expect the highest quality but what is inside is now less important than it was before and people look at design, style and personalization."
- Donnie Pacheco, founder of Donnie P. Consulting
    - Focus on the customer. This may sound basic, but is overlooked by so many brands who instead focus on themselves. While it is important to tell a brand's story and present items in a beautiful manner, it is more important to make the shopping experience as easy and seamless as possible for customers. Don't ever lose focus of the end user and keep in mind that every time you make them click online or overcome

some in store obstacle, the likelihood of them abandoning dramatically increases.

- Be transparent. Customers want accurate brand and product information. This includes all available information. They use this to make comparisons and final purchasing decisions. This includes product dimensions, any precious stone or metal information, warranty information, and packaging information. Both of these categories are highly gift-able and presentation matters to end users.
- Think like the customer. Do a walk through of your store and the purchasing journey online to see what customers see, if it makes sense, and more importantly, if it is customer friendly. If they are searching for your store specifically or jewelry and watches in your area and your results are drown out by competitors or there aren't any, you aren't discoverable and this is a problem. If customers search for a particular watch brand and they are bombarded with discounted offers from unauthorized sellers, address it head on and make sure customers understand the benefits of buying direct.

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