WRISTWATCHES INDUSTRY REPORT

MAFALDA GOUVEIA | 152120075
AFONSO NEVES | 152120108
DIOGO PATRÍCIO | 152120226
JOÃO MOTA | 152120318
FRANCISCO RAFAEL | 152120433
JOÃO VIEIRA | 152120510
MANUEL SANTOS | 152120519
SVEN NELLES | 159120549

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INTERNATIONAL INDUSTRY ANALYSIS

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Introduction

Horology, *the study of time*, may be as old as civilisation itself, but watches and especially wristwatches have only first been developed in the 16^{th} century. Yet the invention that truly started the accurate modern-day tracking of time was the balance spring in 1657. The balance spring in a traditional mechanical watch is put under tension via the winding of a crown, the energy stored is then translated into the movement of the watch movement, enabling pointers or numerous other complications to tell the time, the date, and even the moon phase.

With the invention of the steam engine in 1712 and the ever-increasing popularity of the resulting railroads, knowing the exact time of the day became of interest even for the simple worker. Still, until the dawn of the 20^{th} century, pocket watches were the popular choice for the everyday problem of knowing the time. It took for the 1^{st} World War to happen, during which soldiers needed watches to coordinate communication and attacks, for wrist watches to surpass pocket watches in popularity. Wrist watches were the simpler and more comfortable solution during combat, as taking out your pocket watch wasted valuable time.

After the war, another leap in watch technology occurred with the development of the automatic wristwatch movement. While still part of the family of mechanical watch movements, an automatic movement puts tension on the balance spring via the movement of an internal weight in the watch. Now the user of a watch could keep it going by simply keeping it on his/her wrist instead of having to manually wind the watch from time to time.

The first half of the 20^{th} century may be considered the golden area for mechanical watches, they were essential tools in daily life and each year seemed to bring another improved type of movement. Rolex famously invented the first waterproof watch case in 1926, further developing this technique over the years to meet the demands of divers, which lead to its flagship model, the Rolex Submariner.

Meanwhile, Breitling and Heuer created the first automatic chronograph, a complication which one would simply call a stopwatch today, in 1969. While brands during this time were mostly known for their innovations, the first brands started to gain renown for high quality and their watches became a sign of high status and wealth.

Yet 1969 was also the year that started the Quartz revolution – or crisis, depending on which side of conflict one was on. Movements based on quartz crystals, which send out an impulse precisely at each second, became the new standard. They outperformed mechanical movements in any relevant category, be it price, accuracy, or size of the movement. This led to traditional manufacturers changing their strategy significantly. As quartz watches now dominated the watch as a tool segment, watches with mechanical movements embraced their new role as pieces of jewellery and status symbols. Still, not all traditional manufacturers survived this crisis which in turn lead to a frensy of M&A activity, a notable example being the acquisition of Heuer by TAG. When the dust had settled, a new hierarchy with quartz movements dominating the mass market and mechanic movements taking control of the luxury segment had been established.

The new millennia, a period of unprecedented technological advancement, brought also one last new challenge for the watch world. Smartwatches, miniature computers for the wrist, are more capable and accurate than even the most sophisticated quartz watch. Yet, quartz manufacturers had already moved towards the affordable luxury segment, as the time became omnipresent in the information age, rendering a pure time telling tool obsolete. Therefore, smartwatches, with their vast range of new features, are less of a challenge for the established movement types, but they rather target a completely new audience.

1657 — Invention of the balance spring

1914 — Wristwatches overtake Pocketwatches

1926 — Rolex's first waterproof case, basis for the "Submariner"

1969 — The "Quartz crisis"

2004 — Release of the first smartwatch

Demand Analysis

Market Segmentation

- **Segmentation by consumers functional demands**

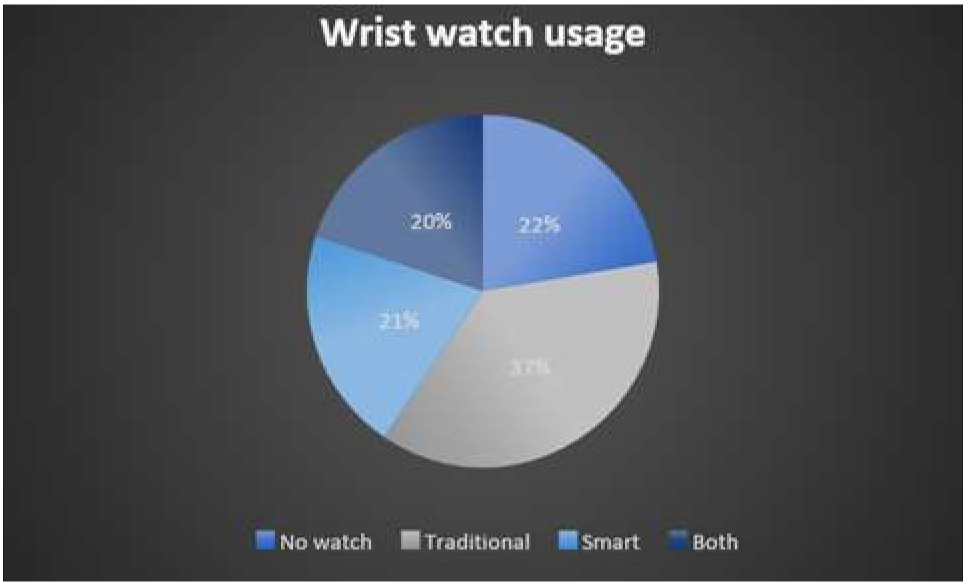


Figure1*: Wristwatch Usage (Source: The Deloitte Swiss Watch Industry Study 2020)*

What type of watch do you wear?

While in the early 1980s the two large watch segments used to be quartz and mechanical, in the 2020s they can be put into one segment: traditional watches. This is possible due to the new competitor in smart watches. Instead of purely segmenting based on the movement technology, this new segmentation is along used.

Due to nearly everyone possessing and using a smartphone, the exact time is only one reach into your pocket away. While wrist watches have been considered partly jewellery and partly a tool since their invention, today's **traditional watches** are used nearly exclusively as jewellery. While this already used to be the case for mechanical watches after the quartz revolution of the 1980s, quartz watches now join mechanical watches as a cheaper alternative in the lowest price segment of the luxury watch market.

On the other hand, **smartwatches** come with new additional services that neither traditional watches nor smartphones can provide. Depending on the model, this can range from more basic functions like monitoring of the heart rate to technically highly advanced functions like the option of a built-in electrocardiography. While these functions obviously appeal to the broad range of health-conscious consumers, they may also be an attempt to increase penetration in the Baby Boom and older age group. Especially the electrocardiography function has been quoted as a convincing argument to buy a smartwatch for Baby Boomers.

Lastly, other than exclusive smartwatch/traditional watch users, there are also two other segments. The first are the **hybrid** users, which wear both traditional and smartwatches. They are characterized by their openness to the new technology and their desire to reap its benefits, but also by appreciation for traditional, especially luxury, watches. A hybrid user may wear a smartwatch during their workout or in a casual office environment but chooses to put a traditional piece on for formal events.

The last segment are the **no watch** users, which use neither traditional nor smartwatches. Their position towards traditional watches is similar to the pure smartwatch segment, as they do not see the benefit of a traditional watch in today's day and age. On the other hand, they have a similar but even more extreme attitude towards smartwatches as the traditional watch users. While traditional watch users may not want to give up wearing their watches for the benefits that a smartwatch offers, the no watch segment values these benefits as so little that they do not bother to pay the price for a smartwatch/get the habit of wearing a watch. Even though one could argue that they should not be considered a segment of consumers, because they are technically not consumers yet, the distinct features of this group are important to highlight, as the right advertisement messaging might transform them into customers.

- **Segmentation by age/generation**

What type of watch do you wear?

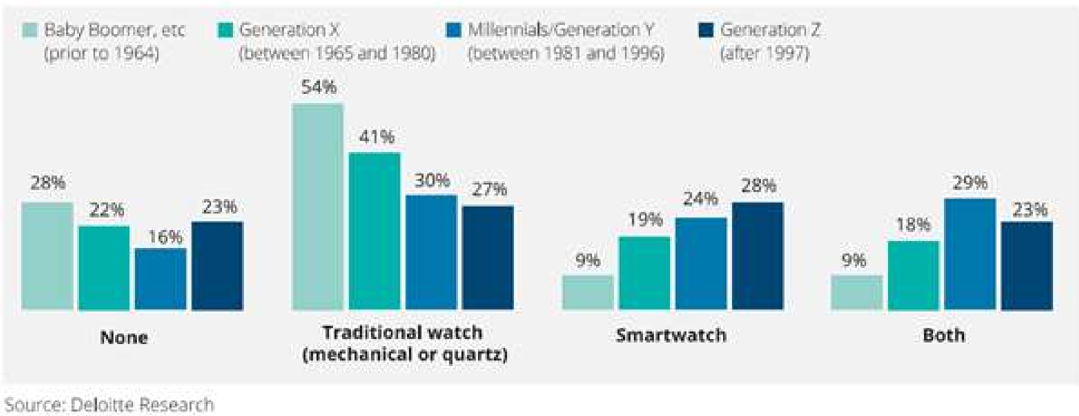


Figure 2*: Wrist Watch by Age Group (Source: The Deloitte Swiss Watch Industry Study 2020)*

- ***Baby Boomers, Silent Generation, The greatest Generation, The lost Generation (55 and older)***

More than half (54%) of the people born in the Baby Boomer and older group still wear exclusively traditional watches. The most obvious reason for this is the essence of the saying "old habits die hard". Even the youngest members of these generations were already teenagers when the "Quartz crisis" in the early 1980s changed the wristwatch market, providing billions with more affordable timepieces. Due to the first display mobile phone that was able to show the time still being decades away when these generations entered the workforce, a traditional wristwatch was simply a necessity in everyday life.

As one may expect, only 18% of the 55+ generations wear smartwatches while only 9% wear exclusively smartwatches. In general, older consumers are less likely to be early adopters and therefore the penetration rate of new technologies like smartwatches should be expected to be significantly lower than in younger generations. Another contributing factor is the added utility that smartwatches and smartphones provide in combination. To be able to use a smartwatch to its full potential and capture all its benefits, a consumer is expected to own a smartphone. Yet in e.g. the US the smartphone penetration in the 65+ age group is only 53%, nearly half of the consumers in the oldest age group could therefore not reap all the rewards of owning a smartwatch. Lastly, owning a smartphone or a similar touchscreen device (tablets etc.) would also provide added benefits through the introduction to the user interfaces that are also used in smartwatches, which could significantly boost the adoption rate.

Surprisingly, more than a quarter (28%) of Baby Boomers and older do not wear a wristwatch at all, topping this category throughout all generations. The straightforward reason for this is the weak performance of smartwatches in this age group. Particularly use oriented customers that have no interest in a watch for "fashionable" reasons may simply choose to not wear a watch rather than bother to get used to a new smartwatch.

- ***Gen X, Gen Y (23-54 years old)***

While these two generations cover a large age range, their watch consumption patterns are largely homogenous. Traditional watches have a total penetration of 58/59% with the lion share of generation X preferring to wear traditional watches exclusively. Similar to the older generations, the reason for this lies in the age of Generation X's at the point when phones/smartphones largely made traditional watches obsolete.

As theorized earlier, penetration of smartwatches negatively correlates with age, leading to a significant difference between smartwatch usage of 37% in Generation X compared to 53% in Generation Y. With this value Generation Y also tops the smartwatch penetration chart even outperforming Gen Z (51%). The reason for this is that at 23 years and younger, Generation Z approaches the limit at which being younger correlates with a higher rate of early adopters. As a large part of generation Z does not generate their own income, their ability to invest in new technology is naturally constrained.

The last extreme lies in Generation Y's preference for flexibility, as 29% of members do wear both smart and traditional watches. Once again, the reason for this is that Generation Y grew up with traditional watches still being a necessity and thereby embraced them as part of their essential items. Yet, they were also in the perfect age group to be early adopters of the new technology in smartwatches. Similarly, Generation X's low preference for a mix between smart/traditional watches can be attributed to the underperformance of smartwatches in this age group.

- ***Gen Z (23 and younger)***

Unsurprisingly, Generation Z uses traditional watches the least. As discussed earlier, only the oldest members of the generation have memory of a time in which wrist watches were actual tools. Therefore, the cheaper simple quartz watches are not as attractive, but due to pop cultural influences in the form of influencers and other celebrities (e.g. rappers, footballers etc.), Generation Z appears to be primarily interested in the luxury segment of the traditional watch segment. Once they earn income that enables them to spend significant money on luxury watches, higher penetration can be expected.

