THE MERCURY PROJECT

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Verband Schweizer Goldschmiede- und Uhrenfachgeschäfte

Association Suisse des maisons spécialisées en Horlogerie et Bijouterie

2017

WATCH RETAIL MARKET & DIGITALIZATION

SWITZERLAND AND LIECHTENSTEIN

CONTENTS

INTRODUCTION

Digital plays an increasingly important role in the behaviour of luxury goods consumers in general and of watch and jewellery shoppers in particular.

With the search for information on social media and corporate websites of retailers and brands, as well as a growing demand for direct purchase processes, the use of digital is gathering strong momentum among existing and future buyers of watch and jewellery goods.

Given this rapid and radical change in the buying journey of consumers, how are watch retailers organized to meet the current expectations of their future buyers from the millennial generation who are clearly much more engaged in the digital world? How do they fit into the omnichannel strategies developed by the watch companies? And how do they address the online sales potential?

Based on a census of watch retailers in Switzerland updated in June 2017, this new chapter in "The Mercury Project" reveals an overview of the digitalization of these key players for the watch industry. It defines a segmentation of different levels of experience acquired in this area both for independent retailers, as well as for chain retailers and mono-brand boutiques. The segmentation process is based on retailers' positioning by watch brand supply. Comparison with the digital activities of watch companies, whose focus on this area is growing from year to year, also helps to identify and measure issues for watch retailers, both in terms of opportunities and threats.

Thierry Huron
Mercury Project's Founder
August 2017

Glossary

Brand Density Score (BDS)
The score takes into account the sum of watch brands displayed in watch & jewellery stores. It features the density of the watch brands in any segment, category or geographical area.

Chain retailer
It belongs to any group of retail outlets operating 5 or more stores in Switzerland or abroad. Chain stores have similar architecture, store design and layout, and overall choice of products.

Economy segment
Market segment of watch & jewellery stores or departments carrying watch brands at a retail median price below CHF 800, 00.

Independent retailer
It operates a maximum of 4 points of sales, wherever the location of the store.

Mono-brand or flagship Boutique
This specific point of sales is featured in the store locator pages of the corporate website of the eponym brand.

Numeric distribution (ND)
Brand presence as % of stores in the watch retail universe handling watch brands.

Premium segment
Market segment of watch & jewellery stores carrying primarily, but not exclusively, watch brands at a retail median price higher than CHF 5 000,00.

Responsive website
It displays web pages that detect the visitor's screen size (PC, tablet or mobile) and orientation and change the layout accordingly.

Value segment
Market segment of watch & jewellery stores or departments carrying watch brands at a retail price below CHF 5 000, 00.

