The Analyst's View

We expect already in 2021 a strong rebound.

René Weber, Vontobel

Swiss private bank Vontobel regularly publishes its highly regarded annual report on the luxury watch industry. The team behind is led by Managing Director René Weber.

The evolution of online sales has been comparatively slow in the last few years. How do you see COVID-19 impacting the industry's willingness to embrace digital sales?
During [the] COVID-19 [lockdown], e-commerce was almost the only channel to sell watches and therefore it was important, but due to store closures, sales collapsed despite online offerings. We believe that digital sales will become more important, but for the high-end watch industry, the stores will always be more important as customers want to feel and touch it.

How do you see traditional retail being impacted?
The impact on retail is quite different in the regions. For example, in Europe, where tourists play an important role (estimates: 50 percent), the watch retailer will suffer in 2020 from the missing tourists, especially the Chinese. This is also true for places like Hong Kong, the Middle East or other tourist places, where the Chinese are important buyers. On the other hand, Mainland China will benefit as Chinese stay at home. In the U.S., tourists play less of a role, but there we will see the impact from the recession.

Vontobel predicts a 25-percent fall in Swiss watch exports in 2020. How bad is the situation?
The 25-percent decline is for the overall exports — we expect huge differences between the regions (Europe with a much higher decline, China positive growth) and we also expect the low-/mid-end to suffer even more whereas the high-end should see less of a decline.

Which brands will most likely survive?
We expect that the 25 large brands will not have any problems. On the one hand, out of the 25 brands, 17 are in the hands of the large groups (Richemont, Swatch Group, LVMH), and on the other hand, the large independent brands like Rolex, Patek Philippe, Audemars Piguet, etc. have strong financials. This issue will be much greater for smaller brands as we also expect smaller watch retailers to go out of business.

Do you see winners of the pandemic?
Yes, it will be the large high-end brands and the large watch retailers, but also brands who have a strong position on the digital channel — not only on e-commerce but also on the presentation of the collection and marketing.

The Swiss watch industry has been slowly moving away from the entry-level segment. Is this strategy still working for a post-COVID-19 world?
The entry level has seen a strong impact from the smartwatch and is therefore seeing a new competition. The majority of the low-/mid-end are brands of the Swatch Group and we believe it will be difficult to compete against players like Apple, Fitbit/Google or Garmin as they move with their smartwatch more toward health devices. The high-end brands do not compete with this category and therefore we are still optimistic about the long-term outlook, especially as the low-/mid-end just makes up 10 percent of Swiss watch exports.

In your opinion, what is the industry's biggest challenge in the next 12 months?
In the short term, it will be the necessity to build up the production again but even more important, to attract customers to buy watches, which is difficult in the current recessionary environment. But we expect already in 2021 a strong rebound — not back to the 2019 level, but making up part of the loss of 2020.

The Retail Perspective

Selling watches is an art.

René Beyer, Beyer Watches & Jewelry

Zürich-based Beyer Watches & Jewelry has been selling watches since 1760, making it the oldest watch shop in Switzerland. Beyer is managed by René Beyer, who represents the eighth generation of the Beyer family. The company is currently conducting a major renovation of the store (which includes workshops and the museum, with one of the most important horological collections in the world) and has set up a temporary pop-up pavilion that opened after Switzerland started to ease its coronavirus lockdown on April 27. Coincidentally, construction work started the day the lockdown was announced (March 16). In hindsight, the decision to renovate during this period turned out to be "a blessing in disguise," as René Beyer put it.

What has changed since the lockdown?

The good news is that watches are still in high demand. And right now, we can better serve Swiss customers because we can keep the pieces that were originally reserved for international customers in Switzerland. In this aspect, the fact that currently no American or Asian customers can enter the country actually helps, because we can now sell around 65 percent of our products to local customers, while in normal times we want to keep the average at a maximum of 40 to 50 percent, and thus avoid cluster risks. This means that we are actually in a better position to provide local customers with some of the "hot cookies" of our brands. In regular times, our international customers are like the icing on the cake for us, but Swiss customers are and always have been the substance of our business. This also distinguishes us from tourism destinations such as Interlaken or Lucerne, where the share of international customers can go up to 95 percent, and business at the moment has almost come to a standstill. The strategy of these locations is taking its toll here. In the financial center Zurich, we have high-end tourism, not busloads with tourists. This is also reflected in the higher unit prices. International customers tend to buy gold watches, while the average price of Swiss customers is about a third lower.

Has there ever been anything similar in the 260-year history of your family's business?

So far, every generation of my family has actually gone through a crisis. Either a massive economic crisis, such as in the 1930s, for example, or the Second World War, when money had to be loaned and, in principle, we could have rolled a stone in front of the shop door between 1941 and 1945, since no customers came anyway. I often thought I would represent the first generation of my family who would not have to go through a full-blown crisis. Of course, there were also minor crises in my time, such as the adjustment of the Swiss franc in 2015, which, in retrospect, has proven to be positive for the location. But every generation before me also had to fight crises. For example, we had the Russian flu, the Spanish flu, which has always led to difficult situations for us. We still have ads with massive discounts in our archive, or we also had to launch sweepstakes to boost business. We would probably have gone bankrupt four times in my family's history had it not been for the family's women who insisted on continuing the business. Real estate was sold; we moved to rented apartments — we had to scale back a few times, but we didn't throw in the towel, mainly because the women in the family believed in the business. And usually, five to 10 years later, we were able to take out the money invested. So, the family is both a shareholder and a sponsor — you can take in good times, but in bad times the family has to invest. We therefore have always acted counter-cyclically; we buy in crises, because after every rain, the sun comes out again. We make the difference when the going gets tough.