While the trend holds that wearing exclusively smartwatches is increasingly popular the younger the generation is, it should be underlined again that this is only true for Generation Z because of their lack of income to afford luxury traditional watches. Once this income is available, one should expect a similar distribution to Gen Y. ´Still, especially higher end traditional watches should be expected to capture market share, while more affordable traditional watches in the price range of smartwatches will have to expect increased competition.

- **Segmentation by consumer psychological characteristics**

As already hinted at during the functional demand segmentation, consumers may have distinct psychological characteristics that push them towards consuming a certain product type.

The first group, **health-conscious** consumers, is especially relevant for the smartwatch industry. Their goal is naturally to stay as healthy and engaged as possible, therefore they will gladly use the health monitoring functions that smartwatches offer. As health is their main concern, they will prefer the smartwatch that offers the most functionalities.

Another interesting characteristic to segment by would be **desired to show wealth**. Consumers that score high on this dimension will be interested in watches that are "flashier". Large case sizes, gold/"iced out" (diamond embezzled) luxury watches, popping colours would be attractive for this segment. They will also be specifically attracted towards the latest smartwatch model and well-known luxury brands (specifically Rolex). Depending on income they may also be in the market for more affordable quartz watches that are branded by a well-known luxury clothing brand (Armani, Diesel, Gucci etc). On the other end of the spectrum, you have consumers that do not necessarily want a very recognizable (outside of watch enthusiast circles) watch. They would choose lower priced and simpler watches like dress watches (Small case, simple dial, only hour/minutes, bauhaus style) or simple quartz watches. Smartwatches would also be attractive, but one should not expect them to upgrade yearly. Additionally, if they decide to buy something in the luxury segment, they will pick less known brands, even if prestigious brands would offer models in the same price range (e.g. Jaeger LeCoultre/Grand Seiko instead of Rolex).

Lastly, these characteristics will obviously have a bunch of different distributions depending especially on culture/nationality, more on this later.

- **Segmentation by consumer' nationality/culture**

Another way to segment consumers is to group them in terms of their nationality/culture. As discussed earlier, there are distinct psychological consumers characteristics which influences their demands towards a watch. While all those consumer segments will naturally occur in a nation/culture, their distribution may differ. For example, the consumer type that wants to signal wealth through their watch may be underrepresented in cultures that are known for their external modesty in comparison to the global distribution. Therefore, segmentation by countries can provide valuable indicators towards which strategies to use.

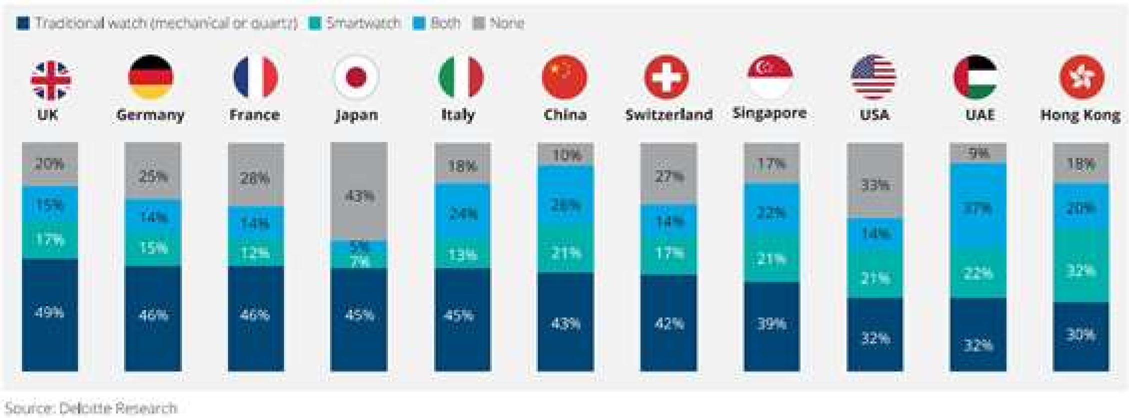


Figure 3*: Wristwatch by Nationality (Source: The Deloitte Swiss Watch Industry Study 2020)*

Japan can be seen as an outlier, while one would expect for a highly technologized country to have a great demand for smartwatches, only 12% of the population wear smartwatches. On the other hand, the traditional watch segment lies within the bounds of the global average, leaving in theory enough market share for smartwatches to capture. This may indicate that the part of the population that is not interested in traditional watches additionally does not see the benefit of smartwatches' extra functionality.

Another interesting market that lies outside of the norm are the United Arabic Emirates (UAE). Only 9% of the population does not wear any watch and the Emirates are also the only country in which the majority of inhabitants wears both smart and traditional watches. The reason for this becomes obvious when investigating the demographic data: The UAE population has an average age of 30.3 years with a median of 31 years. A large part of its population therefore falls in the earlier discussed Generation Y segment, which is characterized by its openness for both traditional and smartwatches.

Still, even though this survey specifically targeted holders of the presented nationalities and not inhabitants, it should be noted that consumption distributions in the UAE and Hong Kong will be significantly skewed due to large influx of tourists and expats that visit these countries specifically to buy luxury goods.

- **Segmentation by price**

The final way we chose to segment the watch market was by price. The challenges we faced, when attempting to implement this type of segmentation, were mostly due to the number of outliers that exist throughout the market, but also, the extensive price-scale offered by companies. Watch companies, throughout the industry, will regularly adjust the price of similar watches, based on whether it is intended for traditional use or more of a "contemporary fashion" end-goal, for example, once brands, such as DIESEL or Michael Kors, begin selling watches the brand recognition will inevitably increase the sale price, even if the product itself might not match the evaluation when compared to the rest of the industry.

Nevertheless, we analysed three segments that we believe could accurately reflect our understanding and research of the watch market, allowing us to better separate companies within them and determine the main reasons that those prices are attributed to their products.

The first segment ranges in price from $5 to $499 and is what many people would describe as the mass market. These watches are mostly manufactured throughout Asia and can be analog or digital but offer a very generalised visual and quality standard, mostly purchased for their utility instead of fashion sense. This is the segment in which most watch companies find themselves and also the most competitive one, some of the companies we can identify in this market are Casio, Swatch, Seiko, or Timex.

The second segment we identified ranges in price from $500 to $4000 and it is the middle market for the watch industry. These watches are associated with designer brands and internationally recognized premium watch companies, some of the more well-known include Gucci, TAG Heuer and Tissot. These watches are well made and although some production still occurs throughout Asia most of them are produced in Switzerland, with increased quality and in less quantity than the first price segment identified.

Lastly, our third segment includes watches priced from $4000 to $20000. These are the highest quality watches in the market, sold not only for their functionality but also because of the status and recognition that they provide within our society. Manufacturing of products in this segment is almost exclusively done in Switzerland and can include gems or precious metals that will elevate the price further. Some easily recognised brands that we identify in this segment are Rolex, Cartier or Omega, which are found only in jewellery or high-end branded stores instead of the more general availability associated with the other two segments.

Market Valuation

For this analysis purpose we segmented the market by luxury and non-luxury watches. As we didn’t find any relevant data for the smartwatch segment, we included it in the non-luxury segment. The segment of luxury watches contains luxury wristwatches and pocket watches.

As for measuring the attractiveness of each segment a good indicator would be the Net Present Value. We do not have the available information to compute the NPV, so we did a proxy with an aggregate indicator:

$$Sustainable\ Value = SL \times (1+G)^t \times \frac{M}{R} \times SU$$

Value for Customers: SL (1+G)t = current sales and sales growth
Value for Shareholders: MR = return-risk ratio
Value for the remaining stakeholders: SU = environmental, social and governance sustain.

- **Value and Growth**

The Value represents the market share by sales in US Dollars. It is clear that the non-luxury watches account for a mass production process selling a significant higher number of units per year.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Growth 2019 - 2023
Luxury	23392.6	25554.7	26805.7	27990.3	26809.0	28049.2	29330.6	29674.1	24372.0	28382.2	30808.1	31549.7	2%
Market share	19.0%	21.0%	22.0%	23.0%	22.0%	23.0%	24.0%	24.0%	21.0%	23.0%	24.0%	24.0%	
Growth		9.2%	4.9%	4.4%	-4.2%	4.6%	4.6%	1.2%	-17.9%	16.5%	8.5%	2.4%	
Non-Luxury	99726.4	96134.3	95038.3	93706.7	95050.0	93903.8	92880.4	93967.9	91685.0	95018.8	97558.9	99907.3	2%
Market share	81.0%	79.0%	78.0%	77.0%	78.0%	77.0%	76.0%	76.0%	79.0%	77.0%	76.0%	76.0%	
Growth		-3.6%	-1.1%	-1.4%	1.4%	-1.2%	-1.1%	1.2%	-2.4%	3.6%	2.7%	2.4%	
Total Market	123119.0	121689.0	121844.0	121697.0	121859.0	121953.0	122211.0	123642.0	116057.0	123401.0	128367.0	131457.0	

Table (1)

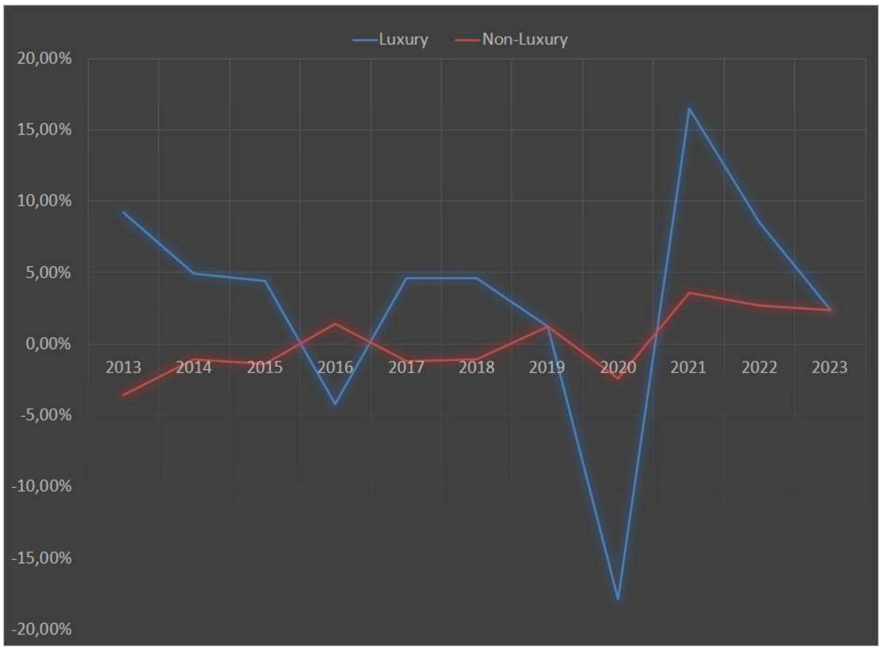


Figure 4*: Luxury vs Non-Luxury Watches*

Sales dropped significantly in 2020 due to Covis19 especially in the luxury segment that is expected to have a fast recovery by 2021. In 2016 there was a downturn for luxury watch sales mainly because of China that launched an anti-corruption campaign in which there was limited gift giving amongst government officials.

- **Margin**

5 Forces Model

For margin calculation purposes we used only the 5 Porter's forces analysis as we did not find any relevant data for the average margin rates for each segment. In order to measure the forces, we used a scale 1-5 in which 1 does not necessarily mean low and 5 high. Each criterion has a different impact on each force, one is can have a negative impact and others a positive one. So we decided that scale 1 is for "weaker" forces that account for higher market profitability and scale 5 the opposite. Alongside the factors we placed arrows that show us if they positive (↑) or negative (↓) affect profitability.

1. Threat of new entrants

Threat of New Entrants	Estimated Factor Level by Segment	
Factors	**Luxury**	**Non-Luxury**
Industry capital requirements ↑	1	4
Economies of scale in the industry ↓	1	5
Differentiation of industry products ↑	1	5
Switching costs in the industry ↑	2	4
Knowledge/technological control by the industry ↑	2	5
Control of strategic location in the industry ↑	1	5
Barriers to entry ↑	1	4
Average	**1.29**	**4.57**

(Table 2)

The threat of new entrants is **low** for the luxury segment. Financial barriers for new entries are high due to the non-existing economies of scale and the high initial investment requirements of establishing a luxury brand (e.g high marketing costs). The “know how” that luxury brands possess for generations, the high product differentiation and their strategic location control in Switzerland, the reference country of high-quality watches, makes it even harder to enter the market. Buyers in this market are mainly collectors and people that make the purchase with a high set of information. Buying a watch from a new entrant can be risky and buyers would spend a great amount of time studying the brand that is why switching costs are high.