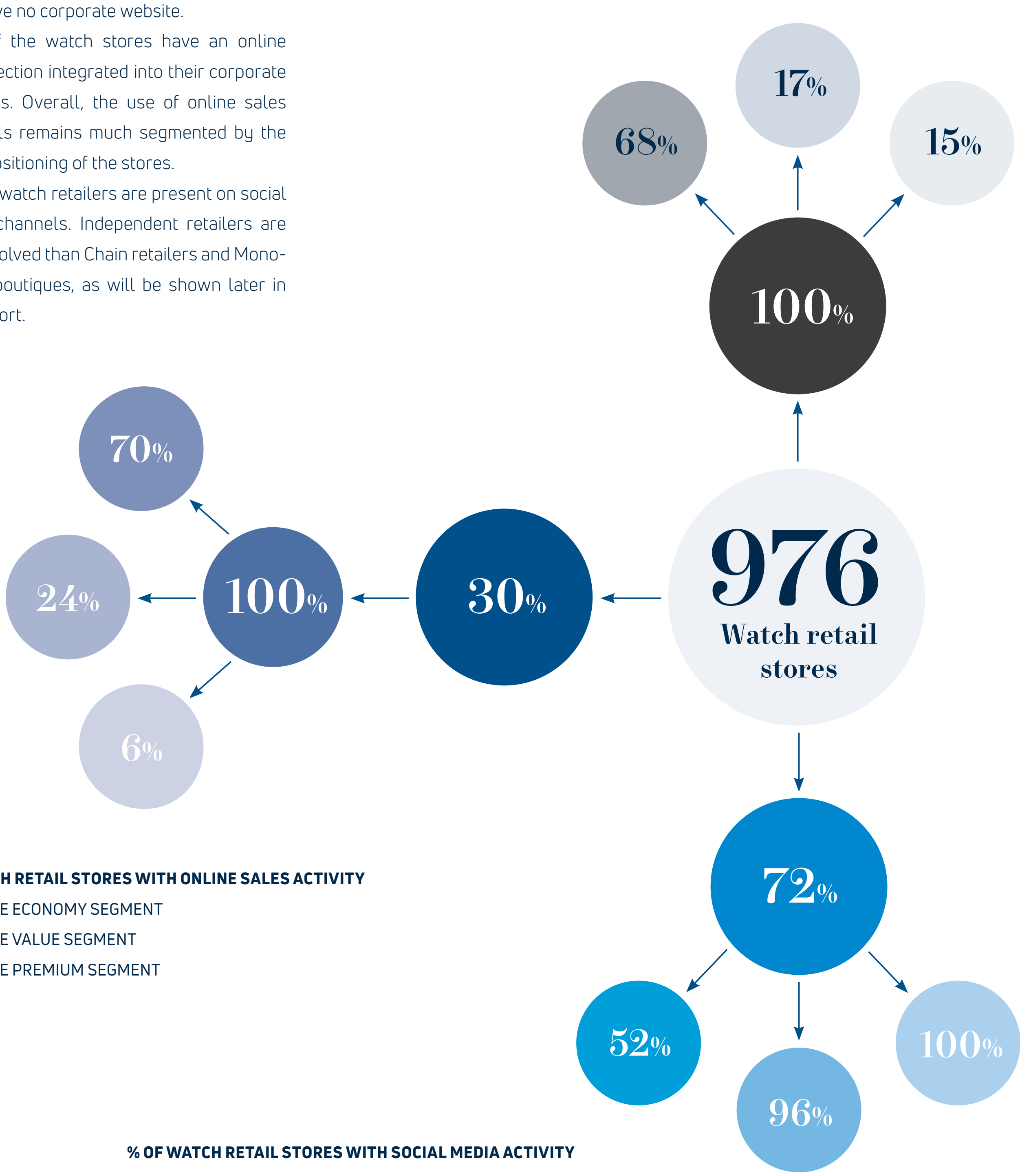
KEY FIGURES

At the end of June 2017, Switzerland and Liechtenstein counted 976 watch retail stores in total.

- **68%** propose institutional corporate websites suitable for today's digital users.
- **15%** have no corporate website.
- **30%** of the watch stores have an online sales section integrated into their corporate websites. Overall, the use of online sales channels remains much segmented by the price positioning of the stores.
- **72%** of watch retailers are present on social media channels. Independent retailers are less involved than Chain retailers and Mono-brand boutiques, as will be shown later in this report.

% OF WATCH RETAIL STORES WITH CORPORATE WEBSITE

- WITH RESPONSIVE CORPORATE WEBSITE
- WITH NO-RESPONSIVE CORPORATE WEBSITE
- WITHOUT CORPORATE WEBSITE



% OF WATCH RETAIL STORES WITH ONLINE SALES ACTIVITY

- % OF THE ECONOMY SEGMENT
- % OF THE VALUE SEGMENT
- % OF THE PREMIUM SEGMENT

% OF WATCH RETAIL STORES WITH SOCIAL MEDIA ACTIVITY

- AT INDEPENDENT RETAILERS
- AT CHAIN RETAILERS
- AT MONO-BRAND BOUTIQUES*

** Watch brands reported in the text are restricted to those operating mono-brand boutiques.*

CORPORATE WEBSITE

ESSENTIAL ELEMENT OF COMMUNICATION IN THE WATCH INDUSTRY, THE USE OF A RESPONSIVE CORPORATE WEBSITE IS NO LONGER A PRIORITY FOR ALL SWISS WATCH RETAILERS.