Do you see any retail trends being accelerated?
While developments in Asia are moving toward personal shoppers and shopping by appointment (which actually started 30 years ago in Japan), the Swiss customer is rather reserved when it comes to bringing people home. Realistically, we would rather see this when visiting hotels, but overall we don't see it at the moment, even if we have already analyzed the topic as a business case in the past. Other retailers already offer a concierge service, but this is usually related to a stronger focus on Chinese customers. And we want to make sure that we don't strain the contracts with our brands here; we are authorized to sell here at this address. So the business we can do is done here in the store. But there will certainly be players who will take advantage of this niche.

Every generation of my family has gone through a crisis like this.

René Beyer, Beyer Watches & Jewelry

Of course, e-commerce is becoming increasingly important in our business. Looking at existing providers like Net-a-Porter, it also shows how difficult profitability is in this channel, and it is extremely expensive to set up. At the moment, I see e-commerce at 5 to 10 percent, in the times of the coronavirus, maybe 13 percent in the short term. We also see a lower average selling price [online]. The development certainly cannot be negated, and we are also closely watching the trends in the USA and Asia. But we primarily want to offer our customers a shopping experience here, which is why our pop-up pavilion is very complex and elegant. We always try to give the customer a lot more than the product they bought. We have the museum; the workshop with 16 employees, 10 watchmakers and six goldsmiths, which you can visit every day; almost like an IP-certified farm, nothing is hidden here. And we only send watches back for repair if the customer expressly requests it; otherwise we have agreements for the SAV [after-sales service] with all of our brands. The investment is significant, but we are convinced that it is very important in terms of prestige. If a brand communicates a very long period to us for a repair, we can do it in two weeks, and with an internationally certified quality: we do the training with the brands and thus have access to all spare parts. We can do here what other watchmakers in Geneva, Le Sentier or Schaffhausen do.

Will the industry benefit from the crisis long term?
Absolutely. Every crisis is an opportunity. First, it is a "race for the fittest." There will certainly be brands that will not survive; I expect one-sixth of all watch companies in Switzerland to be at risk. In my opinion, between 50 and 100 of the around 600 companies will disappear by the end of the year. This mainly affects free riders, i.e., brands that do not have many skills in-house. And quite a lot of them have come onto the market in recent years — brands that buy the movement somewhere, do something with it and then want to sell it. Selling watches is an art, and unless a brand covers three-quarters of the world market, it doesn't stand a chance in the long run. It is quite often the problem of brands that are successful here in Europe, but have never made it to America or Asia. It costs a lot; you need tens of millions to develop a single country with advertising, SAV and distribution. This is exactly what many brands misjudge, when they believe that a good reputation and good ideas are enough to have the whole world at your feet. That can also not be compensated with e-commerce. In my opinion, a cleanup that has been necessary for a long time will therefore take place, but new market participants will also appear immediately. In the mid-term, I see an advantage in reducing the number of Swiss companies to 300 to 350. We have far too many watch brands that I have never heard of and that just produce for a special market. Watch brands that produce fewer than 10,000 watches are acutely at risk in times like this.

What is the role of retail?
Buying a watch is a matter of trust. You also can't buy a perfume without first testing it. Of course, there are always customers who believe in one single brand, who want nothing more than the one chronograph of that particular brand. But there is a reason why we have 5,000 different watch models in stock. This is how we can show customers alternatives. There

are numerous alternatives within Rolex, for example, including from its sister brand Tudor, that are suitable for any budget or need. It is also our role to address the issue of SAV during the sales talk, because only those who know how to use and care for their watch will enjoy it afterwards. So we also try to give the customer an educational conversation. There are also customers who want the right jewelry for a watch. There are moments in life such as weddings, engagements, etc., in which the seller becomes a partner and the customer a guest that you accompany. So it's really not about "I came, I saw, I conquered." Most of our customers buy between five and 10 pieces in the first five years of the customer relationship. We want to see every customer three to four times a year, even if it's just for coffee or to clean his pieces.

What's next for your business?
We are currently looking for a location for the weekend or the evening where we can also receive customers outside of shop hours, where customers may be able to store their watches and jewelry. Like a concierge service for our customers, or a first-class lounge for opera or theater visits, where you can enjoy the hospitality of the house even outside of shop hours, and can look at selected currently available watches. We see that our customers, especially the younger generation, appreciate the networking opportunities and the exchange with like-minded people. We also know that we are not always with the customer when the customer wants to buy something spontaneously, similar to the casino shops in the USA or Asia. We therefore want to be even closer to the customer in the future. For example, if a customer is planning a proposal, he can already have the ring prepared. At such moments we can help, maybe even find the right words.

The Online Perspective

We have experienced an acceleration of trust by the consumers in buying through the internet.

Patrik Hoffmann, WatchBox

At the end of March, Chrono24 reported an approximately 20-percent decrease in sessions and a 15-percent diminution of sales, but also saw first signs of recovery in most countries. At WatchBox, an online platform for pre-owned luxury watches, Patrik Hoffmann, Executive Vice President of the company's Swiss Division, offered the assessment of very little change and an acceleration toward online sales: "We do not yet see any kind of panic sales. We have seen a slightly higher rate of returns; this is most likely due to a combination of buyer's regret, personal income constraints and the dim economic outlook. We have experienced, just like many other digitally and e-commerce-driven companies, an acceleration of the trend of consumers buying through the internet, concierge services, and platforms and marketplaces that are specialized in e-commerce offers — an acceleration of trust by the consumers in buying through the internet. This applies throughout our existing price ranges. Naturally, we have seen quite a fluctuation on some brands and models; i.e., fast-selling models. On some of the 'slower'/less popular brands/models, we have certainly registered a general value adjustment." —