The threat of new entrants is **high** for the non-luxury segment. Capital requirements are low for this segment as the watches can be produced in low-labour cost countries and the components are basic to produce at a low price. The existing economies of scale, the low product differentiation, the lack of knowledge needed to control the industry and the low switching costs makes it easy to enter the market. As the market is really fragmented for this segment there is no strategic location to be controlled.

2. Threat of substitutes

Threat of substitutes	**Estimated Factor Level by Segment**	
Factors	**Luxury**	**Non-Luxury**
Number of substitutes in the industry ↓	2	3
Customers' propensity to buy substitutes ↓	3	5
Price of substitutes ↓	2	4
Performance of substitutes ↓	3	5
Performance improvement speed of substitutes ↓	1	5
Profitability of the substitutes industry ↓	4	4
Differentiation of industry products ↓	4	2
Switching costs for substitutes ↑	4	5
Average	**2.88**	**4.125**

(Table 3)

The threat of substitutes is **medium low** for the luxury segment. Relevant substitutes in this segment can be considered other luxury jewelry that fulfil the same need

The threat of substitutes is **medium high** for the non-luxury segment. Mobile phones can be a substitute for this segment as they have the same functionality of telling time.

3. Buyer Power

Buyer Power	**Estimated Factor Level by Segment**	
Factors	**Luxury**	**Non-Luxury**
Buyer size ↓	1	4
Buyer concentration vis-à-vis the industry ↓	1	2
Differentiation of industry products ↑	1	5
Buyers switching costs ↑	3	5
Price sensitivity ↓	1	4
Level of Knowledge and Involvement ↓	5	2
Product differentiation ↑	1	4
Number of substitutes in the industry ↓	1	4
Average	**1.86**	**3.71**

(Table 4)

The buyer power is **low** for the luxury segment. Retailers are usually smaller family-owned businesses. Luxury watch companies are big groups and highly concentrated on the market which makes it even harder for buyers to have negotiation power. The segment is highly differentiated and price elasticity is low on the demand side. On the other hand, the level of involvement and knowledge on this kind of product is very high which makes consumers/retailers more aware of the purchase decision.

The buyer power is **medium** for the non-luxury segment. Retailers in this segment have a larger size, usually big surfaces such as supermarkets and chain stores. However, if we compare the non-luxury manufacturer's with retailers there is still a gap in matters of size and concentration. In this segment demand elasticity is lower due to the fact that consumers are price sensitive.

4. Supplier Power

Supplier Power	**Estimated Factor Level by Segment**	
Factors	**Luxury**	**Non-Luxury**
Number of suppliers ↑	5	2
Size of suppliers ↓	5	2
Concentration of suppliers vis-à-vis the industry ↓	4	2
Differentiation of suppliers' products ↓	5	2
Industry switching costs ↓	4	2
Number of substitutes in suppliers ↑	5	2
Possibility for industry to integrate upstream ↑	1	4
Importance of products supplied to industry ↓	5	2
Average	**4.25**	**2.25**

(Table 5)

The supplier power is **high** for the luxury segment. In this segment the importance of the products supplied it's crucial for the high-quality standards that customers have and on top of that there is almost no component substitute for high end watch making. The number of movement suppliers is very low having swatch the biggest share of the market (figure 5). Precious metals market is highly volatile with systemic price fluctuations which makes it tough to watchmakers.

The supplier power is **low** for the non-luxury segment. Suppliers are fragmented and easy to find around the globe, especially in China. There is lower product differentiation and components, and mechanisms are characterized by simplicity that is why supplier costs are low.

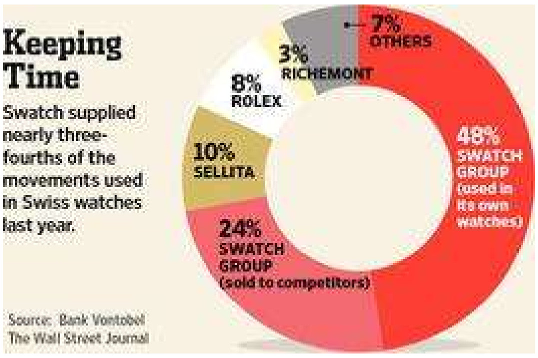


Figure 5*: Watch Company Distribution (Source: Seeking Alpha)*

5. Rivalry between existing competitors

Rivalry between existing competitors	Estimated Factor Level by Segment	
Factors	**Luxury**	**Non-Luxury**
Number of competitors in the industry ↓	2	5
Industry sales growth ↑	3	3
Fixed cost level in industry ↑	1	5
Exit barriers in the industry ↓	1	2
Differentiation of industry products ↑	3	5

Switching costs in the industry ↑	4	5
Loyalty to brands in the industry ↑	1	4
Concentration of industry competitors ↓	5	4
Average	**2.5**	**4.125**

(Table 6)

The rivalry between existing companies is **medium low** in the luxury segment. Barriers to enter are high so few companies enter the market to compete and the barriers to exit are low as unsuccessful companies leave the market (low rivalry).The segment is characterized by high profitability margins and the watches differ significantly from brand to brand which decreases rivalry. However, the brands are similar in size and are very concentrated which increases rivalry.

The rivalry between existing companies is **high** in the non-luxury segment. The barriers to entry and differentiation are extremely low. We subtracted 5 (max.level of the force) from the 5 forces average level for each segment in order to get the margin.

	Luxury	**Non Luxury**
Buyer Power	**1.86**	**3.71**
Supplier Power	**4.25**	**2.25**
Threat of new entrants	**1.29**	**4.57**
Threat of substitutes	**2.88**	**4.125**
Degree of rivalry	**2.50**	**4.125**
5 forces average	**2.55**	**3.76**

Margin	**49%**	**25%**

(Table 7)

- **Risk**

	Risk
Luxury	8.74%
Non Luxury	2.98%

For risk calculation we computed the standard deviation of sales from 2019 to 2023 (forecasted value) divided by the average sales between the same period in order to control for the different number of sales between the luxury and non-luxury segment.

As we previously seen the luxury segment has more market fluctuations which accounts for higher risk.

- **Sustainability**

We made a scale from 1-10 in which 1 account for low sustainability and 10 high sustainability. Regarding the emissions both segments have a long way to go. According to a WWF report half of gold demand is used for jewellery and watches. Due to energy-intensive activities from mining to beneficiation, the industry contributes substantially to the emission of greenhouse gases. CO_2-equivalents for producing 1 kg of gold correspond to between 8 and 46 flights from Zurich to New York. This being said we can account for low sustainability in terms of emissions for the luxury segment. As for the non-luxury segment it accounts for a mass production process that uses intensively raw materials like steel and plastic that contributes to large emissions.

A luxury watch is a product that lasts for generations and it never comes to waste whereas a non-luxury watch is a piece that endures a limited period of time and often goes completely out of fashion. Quartz batteries are a serious problem when they are disposed improperly due to mercury and other toxic components. Smartwatches are a concern in the non-luxury segment too, as new models are coming in, the previous models are increasingly outdated and put aside. Electronic waste is a concern as well for recycling issues.

The lack of transparency among the long and complex supply chain of luxury watch-making is often a black box, severely lacking transparency and com-prehension of the origin of the raw materials and the processes and people involved (Grünenfelder, Dario, 2019). Most of the non-luxury segment production is based in developing countries such as China in which there is a lack of human labour conditions.

As for workers that are employees of luxury watches companies, they have high quality of living whereas the workers that are linked in the supply chain such as mining workers have low quality standards of living.

Bribery has a negative impact on the sustainability of the luxury segment which is linked with illegal precious metal trade in the supply side and in the demand side the use of luxury watches for gift giving corruption between government officials in China for example. As for the luxury segment is more concentrated the majority of workers are European as for the non-luxury segment the market is much more fragmented with higher diversity in employees.

	Environmental Sustainability		Social Sustainability		Governance Sustainability		Results	
	Emissions	Recicling	Compliance	Quality of leaving	Bribery	Diversity of employees	Average	index
Luxury	3	8	5	4	5	3	4.67	0.98
Non-Luxury	4	2	6	3	7	7	4.83	1.02

(Table 8)

- **Final Result**

	Sales 2019	Growth	Margin	Risk	Sustainability	Valuation
Luxury	29 674.08	1.544%	49%	8.74%	0.98	176 232
Non Luxury	93967.92	1.544%	25%	2.98%	1.02	859 898

(Table 9)

Key Success Factors

The "Non-Luxury" segment is quite vast, including not only traditional non-luxury watches but also smartwatches. Considering that, in the low-cost and mid-range segments, smartwatches represent a substitute product for traditional watches, the main segment was subsequently divided into the "Non-Luxury" (only for traditional watches) and "Smartwatches" categories.

The following table **(Table 10)** shows the key buying factors, competition factors, and key success factors for each segment. We will further analyse the key success factors by market segments.

	Key Buying Factors	*Competition Factors*	*Key Success Factors*
Luxury ***(Premium segment)***	Brand value and recognition Status-symbol Superior quality and precision Uniqueness/ Scarcity	Vertical Integration Premium customer experience Manufactured by hand in smallest quantities Exclusive distribution and targeted promotion	**Brand Management** **Customer Centricity: consistent quality & customization** **Scarcity** **Exclusive distribution channels** **Big Conglomerates**
Non-Luxury ***(Budget segment)***	Affordable alternative Value for money driven Styling and reliability at lower prices	Mass production Selective distribution channels Advertising and personal selling	**Price/quality ratio** **Economies of scale** **Selective distribution channels**
Smartwatches	Innovation Connectivity & Productivity Self-expression	Multi-functional features eCommerce sales Social media marketing	**Augmented product** **Digital marketing** **Online presence**

	Lifestyle experience Design and aesthetics Quality		

(Table 10)

- **Luxury (Premium Segment)**

Brand Management

A luxury watch is a **specialty consumer product**, which means that it has **exclusive brand identification characteristics**. Analysing the customer buying behavior, buyers who invest in a luxury wristwatch generally do not compare brands, have strong brand preferences and loyalty and are typically low-price sensitive.

Luxury brands, such as Rolex or Patek Philippe, are perceived as unique and therefore less comparable so they do not have to market their watches like other brands in the traditional watch market do.

These brands are not defined by market trends, which does not mean they do not have to listen to the consumers, but they spend a lot of time creating their **own identity**. Luxury brands are even more consistent, and they pay even more attention to all of the small details.

Customer Centricity: consistent quality & customization

However, successful luxury watch brands take over the market not only because of the unique benefits and reliable services they can provide, but essentially because they build strong emotional connections with their buyers. When purchasing a luxury watch, the need for **customization and quality consistency** are extremely high and luxury brand customers expect to be treated individually.

Scarcity

Luxury watches are **emotionally superior**. When we decide to buy a high-quality watch, we do not do it solely because of its utilitarian purpose or because we really need it, but **strictly**

because we want it (Forbes, 2014). There is a strong psychological component associated with this purchasing decision, there is an emotional appeal to wear an exclusive wristwatch and, therefore, scarce.

Thus, individual components are **manufactured by hand in small quantities**. The production of fewer pieces allows luxury brands to produce **limited editions** and use exclusive materials of superior quality which make their products **accessible only to a limited target** and are designed with this specific target in mind. The scarcity intensifies the desire and ultimately contributes to a sustainable increase of the brand value.

Exclusive distribution channels

Over the decades, the way watches are sold by watchmakers has changed. Traditionally, it was a B2B business with companies selling at watch fairs, through distributors in different markets.

However, feedback from the market regarding customer preferences was really lacking. Monitoring stores allows them to obtain market data faster and have direct access to customers. Currently, high-end brands are pulling away from trade shows to focus on their **own physical stores**, creating houses which complement their store network and help to strengthen that personal relationship with buyers.

The shopping experience, especially in the luxury market, also has a huge impact on customer expectations, covering high-class after-sales services, such as after-sales assistance and regular watch maintenance.

Therefore, in terms of promotion and distribution, the market is carefully targeted by both the manufacturers and resellers, and **luxury watches are only available at exclusive places**, that is one or a few per market area.

Nowadays, online is inevitably an increasing part of this process. In general, digital is taking over and there is a lot of influence before, during, and after the purchase. However, in the luxury market, it is expected that **70% of watches will still be purchased at a brick-and-mortar store (Figure 6)** because luxury watch buyers really want to see and to feel how the watch suits on their wrist.