Two-thirds of all watch retail corporate websites are suitable for today's digital users.

Out of the 976 active watch stores in Switzerland as at 30.06.17, more than two-thirds (**68%** – chart 1) propose so-called "responsive corporate sites". This technology automatically configures the size of the pages of the site and their orientation to any type of digital device (smartphone, tablet, etc.). It facilitates the search for information on the internet (reviews, technical specifications, price and availability), as well as payment processes on sites which offer an online purchasing capability.

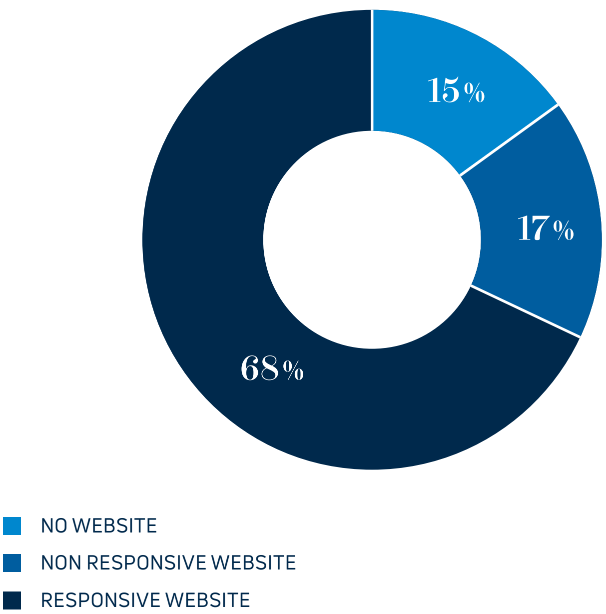
As shown in chart 2, all chain retailers and mono-brand boutiques* operate "responsive corporate websites". They can efficiently communicate their content as part of an overall digital strategy supported by the use of social media.

Finally, it should be noted that a large proportion of today's watch retailer corporate websites are not fully adapted to all current digital devices, including smartphones (**17%** overall, or **30%** in the segment of independent retailers – chart 2). Their sites remain configured for readings on PC, far from ideal for millennials (born between 1980 and 2000, aged 17-37 years today), who are heavily engaged in the digital world, especially with smartphones.

** Watch brands reported in the text are restricted to those operating mono-brand boutiques*

DISTRIBUTION OF STORES BY WEBSITE SEGMENTATION

CHART 1



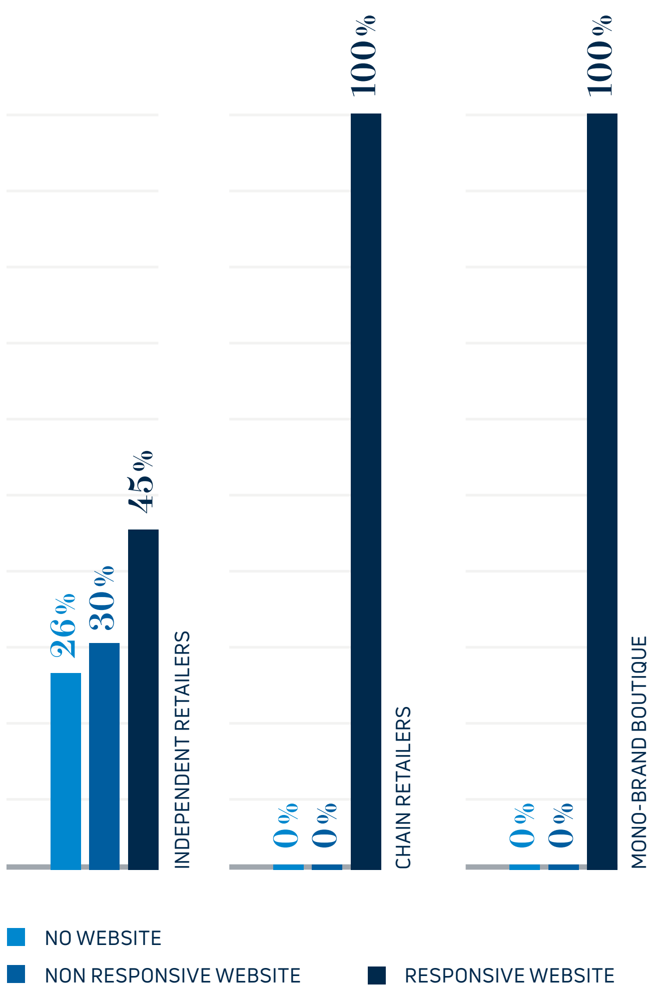
15% of watch retailers have no corporate website.

