

JEWELRY

## Swiss execs forecast difficult outlook for country's watch industry: Deloitte

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95 percent of all watches retailing at over \$11,000 are produced in Switzerland. Image credit: Mr Porter

By ELLEN KELLEHER

Most Swiss industry executives are predicting a grim outlook in the near term for their country's watch industry, particularly for smaller players, as the pandemic has taken a sharp toll on its fortunes, according to a new [Deloitte](#) study.

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Eighty-five percent of executives surveyed in Deloitte's [Swiss Watch Industry Study 2020](#) are not optimistic about the immediate future, as diminished demand due to the lockdown, cautious spending and the collapse of tourism have hit the watch sector hard. Other factors such as the strong Swiss franc and political uncertainty are also impinging on the industry's growth.

"The pandemic has had a strong impact on the industry which recorded one of the strongest drop in sales of its history although brands and suppliers are affected very differently depending on their product, market positioning and the price range they are in," said Jules Boudrand, director at Deloitte, Switzerland. "Today, only a small number of well-known brands, including independents brands and brands belonging to large groups serve as the growth engine for the industry."

The inside scoop

This report is the seventh of its kind by Deloitte and is based on a survey conducted between mid-August and mid-September with 55 senior executives. As part of the research, a second survey was conducted of 5,800 consumers across China, France, Germany, Hong Kong, Italy, Japan, Singapore, Switzerland, the United Arab Emirates, the United Kingdom and the United States.

An estimated 95 percent of watches retailing at over 10,000 Swiss franc, or \$ 11,021 at current exchange, are produced in Switzerland. At the forefront of the country's industry are brands like Rolex, Patek Philippe, Audemars Piguet and Breitling.

More than half of the participants, 54 percent, said an array of political factors ranging from the protests in Hong Kong to uncertainty from Brexit have had a negative impact on the industry.



*Rolex, Patek Philippe and Audemars Piguet are three powerful Swiss watch brands. Image courtesy of Watches of Switzerland Group*

After a promising start to the year, exports fell sharply in February once COVID-19 arrived. Exports continued to decline to a low in April, which brought the industry to an 80 percent year-over-year decline.

"This was linked directly to factory closures in Switzerland for four to five weeks, and globally most boutiques were closed," wrote Deloitte's team. "Exports started to recover slowly over the summer, although still substantially down on 2019 levels."

The top brands and their suppliers have fared better in the COVID-19 crisis and have been less affected by it than smaller players.

"These brands entered the pandemic with lower liquidity levels and had little buffer to navigate these difficult times," wrote Deloitte's analysts. "It is likely that these suppliers will continue to suffer in the months ahead."

However, consumers are not tuned into watches this year. About 29 percent of those polled say they will postpone their watch purchase this year and 18 percent will forgo buying a watch altogether because they are only buying what is necessary.

According to the study, 62 percent of industry leaders believe that the Swiss missed an opportunity with smart watches.

Last year, according to Deloitte, the Apple Watch outsold the entire watch industry in terms of volume. An estimated 30.7 million watches were shipped worldwide while the Swiss watch industry shipped just 20.6 million watches during the same period.



*62 percent of Swiss watch executives think the industry missed a massive opportunity with smartwatches. Image credit: Apple*

Industry executives are also becoming more environmentally conscious, with nearly 90 percent saying that sustainability and supply chain transparency are important for the sector.

While there has been a push to embrace online sales due to COVID-19, over 70 percent of Swiss watch executives think offline distribution channels will continue to dominate over digital ones.

Omnichannel strategies are in favor and brands like Audemars Piguet and Bulgari are optimizing their sales channels by reducing the number of their points of sale. Audemars Piguet is also changing its distribution networks to stay closer to its end consumers, control its pricing and internalize some of its margins.

Looking ahead, Deloitte's team forecasts that the pandemic will provide the watch sector with the chance to show its

agility. Low to mid-range brands will tend to struggle more and need to adapt in the coming month and larger brands will have less difficulty.

Though important, the digital space will not define sales for luxury watch brands, who must also find ways to build relationships and establish trust with customers via omnichannel strategies.

Vintage is in vogue

Sales of pre-owned watches are also coming into vogue, with a number of executives labeling them as the next "big thing." Twenty percent of consumers said they are likely to buy a pre-owned luxury watch in the next year, thanks in part to digital channels and the rise of online auctions.

Already, companies are looking to capitalize on demand for pre-owned timepieces, with Watches of Switzerland Group USA being among the latest entrants to the field. Just last month, the retailer bought Analog Shift after a two-year partnership with the watch retailer's SoHo flagship in New York.

This deal plants a stake in the ground for the London-based watch retailer in the largely unregulated pre-owned and vintage market that is gaining market share even as new models are slower to launch.

The Watches of Switzerland Group includes Watches of Switzerland, Mappin & Webb, Goldsmiths and Mayors, all brands heavily invested in jewelry, silverware and timepieces. The group is the United Kingdom's largest luxury watch retailer and the largest seller of Rolex, Cartier, Omega, TAG Heuer and Breitling timepieces ([see story](#)).

Also looking to capitalize on the trend as well as its potential pitfalls is the online second-hand retail platform eBay. It has introduced a new third-party authentication service for watch collectors that verifies the authenticity of the timepieces.

The "Authenticity Guarantee," as eBay calls it, offers 100 percent verification in the United States of all watches sold over \$2,000, including brands such as Rolex, Patek Philippe, Omega and Audemars Piguet. Ebay has for many years been one of the largest online marketplaces for the purchase and sale of pre-owned, high-end watches ([see story](#)).

"Luxury brands have long stayed away from the pre-owned watch market," said Mr. Boudrand. "Recently, however, large brands and groups have begun to shift into this important and potentially lucrative segment with two main objectives: to grab a share of this growing market to counter the cyclical effects of the industry and to grow sales of new watches via trade-in programs."