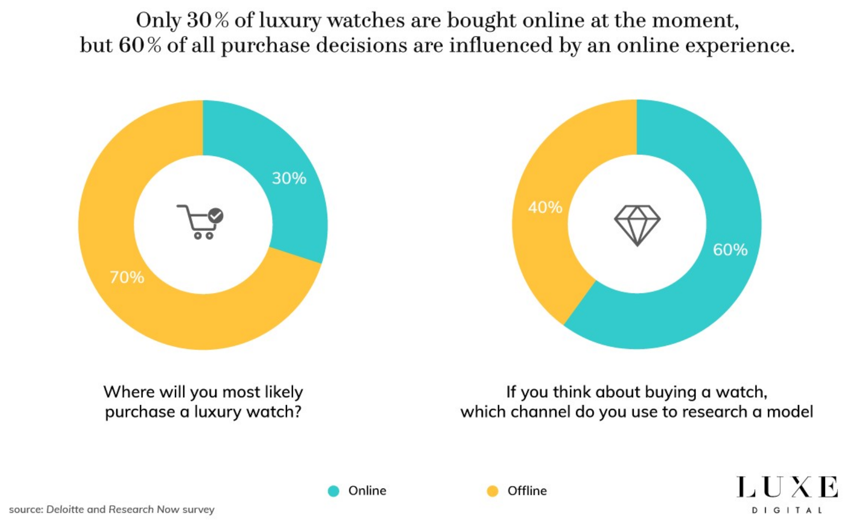


Figure 6*: Watch Purchase Location (Source: LUXE)*

Big Conglomerates

With globalization, global supply chains are emerging. However, in the luxury segment, there are still large conglomerates. The luxury watches market is highly concentrated. When we look more closely at the industry, we realize that most watch brands are owned by only a few companies in the watch industry worldwide (Forbes, 2014).

In order to ensure superior quality, luxury brands are typically **vertically integrated**, which, in an industry segment with large conglomerates, means that market leaders' control most of the supply chain and tend to use their **own distribution channels and exclusive resellers**, making it really difficult for new entrants to access distribution channels (high entry barriers).

- **Non-Luxury (Budget Segment)**

Price/quality ratio

When buying a cheaper watch, buyers tend to look for a watch that tries to have **similar taste expectations**, even knowing that it will be a watch with less details and inferior materials.

In this segment, watches may be considered **shopping customer products** because during the decision-making process, **customers tend to compare** different brands on price, quality, and style, which makes such attributes extremely important for their success.

Economies of scale

Due to the previously mentioned features of watches in this segment, companies can create **cheaper, simplified (less details) and standardized watches**, allowing companies to produce large volumes of products (mass-production) in a highly efficient manner.

Selective distribution channels

When it comes to distribution, traditional watch brands do not seek exclusive distribution because they want to reach a broader target audience than luxury brands. They typically **select some outlets** for distributing their products (selective distribution).

- **Smartwatches**

Augmented product

In order to differentiate their products, smartwatch brands do not just sell watches, they sell a lot of **new and multi-functionalities**. They bring new features to the market, create new **lifestyle experiences** and that is exactly what customers today are looking for.

People buy an Apple smartwatch because they know they are buying more than just a watch. They know that this watch is also a tool for **productivity, entertainment, connectivity**, useful for their personal, social and professional life **(Figure7)**.

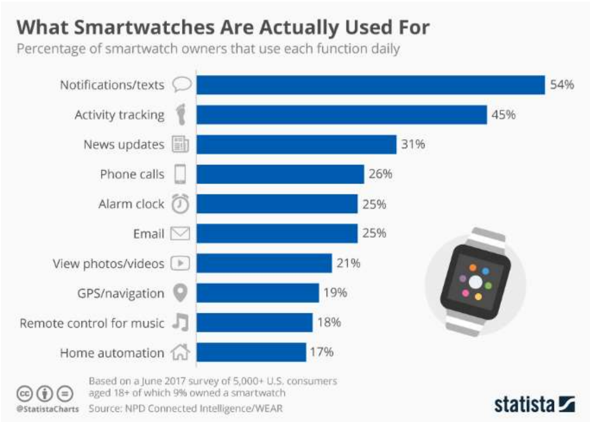


Figure 7: *What Smartwatches are actually used for (Source: Statista 2020)*

Furthermore, smartwatch brands carefully design all the attributes, features and operating systems of their smartwatches in order to provide to the customer the core value of staying connected. Therefore, smartwatch brands are also trying to find ways to increase customer value, providing access to a wide variety of applications and accessories **(Figure 8)**.

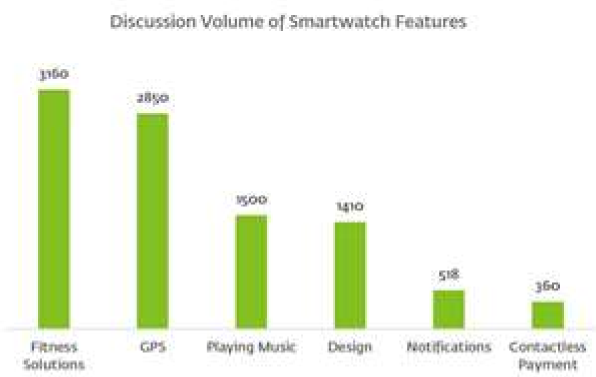


Figure 8: *Different Features of Smartwatches (Source: Labbrand Social Listening Study - Smartwatches)*

Global Demand Trends

With the purpose to better understand the main trends in the global demand in the watch's industry and with the help of a PESTEL analysis, we evaluated the impacts that each factor can have on the demand.

Context	Trend		Impact on demand
Politics	Political uncertainty and protests	-	Decrease on sales
	China is incentivizing its citizens to purchase more domestically	-	Decrease of demand on foreign products
Economy	Covid-19	-	Decrease on available income
	Increased exchange rate CHF/USD	-	Higher net cost for customers
Society	Higher use of smartphones	-	Decrease in demand for watches
	Increased popularity in e-commerce	+ -	Increased sales in smartwatches and mid range watches Decreased sales in luxury watches
	Older age and pressure to exercise	+	Leverages sales in smartwatches
Technology	Increased technological features in smartwatches	+	Higher demand for smartwatches

(Table 11)

On the political side, protests and political uncertainty such as those in Hong Kong or Paris, with the protest of the yellow waistcoats, have left the streets closed and the shops completely empty, which has resulted in a big drop in sales, with a big impact on the industry. Department stores such as Galeries Lafayette and Printemps, and the famed Boulevard Haussmann were almost empty of shoppers.

China was the first country to be affected with the Covid-19, but it was also the first to open the economy. Recently exports of Swiss watches have fallen sharply, with the exception of China. China is incentivizing its citizens to purchase more domestically, for example with a generous revision of the duty-free shopping policy at its Hainan Free Trade Port area. From 1 July 2020, the duty-free shopping limit significantly increased from approximately USD400 to USD14,000 per year which includes the purchase of an unlimited number of watches provided the total annual limit is not exceeded. This effort to stimulate purchases may lead Chinese consumers to shift a substantial portion of their buying power within the domestic market and away from HongKong, the US and Europe. This can be a major shift in China's rising demand for watches.

In economic terms, the Covid-19 has had a major negative impact on demand as it has reduced people's available income. As this income falls, demand on these goods also tends to fall.

The CHF/USD exchange rate is currently 1.33. In the last year, contrary to what the Swiss government wants, this rate has been increasing. This increasing exchange rate, results in a higher net cost for customers. The appreciation of the Swiss franc against the dollar makes it more expensive to import products from Switzerland. The Swiss government wants to devalue the Swiss franc in order to stimulate the economy, the lower the cost of importing, the more imports and more jobs.

In social terms, the constant use of smartphones, and a modernization of society leads to a decline in the search for traditional watches. On the other hand, the fact that many smartwatches are extensions of smartphones turns out to be a positive effect for the demand for them gadgets.

The growing popularity of e-commerce means that the demand for smartwatches and mid-range watches is increasing, which is not the case for luxury watches. In a larger purchase of a luxury good, the consumer always wants to have the shopping experience and also feels more responsibility, finding it riskier to rely on e-commerce. Older age and pressure to exercise and have good healthy habits leverages sales of smartwatches with various health-related sensors (watch becomes a monitoring device).

Supply Analysis

Industry Life Cycle

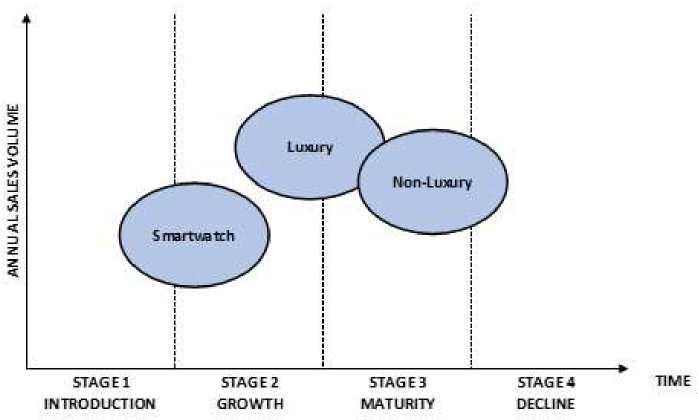


Figure 9: *Annual Sales for each Stage*

- **Luxury**

The Luxury Watches segment amounts to EUR 21,254 million, in 2020, being expected to grow annually at a CAGR of 6.2% between 2020 and 2025 (Statista, 2020).

Furthermore, the Asian emerging markets of India and China represent a fast-growing demand of the global luxury market, experiencing an historical strong growth in the past and expected to expand in the future (MarketLine, January 2020). The Chinese market is the largest in the Asia-Pacific region, representing 56.9% of the total value in 2018. India and Japan are, respectively, the second and third largest, accounting for 18.4% and 6.2%.

In addition, the growth of the middle class, the economic growth, and rapid urbanization are expected to increase incomes, encouraging consumption. Therefore, between 2018 and 2023, the Chinese and Japanese markets are expected to grow with CAGR of 9.5% and 1.1%, respectively (MarketLine, January 2020).

- **Non-Luxury**

In this segment, traditional companies should consider that counterfeit products pose a serious threat, especially for low and mid-range watches easily copied.

On the other hand, the non-luxury segment still relies on independent retailers and department stores, showing its lack of adaptability and unwillingness to interrupt the functioning of the current distribution structure which represents one of the main weaknesses.

- **Smartwatches**

Meanwhile, the emergence of smartwatches in the market, offering multi-functional features, has disrupted the traditional watch industry and it shows to be an expanding market segment.

Strategic Groups

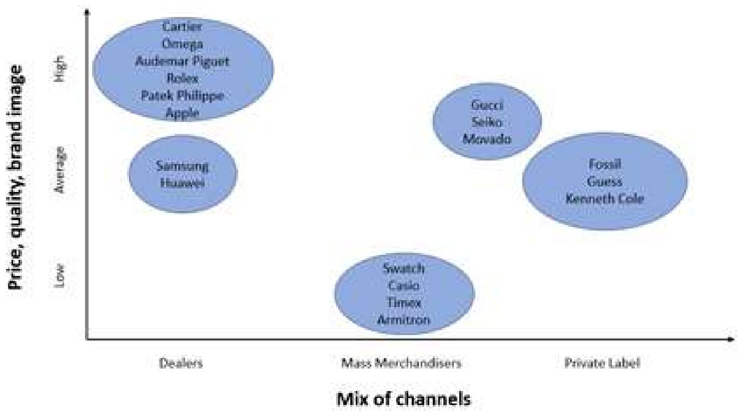


Figure 10*: Strategic Groups*

Concerning the strategic groups, we decided to gather information about the firms that are present in the watch industry and group them according to the similarity that those firms have in strategies considering the price, quality, brand image and regarding the type of channel in which they sell their products.

In the top left, we have a group of companies such as Cartier, Rolex or Patel Philippe and in the smartwatch market, Apple. These companies charge high prices for their products that also have high quality and are perceived with a high brand image by the customers. In addition, these brands sell their products through authorized dealers.

Below that we also have two brands, Samsung and Huawei, that are really similar to the previous groups, selling their smartwatches through authorized dealers, but they charge lower prices, and their brand image is not that high.

In the mass merchandisers, there are companies such as Swatch, Casio, Timex and Armitron that produce their products in high quantities and charge lower prices. These brands are perceived with a lower quality by the customers, but they can be a very good deal for consumers who want to acquire a watch but are on a tight budget.

Then, there is another group of brands such as Gucci or Seiko that are in between mass merchandisers and private label and they offer products with above average quality, price and brand image. Lastly, there are three brands, Fossil, Guess and Kennneth Cole, that constitute the last group and correspond to bands that charge average prices and sell through private label.