Chart 1 shows that **15%** of stores overall have no corporate website. For the independent retailers segment this increases to more than a quarter (**26%** – chart 2). These stores – probably with a very faithful but aging client base – do seem to be out of touch with new buying behaviours where website visits for pre-purchase information are increasingly common.

However, it seems a small part of this group (**4%**) use social media (mainly Facebook) instead of a more complex to manage corporate site.

WEBSITE SEGMENTATION BY CHANNELS

CHART 2

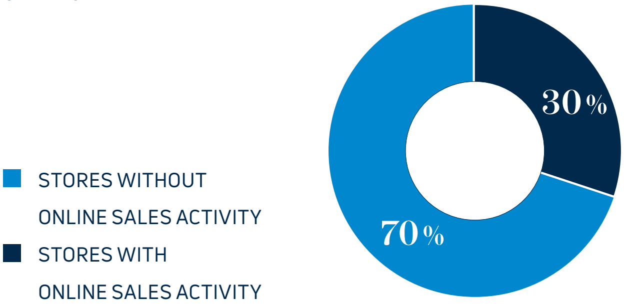


ONLINE SALES ACTIVITY*

ONLINE SALES ACTIVITIES ARE INCREASINGLY CONSIDERED BY PLAYERS IN THE LUXURY GOODS MARKETS. IN THE WATCH INDUSTRY, THE USE OF ONLINE SALES CHANNELS. REMAINS SEGMENTED BY THE PRICE POSITIONING OF THE STORES.