- **Swatch Group**

Figure 11*: Swatch Group*

Furthermore, taking a closer look to the Swatch Groups can also be very interesting since it owns a lot of different types of watch brands that have different target markets and, thus, strategies.

The various brands of this group can be categorized in relation to several factors such as art of watchmaking, design and technology, luxury, excellence, fashionable stylish, fun, sporty and elegance. In fact, the diversity of types of brands in this group can be shown by the different types of brands such as Swatch that focus on sport watches without forgetting good quality and also luxury brands such as Jaquet Droz that focus on offering the most luxurious products to their customers.

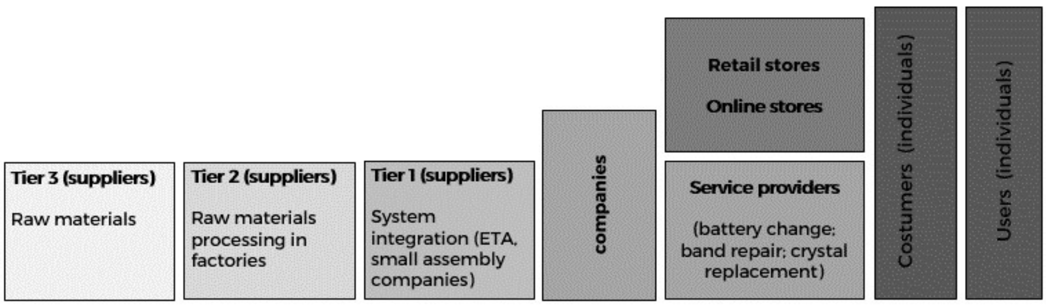
Industry Value Chain

When analysing the industry value chain, which corresponds to all the activities that firms conduct to deliver the final product, including all the steps from product conception to its distribution - such as procuring raw materials, manufacturing activities, selling to customers and marketing.

- **Suppliers**

Starting with the suppliers, it is important to ascertain that the production of this product requires several components, such as a movement, hands, a case, a dial, a crystal glass and a bracelet. Companies can either produce these components by themselves or buy them from external suppliers.

Figure 12*: Industry Value Chain*



The Swatch Group is an important movement supplier thanks to its company ETA. In fact, there is barely any company that is fully autonomous, only Swatch Group and Rolex could be considered to be fully independent when taken as a whole. The majority of the watchmaking brands are directly or indirectly dependent on the Swatch Group, especially when considering the most important part of the watch: its movement.

Furthermore, assembly companies or workshops are another important movement supplier. These are small companies that buy some spare parts they need at ETA for the purpose of building their own customized mechanical movement. After that, the assembly companies sell their products to several famous brands of prestige watchmaking. Despite this, there are still many brands that buy their mechanical movements directly from ETA, such as the case of Frank Müller.

- **Manufacturers**

A large percentage of watches sold worldwide are originally manufactured in a different country, as a result, we felt it was important to analyse it. This would give us the ability to understand the trends of production in various countries and how manufacturing of watches, in those countries, was primarily meant for domestic use or exportation.

Firstly, we began by analysing the number of exported watches for the top 5 countries in 2019. From the graph below it was clear that China was the primary exporter of watches, in fact, their dominance in this segment was such that it exported more than all of the other countries in the top 5 combined and more than three times the amount of watches than the country in second place, Hong Kong.

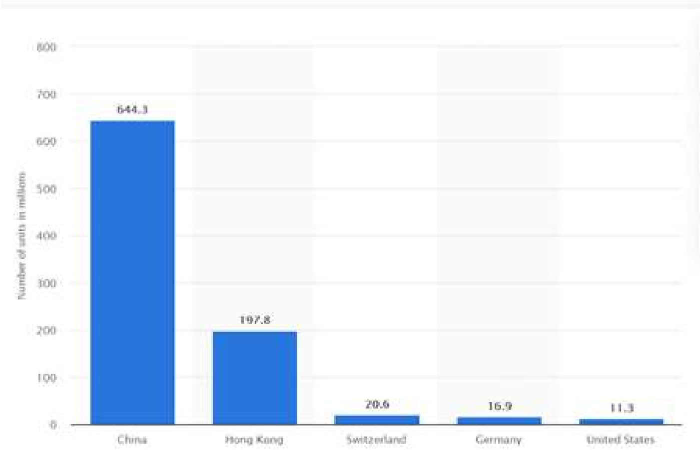


Figure 13: *Worldwide Watch Exporting 2019 (Source: Statistica)*

Moreover, we can also see that there is a significant drop-off depicted, for the rest of the world, once we analyse the values of exports shown by China (644.3 million) and Hong Kong (197.8 million). In the top 5, for 2019, there are three other countries which still demonstrate significant numbers that we consider to be worth analysing, these being Switzerland (20.6 million), Germany (16.9 million) and the United States (11.3 million).

Through our understanding of the market, we believe that Swiss watch companies have a much larger impact in the world market than this graph depicts, the reason behind the skewed results comes from the fact that many Switzerland based companies used to purchase the majority of parts from the Chinese market, later assembling the final pieces in the country. However, since 2017, Switzerland revised a legal standard that stated that for a watch to be certified as "Swiss-Made" it had to be assembled there and at least 60% of their value originated from Switzerland.

With this shift in legislation, the main exporters out of Switzerland became more evidently those brands that possessed their own manufacturing plants, brands such as Rolex or Jaeger-leCoultre. These brands are strongly associated with luxury watches and higher prices tags, so when analysing exports, it would be clear that the total number of products sold and sent abroad would have to be drastically smaller than those produced in China or Hong Kong which are, more often than not, traditional watches with much smaller price tags and branding attached.

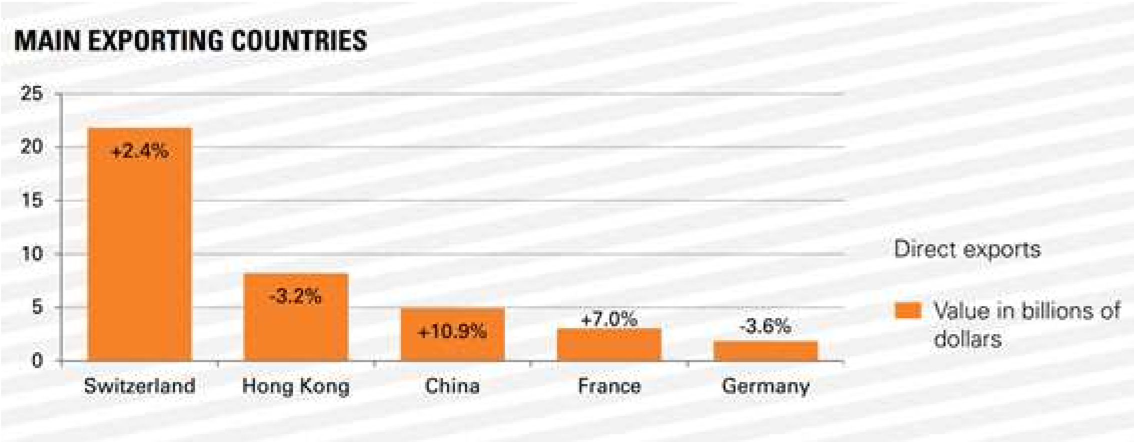


Figure 14*: Main Exporting Countries (Source: Statistica)*

To confirm our hypothesis, we decided to analyse the manufacturing segment, and its consequent exportation, in total value instead of number of products. In the graph below, we can view how the shift in the hierarchy of exporting countries changed when we analysed the value, in dollars, of direct exports for each country. Switzerland is clearly on top, having the largest total value of exported watches, around $22 billion, while China is now vastly underwhelming when compared to that value, sitting in third with an estimated exported value of watches of $5 billion.

Lastly, we were surprisingly able to determine that once we selected our manufacturer segments based on value of exports, instead of quantity of watches, the United States was no longer one of the top-5 countries under analysis. Instead, it had now been replaced by France, that with a growth of 7%, from the previous year, was even able to overlap an established market such as Germany and was now the fourth largest segment worldwide.

- **Competitors**

Regarding competitors, we can segment the market into two main segments: traditional and smartwatches.

Smartwatches vs traditional watches

In fact, there's no doubt that smart watches have influenced the traditional watch market, and to some extent have even taken market share from these traditional watch manufacturers and reduced (not replaced) traditional watch use.

Smartwatches, that closely resemble a wristwatch, are devices that not only display the time, but also have several wireless communication capabilities, including receiving phone calls, reading messages, receiving weather report updates among other options.

The smartwatch market is expected to continue to grow for the upcoming years, empowered by some key market trends such as medical and fitness, estimated to account for a very significant market share in the future.

According to Morgan and Stanley "Smartwatches will continue to take market share from mechanical and quartz products as Apple, Samsung, Fossil and others develop their technology.", although they also mention that these smartwatches are unlikely to hurt others such as the case of the Swatch Group's high-end brands Longines, Breguet, Blancpain or Jaquet Droz. The highest threat goes for the low-end products, as Apple watches and other smartwatches are priced at very reasonable and affordable prices.

China vs Switzerland

Furthermore, when analysing competitors, it is also possible to differentiate different producing countries. We decided to choose China and Switzerland since they are two of the main producing countries in this industry.

In fact, when it comes to which country exports the most watches, China is leading way ahead of the rest of the countries, accounting for over 80% of global production and exportation. However, despite being the largest exporters by units sold in the world, China only ranks 3rd watch exporting countries worldwide by export value, the main explanation for this is because most of these watches are in the low to middle price range.

On the opposite side there's Switzerland, far behind China when it comes to units sold worldwide (20,6 millions of watches sold, compared to China's 664,3 million units sold), but at the same time is the leading country by export value worldwide accounting 21,8 billions dollars of wealth, due to their specialization in luxury segment. Despite these countries' focus on different types of watch markets and segments, as previously explained, they are still competing directly on who's the major player and has the most influence on this industry.

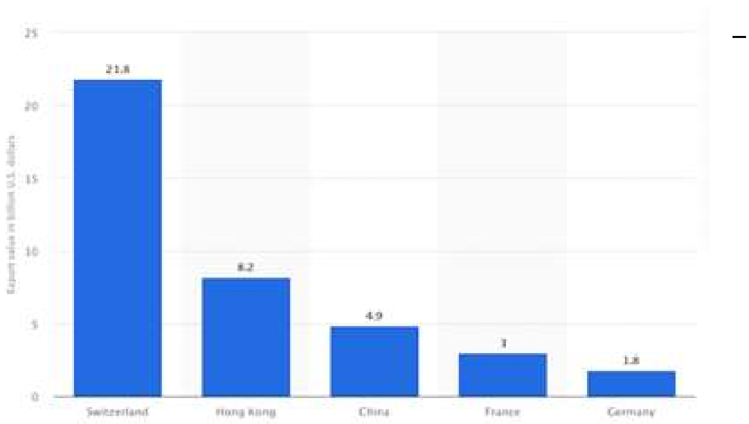


Figure 15*: Exports (Source: Statistica 2020)*

Swatch group vs Rolex

Finally, we decided to conduct a small analysis of two of the main watch companies: Swatch Group and Rolex.

Starting with Swatch, this group has a special place in the watchmaking industry, it is the world's largest watchmaking group, responsible for supplying nearly all components necessary for the watches. The group owns not only the swatch product line, but also several other important watch brands such as Omega, Tissot and Longines. This puts Swatch group as the world's leading luxury watch agglomerate, accounting for over 27% of the total retail market share. It is important to mention that Swatch Group's rivals have in most cases a single brand or two, whereas Swatch Group has five of the ten leading watchmaking brands, giving them a slight advantage and putting them as the most important player in this industry.

Despite all of this, there are also a host of brands outside Swatch Group, including perhaps their major rival - Rolex.

Moving on to Rolex, which is the leading luxury watch brand in the world, in fact, in 2019 the Rolex brand generated approximately 5.4 billion dollars in turnover, putting them right on top of the list in the leading global luxury watch brand sales list. However, in terms of market share they are slightly behind Swatch group, as they account for 24.8% of the total market share.

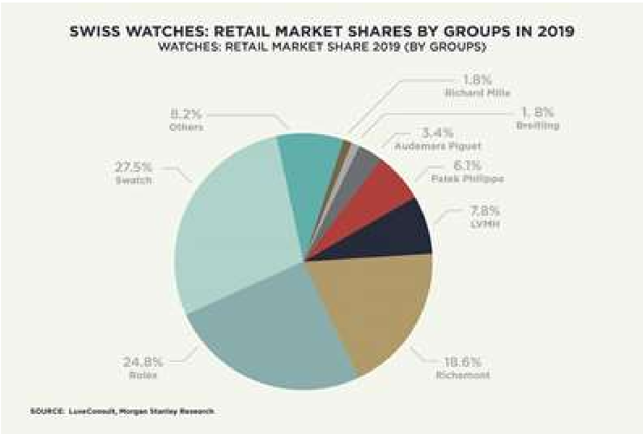


Figure 16: *Wa (Source:)*

- **Distributors and Retailers**

Regarding distributors and retail, it is possible to differentiate between online stores and traditional retail stores.

Starting with online stores, online channels have had a huge increase in consumer preference as being their first option to purchase premium products given the many favourable value-added services that they offer. These services may include cash on delivery, convenient return policies, secured transactions, and standardized customer services.

Many key players in the watch industry are adopting these online retail strategies in order to decrease operational costs as well as increasing their profits. In fact, many companies such as Rolex Inc. and Fossil Group that already have a strong presence in offline retail stores, in response to demand from consumers, are starting to open their own e-stores.

Online purchasing is becoming a trend for consumers, from whom is now second nature, and many brands are adopting this strategy, as it enables firms to increase their market share, and to reach more customers.

Moving on to retail stores, the offline category accounted for more or less 85% share of the global revenue in 2018. There are several reasons that explain why the offline segment is still the leading way of distribution in this industry. One Major factor is the growing consumer preference for purchasing high-end products from retail stores. Moreover, it is easier for consumers to acknowledge the exact weight and the exact size of the product from offline channels.

In the offline segment, there are several different distribution channels currently being used by the brands, this includes: convenience stores, supermarkets, company-owned brand retail outlets, retail stores, duty free, multi brand retailers (e.g. Swatch).

Digital Transformation

Regarding the digital transformation, we can say that this industry has changed a lot in recent years, mainly in the products, retailers and marketing.

In fact, a new product has appeared in the market, which is the digital watch, more known as smartwatch. By completely changing the industry, bringing new features and designs, customers now have more choices regarding their decision making process when buying a watch. Furthermore, this transformation changed the customers' needs, since no one thought that they needed a watch with a touch screen where they would be able to track their heartbeat, read emails or messages, among other features.

Then, there has also been a big digital transformation in retailers that operated in this industry. In fact, with the increased popularity of e-commerce, watch companies are complementing their physical retailers (traditional shops) with digital ones (mainly selling online on their website or through external partners). This capitalization in e-commerce is especially seen in smartwatches companies, since their target customers are younger generations that are more willing to buy products online.

Finally, it is also noticeable that there has been a digital transformation in the companies' marketing activities. In recent years, with the increased popularity of internet and social media, watch companies shifted their ads from the traditional places such as newspapers, magazines or mail, to more digital ones like social media and email.

Global Supply Trends

With the purpose to better understand the main trends in the global supply in the watch's industry and with the help of a PESTEL analysis, we evaluated the impacts that each factor can have on the supply.

Context	Trend	Impact on supply	
Politics	Unstable political relations with China	-	Uncertainty regarding supply of materials
Economy	Increase in the price of raw materials and other supplies	-	Increased total production costs
	Lower interest rates	+	Easier access to capital for new projects
	Lower unemployment rate in Switzerland	-	Higher costs with labor
	Covid-19	-	Production capacity
Society	Increased health awareness	+	Positive impact in smart and fitness watches
Technology	Improvement of technology in smartwatches	+ -	Huge revenues for smartwatches companies Decrease in revenues for traditional watches

	Technologically advanced industrial equipment	+ - -	Increased productivity Increased barriers to enter High investments in R&D and industrial equipment
	The Digital Switzerland Strategy	+	Increased innovation in smart watches
Environment	Usage of recycled materials	+	Cost reduction
	Increased aware of the impact on the environment	+	Reduce the industry's ecological footprint
Legislation	Patents	- -	Increased barriers to enter Increased concentration

(Table 12)

As we can see in the table above, and starting with political aspects, the current unstable relations with China will lead to a negative impact on the industry's supply, since it will create uncertainty regarding the supply of materials. In fact, many watch producers rely on external suppliers from China to get their materials and with the unstable relations with the country, firms may have some troubles in the future.

Then, regarding the economy, a trend in the volatility (mainly increase) in the prices of raw materials will also have a negative impact on supply due to the fact that the total production cost of a watch will increase, resulting in either lower margins for the company or lower quantity sold. However, in recent times, we have seen a decrease in the interest rates, making access to capital cheaper to companies, revealing to have a positive impact on supply since it makes expansion strategies and investing more appealing for them.

The low unemployment rate in one of the major watchmaking countries, Switzerland, may have a direct correlation with the higher cost of labor.

The Covid-19 has had a major impact on firms, both on the demand side and on the fact that firms have to close temporarily or have less productive capacity.

Moving on to society aspects, it is important to ascertain that on average people have increased their awareness on the impact that the products they consume have on the planet. This trend is very good for the environment, but it can be very costly for companies in this sector since they may have to implement better and more effective production processes that pollute less and reduce their carbon footprint. Furthermore, it is noticeable that in recent years people are more aware and want to improve their overall health, creating a huge positive impact on smart and fitness watches since they will want to keep improving their health related features such as heart rate or daily step count.

Regarding the technological factors, with the constant improvement of the technology in the smartwatches we can expect a positive impact in companies that produce them, counterbalancing with a negative impact on traditional watches. Additionally, technologically advanced industrial equipment also changed the production process and positively impacted the supply since it made possible to produce a watch with lower costs

However, this also has some negative impact in the industry due to an increase in the barriers to enter this industry and also the huge costs that companies have in R&D and industrial equipment.

The Digital Switzerland Strategy that aims to use the digital transformation to promote innovation and prosperity; equal opportunities; transparency and security; and sustainable development, this can be a huge help to compete in the technology segment with other countries.

Regarding the environment, it is more and more common that companies use recycled materials to produce their watches which result in a positive effect not only on the supply, since they manage to reduce their costs, but also on the environment, reducing the pollution.

In terms of Legislation, patents increase barriers to enter and, that way, the concentration of the market is higher, with less companies.

Strategic Issues

Products-Markets

In relation to Products-Markets Strategy's analysis, we will look at Products-Markets Matrix in relation to the segment of age that we have previously classified in our demand analysis. We divided the attractiveness, of the different segments, into high, medium-high, medium, and low so that we could more specifically analyse how the

Figure 17*: Product-Market Matrix*

As we can see, compared to traditional watches, the most attractive market is the Baby Boomers, becoming less attractive over generations until Gen Z, which then becomes a market with low attractiveness. Regarding hybrids, these can be either Traditional or Smartwatches. The most attractive market is Gen Y followed by Gen Z, the least attractive being Baby Boomers that as we have noted previously, often prefer to purchase the traditional timepieces.

In the Smartwatches segment, the most attractive market is Gen Z, while Gen Y has a Medium-High attractiveness. Baby Boomers and Gen X with medium-high attractiveness. Although Baby Boomers do not yet have a need or demand for this type of watches, we consider it to be a market with a medium attractiveness, because these watches have all the features related to health, which will have importance in this market in the future.

Vertical Integration

A big part of industry analysis is the vertical integration of the companies within this sector and how they have developed to best serve their target consumers. With the watch industry being so diversified there will always be companies striving for innovative methods of perfecting their integration, nevertheless, we decided we would highlight three of the most common methods of vertical integration in this space and use companies that have adapted each method to further support our analysis.

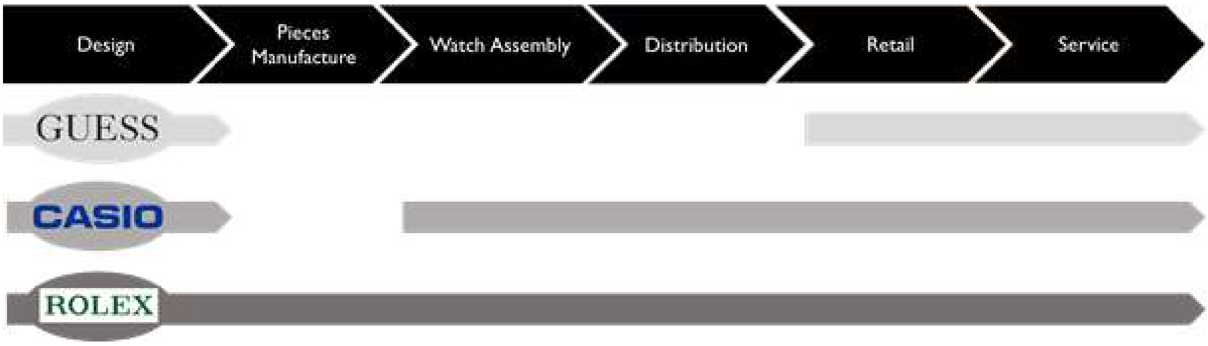


Figure 18: *Vertical Integration Breakdown*

- **GUESS**

The first type of vertical integration we witnessed in the watch industry is commonly employed by low-end watch companies or, as a result of their lack of expertise and capabilities, by fashion brands that try to break into this competitive industry.

Our chosen example for this type of vertical integration is the clothing company GUESS. Like many fashion brands it has broken into the watch industry to complement their other products, attempting to use their worldwide recognized brand value as a way to add recognition to their designer watches. GUESS uses their stores for retail and their designs are often original, but the rest of their value chain is outsourced to Callanen International, which is an US based company that focuses on producing and distributing watches for fashion brands, having other companies such as Versace as clients for the same industry purpose.

- **CASIO**

Secondly, we have companies that have begun transfer into the assembly and manufacturing process but are yet relative newcomers to this sector. These companies still do not produce every piece that they utilize but have begun to integrate their manufacturing more and more as a way to raise the quality of their products. Moreover, the assembly process and retail has also become a crucial part of their value chain as they developed more luxury watches, and their target consumers demand a more complete for of service provided.

As a company example we have Casio, which until recently was part of the 1st type of vertical integration that we explored. As of 2018, the company has opened their first manufacturing and assembly plant to better coordinate production of their high-end model G-Shock, as well as the high-performance watches OCEANS, aiming to elevate the standards and reputation of their products as a result.

The company is still overly reliant on watch pieces manufacturers in China and Thailand plants but plans to develop technology and implement 3D design data to, in the coming years, have most manufacturing integrated in their own plants.

- **ROLEX**

Lastly, the most difficult vertical integration model to achieve is the one where all of the phases of the value chain are completely integrated within company boundaries. This type of integration is completely directed to the manufacturing of the highest quality products possible, with every part of process being up the required standard and their retail experience specially tailored for the customers that the brand wishes to attract,

A perfect example of this are the luxury brands in the watch industry, like Rolex, that aim to keep their reputation and standards amongst every timepiece that they produce. In companies like this a huge emphasis is put on quality, so much so that Rolex has an inhouse foundry that makes all the gold they use as well as having every watch manually assembled, all in the search for perfection for the products and service that they are able to offer. Moreover, with the added incentive of the “Swiss-made” certificate more companies are beginning to solely focus their operations on Switzerland, working closely with all parts of their operations and reducing transportation costs as a result.

Internationalization

For the internationalization analysis, in the watch industry, we began by examining the common strategies that companies use to explore different national markets and how those can be broken down into their methods of entry. To begin with, we looked at the table matching local responsiveness needs against global integration to better have an idea of what options firms have.

		Local Responsiveness	
		Low	High
Global Integration	High	Global Company	Transnational Company
	Low	Local Company	Multinational Company

Figure 19*: Types of Internationalization Strategy*

There are four main strategies that firms can use to internationalize their business, these being Global, Local, Transnational and Multinational. For the watch industry the local responsiveness necessary is normally low due to the fact that their products are manufactured equally for every country in which they operate. Additionally, in such a competitive market, companies will try to enter every possible market and therefore the importance placed on integration, to reduce cost and increase their demand pool, is significant. For these reasons we saw that the most commonly adopted strategy was that of a Global Company.

Also, we looked at how firms chose to internationalise and determined that neither direct investment nor big projects are often chosen to expand. In turn companies, in the watch industry, focus on controlling or at least assembling their products and rely on long-term exporting partners and distributors to reach every market that they need to explore.

Moreover, and since local responsiveness is not seen as crucial, the ability to advertise a product efficiently, to every market across the world, has become a hugely important factor in a company's strategies. As a result, what most firms in this space have chosen to do is endorse athletes or celebrities that they believe have a strong following of their target customers. To better understand how firms enter new markets, or how they remain relevant and successful, we looked at the marketing channels that they utilised.