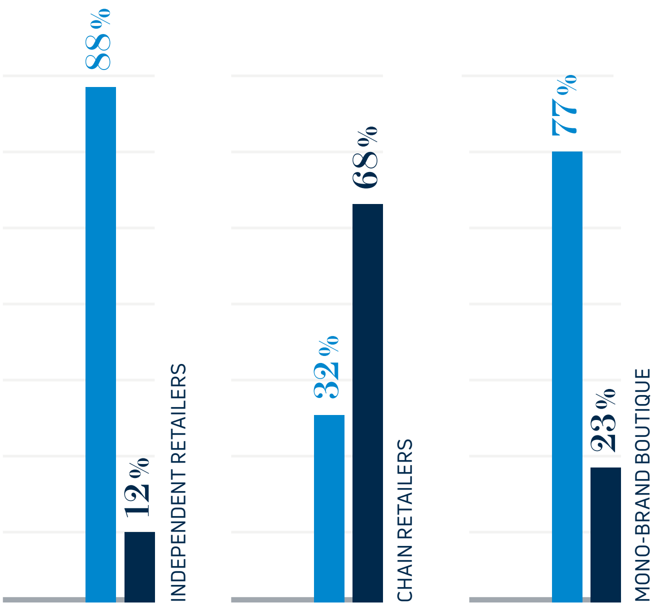
DISTRIBUTION OF STORES BY ONLINE SALES ACTIVITY

CHART 3



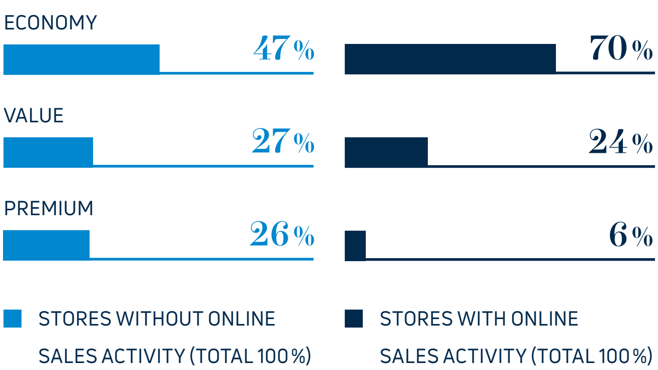
ONLINES SALES ACTIVITY BY CHANNELS

CHART 4



DISTRIBUTION OF STORES BY SEGMENTS

CHART 5



30% of the watch stores propose an online sales website.
In some cases, online watch sales sections have been integrated into the corporate websites of retailers: this applies to nearly a third of all watch stores (**30%** – Chart 3), and in most cases, it is extended to offers on jewellery goods.
Over two-thirds of the stores affiliated to chains retailers have an online sales section (**68%** – Chart 4), and are very active in this area. It remains a minor priority among the independent stores (**12%**), as well as at stores belonging to watch brands** (**23%**), except for in the Economy segment where a range of watch brands at less than 800 francs median prices are on offer.

The Economy segment is leading the activity of selling watches online.
Overall, it is mainly Economy segment retailers (**70%** - chart 5), who have developed an Ecommerce activity. In second place, far behind with **24%**, is the Value segment where watch brands up to a median price of 5000 CHF are on offer.
So far, stores registered in the Premium segment with a median price offer greater than 5000 CHF seem reluctant to use the online sales channel. They represent only **6%** of the active sales points with an ecommerce capability, even though they represent **26%** of the total number of watch stores in Switzerland (chart 5).
Premium segment retailers develop a different approach which aims to inform potential customers through social networks or blogs, then encourage them to buy at authorized retailers or more specifically in their mono-brand stores with a focus on providing exemplary customer service.

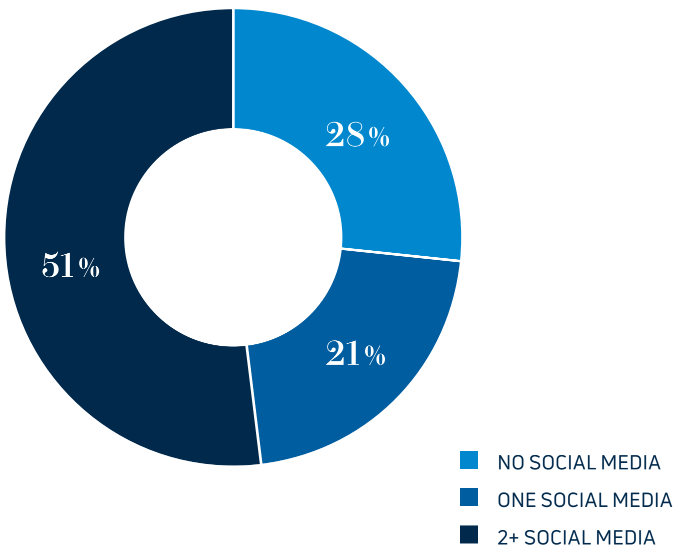
** Ecommerce websites and sections tracked in the Mercury Project are only related to corporate websites of retailers or watch brands. Websites and sales platforms with commercial activity exclusively on the Internet ("pure players") are not considered.*
*** Watch brands reported in the text are restricted to those operating mono-brand boutiques.*

SOCIAL MEDIA

THE GROWING USE OF DIGITAL DEVICES FAVOURS THE EXPANDING INFLUENCE OF SOCIAL MEDIA. THESE NEW CHANNELS OF COMMUNICATION PLAY AN INCREASINGLY IMPORTANT ROLE FOR INFORMATION GATHERING, ESPECIALLY AMONG THE MILLENNIALS AND YOUNGER GENERATIONS. THE APPROACH OF SWISS RETAILERS CONTINUES TO REFLECT A SIGNIFICANT DIFFERENCE BETWEEN THE INDEPENDENT RETAILERS AND THAT OF THE CHAIN RETAILERS AND WATCH BRANDS*.