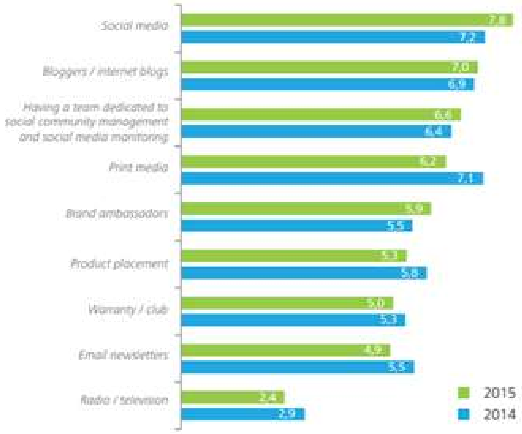


Figure 20*: Watch Purchase Location (Source: The Deloitte Swiss Watch Industry Study 2015)*

From a 2015 analysis, into how important each marketing channel was for Swiss companies; we saw that when they were rated from 1-10 the most significant ones were social media and internet blogs. This comes as no surprise since, with such globalized companies, internet reviews, and advertisement are methods that proved useful for most companies. Nevertheless, what we can also see is that, after social media, “Brand Ambassadors” was the category that had the biggest jump from 2014 to 2015.

What we have witnessed, in recent times, is an increased influence of celebrities or athletes in the ability to convert those who follow them into products that they endorse. Therefore, for brands like Rolex, that choose to partner with globally recognized personalities such as Roger Federer, the global impact and reputation that comes from this attract global markets in a much more polarizing fashion than if the watch itself was adapted individually to the local market.

Acquisitions and Diversification

Regarding acquisitions, it is possible to notice that in the past, some big companies in this industry have taken advantage of it and, if done correctly, can be crucial for their expansion and worldwide success.In fact, two of the three main watch companies in terms of retail market share, Swatch Group and Richemont, have consolidated their position in the market through several acquisitions.

Starting with the Swatch Group, they managed to diversify their position in the markets by acquiring other companies. In fact, as we have seen before, the group owns not only the

Swatch product line, but also several other important watch brands such as Omega, Tissot and Longines, which offer different products and have different target markets. This puts Swatch group as the world's leading luxury watch conglomerate, accounting for over 27% of the total retail market share. It is important to mention that Swatch Group has five of the ten leading watchmaking brands, giving them a slight advantage and putting them as the most important player in this industry. This way, this group offers products that are represented in all existing segments of this market (from low-end watches to high-end watches) and because they were able to diversify, they do not depend on only one specific segment.

Furthermore, the Richemont Group, is also another firm that diversified by acquiring other watch companies that operate in different target markets. In fact, their strategy is really similar to the Swatch Group one, as they also acquired several watch brands such as Cartier in 1998, Mont Blanc also in 1998 and IWC in 2000, among others. This enabled the group to overcome some competitors and to become the 3rd biggest group in the industry accounting 19% of the market share.

National Competitiveness

National Diamond Model

For the National Diamond Model, we chose to begin by analysing Switzerland. This is arguably the most significant country within the watch industry, synonymous with high quality and global reputation brands that guide the demand of the market towards their products.

Element	Comment
Factor Conditions	• Specialized workforce and industry tradition in Switzerland. • Valuable know-how in manufacturing. • High national brand value.
Demand Conditions	• Relatively small population (8.5M). • Local consumers have high income levels (same can be said about the surrounding countries). • Cultural preferences for high quality watches. • World's 3rd largest exporter.
Related and Supporting Industries	• Imports of raw material to transformation and development of specialized parts in Switzerland. • Cluster of knowledge and production, where all stages of production are connected. • Close relationship between manufacturers, assemblers and designers.
Firm Strategy, Structure and Rivalry	• Decreasing exports caused from severe competition from tech companies offering smartwatches. • Highly competitive in the luxury segment and on the mass market segment as well. • Increasing importance of focusing on price rather than volume. • Growing investments in R&D to respond to new trends in global demand.
Government	• Approves "Swiss Made" Certificate for watches if it reaches a minimum of 60% Swiss value, safeguarding the brand against lower quality standards from other countries.
Chance	• Increasing the percentage of 60% Swiss value to higher numbers, making the brand "Swiss Made" even more appealing. Increasing the reputation and quality of watches made in the country.

- **Factor Conditions**

Switzerland has been present in the watch manufacturing part of the process for decades, this has given them a valuable know-how as well as an overly skilled workforce that is very difficult to find anywhere else in the world. Due to this capacity to consistently produce high quality products Switzerland also has one of the most significant national brand values when it comes to the watch industry, recognized globally as the top-tier of luxury watches for multiple brands.

- **Demand Conditions**

In relation to demand the national population is relatively small, with only 8.5M, but because of the higher income levels of the local workforce as well as their neighbouring countries companies, based in Switzerland, can still charge premium prices for their product. Moreover, culturally the appreciation for luxury watches is more common than the rest of the countries which again offers a larger customer pool, nevertheless, the demand expands globally and Switzerland even as a small nation is the 3rd largest exporter of watches worldwide.

- **Related and Supporting Industries**

For supporting industries, we looked at how companies have structured themselves in Switzerland, witnessing how the main competitors have formed clusters with all their stages of production in an attempt to work closely and coordinate their operations as well as reducing transportation costs. In addition, even if some material is imported as companies cannot have access to it within the national suppliers a lot of focus has also been put on establishing long lasting relationships with suppliers to maintain the quality expected without continued disruptions.

- **Firm Strategy, Structure and Rivalry**

Switzerland's watch industry is majorly focused on “traditional” watches which has seen an exponential increase in rivalry due to the more commonly accessed smartwatches that have been released. The price point of their watch market is not accessible to everyone, which reduces demand levels, but the country continues to focus on improvement of quality instead of volume of sales. To respond to the growing competition, we have seen an increase in R&D by nationally based firms in an attempt to slightly innovate the processes and capabilities of the “traditional luxury watch”.

- **Government**

As we have previously studied, throughout our report, the Swiss brand and its reputation is one of the mostly valued aspects on paying the premium wages and expenses in basing your company in the country. Therefore, to be sure the Swiss made certificate was not given to companies that manufactured in other countries and simply assembled in the country a new 60% national value law was passed. This allows companies to have 40% of their pieces coming from outside but at least 60% of the watch has to be produced in Switzerland in an attempt to always guarantee customers' expectations and satisfaction.

- **Chance**

The ability to push the previously set 60% law, upwards in terms of the percentage required to qualify to further elevate the Swiss Made brand into a more exclusive bracket and adds even more value, specially to those brands that have committed to manufacture and assemble 100% in the country.

Next, we decided it was important to look at the Chinese national diamond model. China is not as highly mentioned in the watch industry, but after Switzerland is possibly the most important, not only due to the originating demand that it is able to create but also its incredibly large manufacturing capabilities, at a fraction of the price, which are then sent to all those globally recognized brands that we associate with luxury watches.

Element	Comment
Factor Conditions	• Large workforce available, with low labour costs • Industry highly focused on economies of scale • National production of high-end watches directed towards global distribution
Demand Conditions	• Low national buying power, 87% of purchases in the non-luxury sector • Large number of individual buyer • Most important market to satisfy large demand for Swiss watches • Market expected to continue rapid increase, in 2023 expected to reach $303.6 billion, more 57.1% than in 2018.
Related and Supporting Industries	• Close relationship with exports industry • In this market, designers and manufacturers are key suppliers, they can differentiate themselves effectively by means of product design • Difficult to find substitute suppliers for watch manufacturing
Firm Strategy, Structure and Rivalry	• Flexible manufacturers, mainly focused on quick production and distribution worldwide • Highly fragmented and competitive market -> fast development and increase competition • Focused on regularly launching exciting new designs to keep customers engaged
Government	• Large market for luxury-watch sales as a method of incentivising corruption practises.
Chance	• If the reputation given to high-end watches worldwide can be better transferred, to the Chinese market, the profit that could result from such a large demand would be exponential.

- **Factor Conditions**

As most commonly associated with the Chinese market in any industry, the major bonus of the national model is that sheer Chinese of the workforce available to manufacturing companies as well as the low labour costs associated with these workers. It is focused on producing economies of scale and reducing overall costs and, as a result, has become an attractive proposition to brands. Another factor is that global firms will set up subdivisions, in the country, so that they can produce some of their watch components before exporting it to their assembly plants that are distributed worldwide.

- **Demand Conditions**

Although the demand for watches in the Chinese market is large their demand for luxury watches is not, most purchases are low-priced timepieces and therefore even with the number of products sold their revenue is most time below countries like Switzerland in this industry. Nevertheless, in China the appreciation and search for watches has continued to increase yearly, leading the world in total grow spent and expected to reach 303.6 billion dollars in 2023.

- **Related and Supporting Industries**

In China, the sheer number of suppliers and manufactures available can overwhelm a company, therefore previous relationships and reputation are essential when choosing a partner for their business. We have also seen that Chinese based companies often focused on creating good working relationships with their exporting business partners as this will be a big source of their revenue.

- **Firm Strategy, Structure and Rivalry**

This national market is highly fragmented and extremely competitive; therefore, a major competitive advantage is always being first to the market. This puts a lot of pressure on the distribution and manufacturing of companies that will prioritise flexibility and speed when choosing alliances in their production partners. Moreover, a big part is also the continuous introduction of designs and models so that consumers always have new options, from each brand to shop.

- **Government**

Corruption has been difficult to combat in countries like China, but not every sector has seen this as a negative. When analysing sales, and specially looking at the luxury segment, we have witnessed that this has become a preferable method of paying those that have taken bribes, whether as gifts or as a way of exchanging payment. There are very few countries where the luxury segment of the watch industry can thrive without it being for individual and personal use, but China is one of them.

- **Chance**

As we have debated in this national diamond model, the Chinese demand is focused on the low-end price spectrum in the watch industry, nevertheless with the incredible number of their population of even a few percentage points can be motivated and convinced of the true value of more expensive watches the whole watch industry can begin to grow exponentially in this country.

Strategic Issues for the Industry

The watch industry has been performing positively in the last years, with the main growth force being the luxury segment, amid a continuous decline in entry-level quartz watches due to smartwatches cannibalization. The industry is expected to continue its growth in most strategic groups in the short-term future, although the possibilities of premiumization in the smartwatches segment could increase the competition towards the most luxurious ones' and augment the competition between segments. This could further pressure the blurriness between competing segments and increase the volatility that is currently being observed.

- **COVID-19**

A major concern for the watch industry is its cyclicality and the effects of the COVID-19 crisis on global revenues and profits. The current pandemic crisis has produced a worldwide acute depression, with some countries experiencing a deeper crisis than the one felt in 2008-2009, which impacts were felt for almost a decade. Several regions responsible for the growth observed in the last years, mainly in Southeast Asia and China, were severely affected by the pandemic since they lacked the resources and infrastructures that most developed countries have available. Although China has recovered quite well and is now leading in terms of recovery and growth, most Southeast Asian countries are suffering from currency instability and debt growth which can make it harder to bounce back to pre-COVID levels after the pandemic stabilization. The influence these regions exerted on past global growth will be reflected in the decline of global GDP in 2020, with uncertainty regarding 2021 recovery continuing due to the unpredictability of the vaccine ability to solve the infections problem before the 2nd quarter of 2021 Furthermore, most countries around the world had to lockdown its economies and close factories, disrupting value chains across worldwide industries and pressuring the balance sheets of most companies in almost every industry.

When considering the cyclicality of the watch industries, it is crucial to evaluate the effect that the COVID crisis might have in the industry since its recovery will be directly tied to the world's economic bounce back. Amidst the pandemic crisis, leading brands and their respective suppliers were the least affected, entering the COVID-19 era with stronger balance sheets and less sensitive consumers. On the other hand, higher volume brands operating in the low and middle price-range were strongly hit by the crisis. Low liquidity levels of suppliers impacted their navigation through the crisis, leading some to sell their businesses, auction assets or even filing for bankruptcy. This has further distressed the companies operating in those segments, which not only suffered from the demand side but also from the supply side of the business.

- **Digital Transformation & E-commerce Acceleration**

The trends towards a consolidation of online retailing were accelerated by the COVID-19 crisis. In general, the traditional watch industry relied on physical retail location, mainly flagship stores, but considering the restrictions in travelling and shopping in presence, and even the lockdowns that are still in place in several countries, there has been a push for innovation and risk taking in the areas of digitalization, e-commerce and digital engagement. Even luxury brands which were quite averse to e-commerce are making efforts to move towards a mix of digital and physical retail.

The digital engagement and social media presence will be essential for a successful transition, especially for the high-end segment brands which are highly dependent on the emotional connection to the customer. It is also important to note that the marketing channels effectiveness varies between regions, which means that choosing the appropriate marketing channel mix is essential to operate and adapt successfully to local preferences.