DISTRIBUTION OF STORES BY SOCIAL MEDIA ACTIVITY

CHART 6

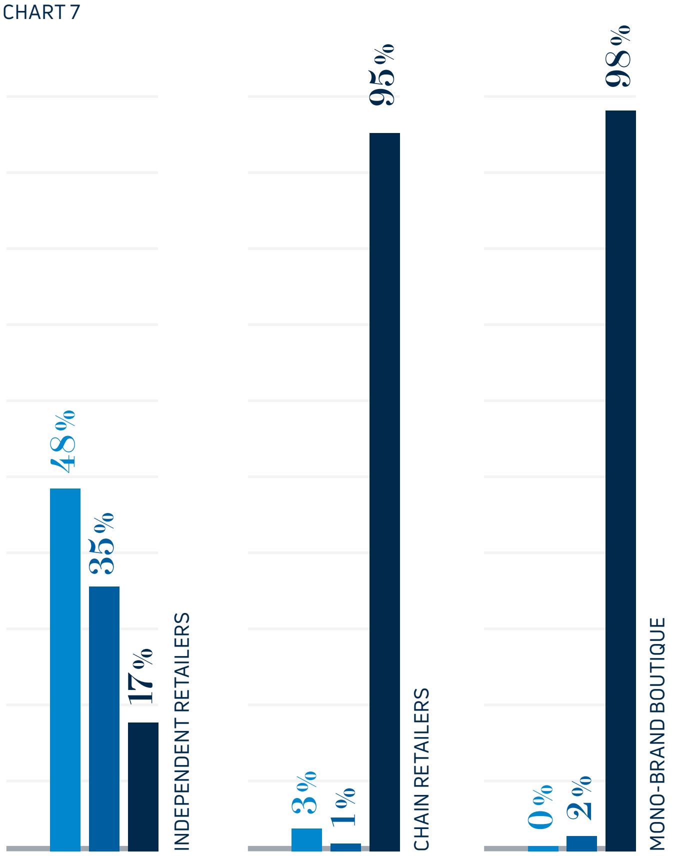


51% of watch retailers are present on several social media channels.

The census shows that **51%** of watch retailers are active on several media (chart 6), with Facebook most popular, followed by Instagram. With respect to distribution channels, we see that the chain retailers (**95%**), as well as the watch brands* (**98%**) are the most advanced in the usage of social media (Chart 7). Working with experts, and well-managed process, these channels increasingly exploit their presence on digital communication networks to interact with potential customers and place them at the centre of their sales and marketing approach. For many of these retailers, this use of social media has become an essential component of their marketing strategy.

SOCIAL MEDIA ACTIVITY SEGMENTATION BY CHANNELS

CHART 7



Independent retailers are less involved.

More than a quarter of all watch stores (28% - chart 6) do not use social media at all and 21% rely on just a single media channel (usually Facebook, which is used as a substitute for an official corporate website in 2% of cases). These figures are directly attributable to the limited engagement of independent retailers where as many as 48 % have zero social media presence and 35% are using just the one single media channel.

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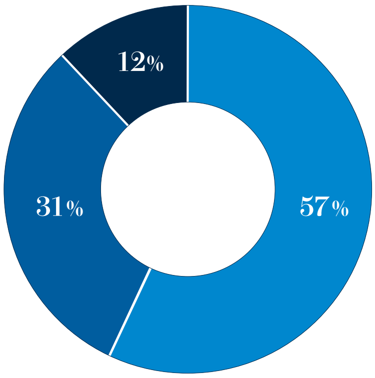
SOCIAL MEDIA: INDEPENDENT RETAILERS