The in-store experience is a vital part of the customer journey, and that is something that the digitization and digital disruption cannot change. On the contrary, it is crucial that brands adapt and seek innovative ways of expanding the customer journey and experience, otherwise they will be excluded from the new era of doing business. For example, Hublot launched a virtual boutique, a type of hybrid store which maintains the tailored assistance that its consumers require allied with the convenience of a virtual marketplace. Another example of innovation towards digital transformation is IWC's flagship boutique in Zurich which combines in-store experience with the digital space, offering an augmented reality and interactive shop that allows customers to exploit digitally the connection between watch making and motorsport. This does not mean that offline marketing channels will disappear, it only reflects the cross-industry trend of combining physical with digital, and its relevance for the success of a company's strategy.

It is clear that online marketing expansion and distribution channels diversification may provide lucrative opportunities, but those decisions may also carry reputational and financial risks. These include grey markets and social media, or counterfeits, as some of the biggest threats to the industry, especially for the high-end segments.

- **Sustainability and Climate Change**

Consumer demands are changing drastically, especially concerning Corporate Social Responsibility, and political, social, and economic dynamics are putting more emphasis on sustainability and green policies. As part of a globalized economy, it is essential for the watches industry to address these issues and to promote business ethics and clean energy use across their entire value chain. With consumers increasingly more conscious about consumption decisions, particularly Gen Z and millennials, it is crucial for the companies operating in the industry to focus on sustainability in order to guarantee their share in the future marketplace.

This applies not only to the production/manufacturing and assembling, but also to the raw materials purchases and traceability. There is an increasing concern regarding the origin of expensive minerals such as gold and precious stones (diamonds, emeralds, sapphires, etc.), which can be related to war zones and human rights transgressions. Being one of the major consumers of such raw materials, it is vital for the watch industry to be transparent and to address such preoccupations. Companies that fail to do this might suffer a strong backlash from their current or prospective customers if anything shady comes out and may even suffer worldwide boycotts as the ones seen in with other companies in different industries.

Corporate Social Responsibility is a requirement, not an option. Brands that are delaying the introduction of these topics in their business strategy are preparing themselves for failure. From recycling, to ending the use of animal derivatives, to concerns for transparency and corporate influence in poverty and human rights, it is essential for brands to be committed and to incorporate CSR in their strategy.

- **Politics & International Relations**

Finally, politics and international relationships developments might have an important role on how the industry evolves in the short-term future. Tensions between China, USA and the EU might lead to supply chain disruptions and/or to a decrease in economic transactions between these markets. The increase of protectionist policies might also have a negative impact on the industry revenues since it affects consumers directly, especially for the most expensive segments. Additionally, exchange rate variations in emerging markets will also be a problem for the watch industry since most of the growth in the industry is verified within those regions. The increase of the dollar versus the renminbi is one example, which decreases the purchase power of Chinese consumers, the most important ones for the whole industry.

Moreover, mineral exploration and the origin of those precious stones is a major concern for the industry as we already referred above. The fluctuation in prices of these stones can also severely affect the industry because of the high dependency, and since it is hardly possible to integrate the exploration of such minerals in the companies' value chain.

Strategic Scenarios

For strategic scenarios, and their consequent implications, we decided to create a table that could more efficiently demonstrate how we believe the industry will develop. We chose to select two major industry components that, from our point of view, will shape demand and revenues in the coming years. The chosen components were the technological disruption that we have seen in recent years and the more obvious one, the impact associated with the global pandemic from COVID-19.

	Short Term Impact of COVID-19	Medium Term Impact of COVID-19
Technological Disruption continues at a Fast Pace	**Swift Recovery** - Brands proceed with their digitalization process of stores and customer experience, but the emphasis will remain in flagship stores and face-to-face personal consumer care. - Adaptation to this crisis will impact the industry future and expedite the digital disruption and transformation in the near future. - Economic recovery and travels return will allow the industry to bounce back from the crisis with little scratches, particularly the high-end segments.	**Defensive Partnerships and Aggressive Digitalization** - Companies will be obliged to accelerate aggressively their digitalization process in order to survive to the ferocious impacts of the pandemic crisis (lockdowns, GDP destruction, travel restrictions maintenance). - Possible partnerships in the horizon in order to protect the businesses, with lobbying actions across the world (mainly Europe/Switzerland and China). - Mergers and Acquisitions across the industry and possible vertical integrations in order to reduce costs and enjoy synergies (on production level and on the digital level).
Technological Disruptions slows down	**Back to Business as Usual** - Without the constraints caused by the pandemic crisis, and with a slow down of digitalization across the industry, business goes back to previous habits. - The industry loses an important opportunity to innovate an to embrace change, avoiding a necessary disruption that will happen sooner or later. There will be companies that will seek to continue its digitalization process, but the majority will return to business as usual. - Mergers and Acquisitions might be on the table since the impacts from the crisis will still be felt in part of the industry.	**High Volatility and Unpredictability** - Companies fail to address the needs for digital innovation and bankruptcies happen across the industry. The decrease of economic activity and the travel restrictions affect greatly the industry in general. - The biggest world's economies continue to be affected and the supply chain starts to erode, affected by the general crisis felt on the industry. - The volatility scares away investors and possible mergers and acquisitions will stay out of plans because of the high risk associated and asymmetric information available regarding future developments.

Figure 21*: Strategic Scenarios*

- **Swift Recovery**

This is the scenario in which the pandemic effects will be short lived, having global brands quickly recover. Nevertheless, due to the adaptations that took place during the pandemic, especially towards e-commerce, a shift will start to be seen in which more importance is given to brands' online presence. Customers will still value flagship stores but will look upon a brand negatively if it also does not invest in alternative methods of purchase.

- **Defensive Partnership and Aggressive Digitalization**

In this scenario we see a long-term impact caused by the current pandemic, it unfortunately leads to economic and organizational effects that will be felt continuously for the next few years. Nevertheless, firms choose to embrace this opportunity to adapt and create a major technological disruption in every sector of the watch industry. This comes as a result of the continuous lockdowns, travel restrictions and supply chain issues that we expect to witness, which will drive companies to look for synergies that can save the necessary costs to be able to continue their business, mostly through mergers (or acquisitions) in order to try and optimise their vertical integration capabilities.

- **Back to Business as Usual**

This is the scenario we found to be one of the least likely but should still be considered as there will be, at least a few sectors, of the watch industry that will follow this pattern. In its essence this would be the case by which the pandemic effect is short lived, and no change comes as a result of what the world has experienced. We would just go “back to business as usual”. This would require customers behaviour to also shift massively towards what it was before the COVID-19 pandemic, that has moved a large percentage of purchases online as well as sales, leaving brands not as dependent on their retail partners as previously.

- **High Volatility and Unpredictability**

The last implications come as a result of the most unpredictable, and possibly negative, scenario. This is the case by which the consequences of the pandemic COVID-19 are long-term, and the watch industry does not efficiently utilise this in a way that improves its technological methods of purchase, advertisement, and production. The economic crisis, brought on by the pandemic, affects the industry that is not deemed as necessary and multiple companies face bankruptcy. Moreover, with reliable supplier issues as a result of continuous production disruptions the industry is seen as too volatile and drives away investors and new entrants, limiting possible new innovations and the inevitable loss of efficiency by firms.

Challenges for the Future

In order to identify the challenges that traditional watch brands will face in the future, it is important to understand what are the **trends that are challenging the market today** and that have revolutionized the industry.

Therefore, now we are going to focus on the traditional watch market and try to summarize how the emergence of smartwatches and other challenges has created new threats and opportunities.

Innovation

Although smartwatches are definitely an expanding market segment, recent research conducted by Deloitte indicates that they are not perceived as a threat today **(Figure22)**.

According to the aforementioned study, “Swiss watch executives do not see smartwatches as a threat to their business, 72% do not expect them to have an impact on their sales and 14% see smartwatches as an opportunity” (Deloitte, 2017).

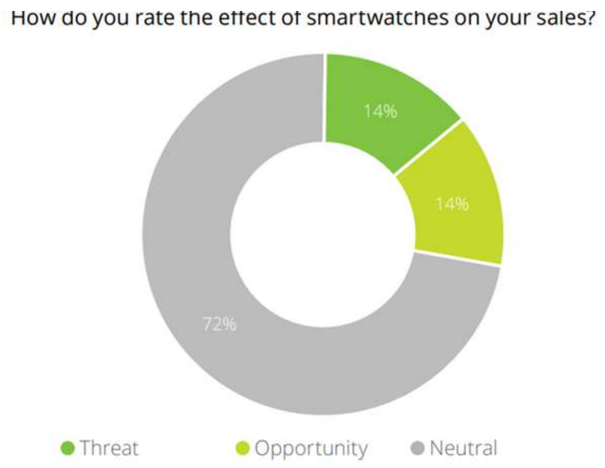


Figure 22: *Impact of smartwatches on Swiss watch sales (Source: The Deloitte Swiss Watch Industry Study 2017)*

In general, consumers still prefer traditional watches and even among consumers of the Millennial generation, contrary to what would be expected, this research revealed that there is less interest in smartwatches than in classic watches.

However, traditional watch manufacturers have been challenged by these new market trends, - the emergence of new digital and smartwatch brands in the market - especially in the low and mid-range where smartwatches may be a substitute for traditional ones, and they should not ignore that. Therefore, the first priority for traditional watch brands, including also high-tech watch manufacturers, should be to **focus on new innovative product launches**.

Digital Transformation and Online Retail

Historically, online retail was not seen as a suitable strategy for traditional brands, especially luxury brands that seek exclusivity. They have always looked to online retail and multi-brand retail sites as a distribution strategy for the sale of products in large scale and to a broad public and generally associated with lower quality or low-price products.

In fact, online retail may allow them to reach a wider audience, but it also affects the perception of exclusivity that traditional brands, especially sophisticated watch manufacturers, seek to convey.

However, nowadays, there is greater preference for buying through online platforms **(Figure 23)**. In this sense, the second highest priority for traditional brands should be the **development of digital and marketing** resources and capabilities and **omnichannel distribution,** through online platforms and increasing their social media activity in order to meet such expectations.

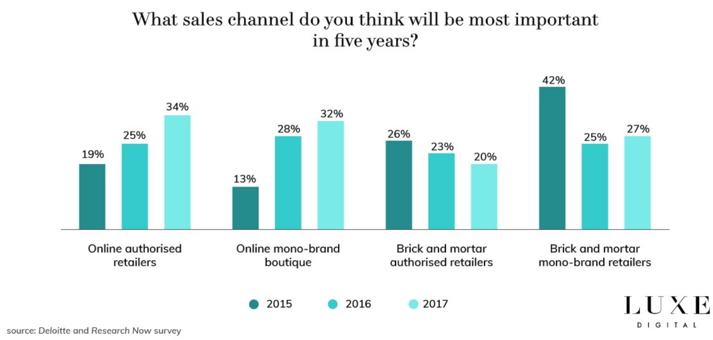


Figure 23: *Importance of sales channels (Source: The Deloitte Swiss Watch Industry Study 2017)*

To adopt this new online sales strategy, traditional brands may, on the one hand, choose to develop their own exclusive platforms through which they sell their own products. This first strategy would be particularly suitable for luxury brands, allowing them to preserve their identity and exclusivity. On the other hand, for traditional watch brands, in the budget segment, a possible alternative could be selling products on multi-brand online sites.

Customization

One of the challenges in the traditional watch market is counterfeit watches. A possible way to combat this threat will be to increase switching costs for buyers, for example, through increasing customization and customer experience and loyalty.

Conclusion

In conclusion, we have extensively investigated and analysed the watch industry during our process to complete this report. Looking into the demand each company faces, from a variety of segments, and how those can be used to drive competitive advantage and generate long term success. We have also looked at the supply side and how, even during a deadly pandemic, this industry manages to continuously adapt in order to distribute and produce the highest quality products they can, at whatever price point.

Additionally, and possibly more important, we have also dedicated space in our analysis for the strategic aspect and competitive nature that is required from companies to survive and thrive in one of the more fragmented markets that we have studied. The necessity to have established goals, within each target market, as well as a reliable and well-integrated value chain is what often differentiates successful and globally known companies from those that simply survive in the industry.

Lastly, we looked at the future, debating how the pandemic will affect the industry and the improvements necessary for companies to thrive once the world surpasses our current daily challenges. The watch industry, its demand analysis and the supply chain will have to evolve, and the necessary adjustments will have to be made ahead of time. Those companies who fail to see such needs will be left behind which, within such a competitive industry, and in a time that economically many will struggle, can be deadly for their existence in the market.

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