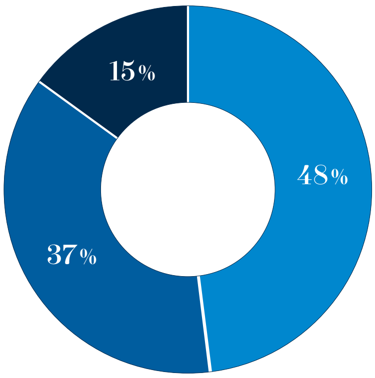
INDEPENDENT RETAILERS: SOCIAL MEDIA SEGMENTATION BY SEGMENT

CHART 8

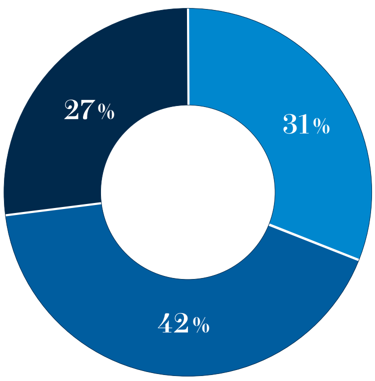
INDEPENDENT RETAILERS IN THE ECONOMY SEGMENT



INDEPENDENT RETAILERS IN THE VALUE SEGMENT



INDEPENDENT RETAILERS IN THE PREMIUM SEGMENT



NO SOCAL MEDIA

ONE SOCIAL MEDIA

2+ SOCIAL MEDIA

Even if this absence of activity in the sector is softened by activity from some high end independent stores, the absence level of independent stores remains generally high across all channels. As shown in chart 8, it represents **57%** for the Economy segment (median price of brand supply up to 800 CHF), **48%** for the Value segment (median price of brand supply up to 5000 CHF) and **31%** for the Premium segment (median price greater than 5000 CHF).

To date, and contrary to what's happening in the brands* and chain retailer channels, the use of social media seems not to have become a priority for independent stores which nevertheless represents **52%** of the brands in Switzerland (Brand Density Score – source 2017 Watch Retail Market).

For the most advanced social media users among the independent retailers, mainly from within the Premium segment, where 69% are present on social media and **27%** on two or more channels, a detailed analysis of their content highlights the collaborative role they undertake within the omnichannel strategy of the watch brands they represent, as well as a focus on the promotion of their own offer, including jewellery goods.

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ABOUT THE REPORT

The Digitalization of the Watch Retail report represents the latest step in the set-up of the Mercury project. Thanks to the census methodology, it provides an exhaustive picture of the digital landscape of watch retailers in Switzerland and Liechtenstein that will subsequently provide clear information for the design of the Mercury Project retail panel.
All data is based on the census of active Watch retailers, as of June 30, 2017. For the purpose of this report, investigation is based on research covering several sources such as the 2017 Watch Retail Market database, corporate websites of watch retailers and watch brands and their respective activity on social media .
For the scope of this report, only in-store watch and jewellery points of sale are counted. The report does not include the count of "pure player" online sales retailers.
Dedicated brand reports can be customised to meet specific requests from watch brand companies. The information and insight provided in these reports will enable brand managers to set clear strategies for domestic brand retail positioning and business growth.

ABOUT THE AUTHOR

Having spent his career in the global marketing and research departments of luxury goods companies, Thierry Huron identified the need for a trusted global source of sell-out data in the watch industry while managing International Marketing strategy for TAG Heuer. During these tough times for the watch industry, it's more important than ever to have trustworthy sources of fact-based retail data as a knowledge base to generate relevant insights about market developments and support critical decisions on all aspects of retail sector growth. This is the objective of the Mercury project.
You can contact Thierry Huron at **thierry.huron@mercuryproject.ch** or at **+41 (0)79 214 7166.**

ABOUT THE MERCURY PROJECT

On July 2016, the Mercury Project was launched with the objective of setting up a retail panel in Switzerland measuring the sell-out to end customers of Watch brands and Jewellery categories.
The goal is also to provide – for the first time ever – to the Watch industry (governing body, brands and retailers) a reliable and independent monitoring of the key trends in the domestic Swiss market. For retailers, it also represents a great opportunity to more efficiently manage their watch assortments based on full access to detailed sell-out trends including data on best selling categories and various benchmark analytics.
At a minimum, the Mercury Project aims to build an authoritative trusted database of Sales & Marketing information to the world's leading watch companies, retailers and governing body.

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