

Publication: The Business Times, Pg 01, 09, 10, 11
Date: 17 March 2018
Headline: Mechanical vs Digital



Mechanical vs Digital

The real challenge facing fine watchmaking **BRUNCH 9-11**



PHOTO: LIN ZHAOWEI



WRIST WATCH

A digital challenge confronts Swiss watchmakers – not in the form of smartwatches, but in marketing and selling their mechanical timepieces online.

BY CHUANG PECK MING

ON the set of the World War II movie *Fury*, Logan Lerman, the youngest member of the cast, was given a watch to track various activities during the film's rehearsals. Brad Pitt, the star of the 2014 movie, said one day Lerman returned and told him the watch had stopped. "I said: 'You've just got to wind it,'" he related in a *New York Times* interview in 2016. It was a mechanical timepiece. "He came back literally 15 minutes later and said: 'Wait, how do you wind it?'," recalled the one-time TAG Heuer watch ambassador. >>>

Lerman – 22 years old then, and who probably used his smartphone, not a watch, to tell the time – may not speak for all young people. Yet there's a big enough number of millennials like him, raised on things digital and unacquainted with the mechanical watch, to worry the world of fine watchmaking still ensconced in Switzerland.

These 15-35 year-olds are the largest consumer demographic in history. At 2.3 billion, they already form a third of the world's population. By 2025, when the oldest among them are at the peak of their purchasing power, they could make up 45 per cent of the luxury goods market.

Fabienne Lupo, who leads the Swiss-based Foundation de la Haute Horlogerie (FHH) to promote fine watchmaking, sees declining interest among the younger generations, who are more keen on buying experiences than things, as the biggest threat to the watchmaking trade.

"This is why education and promotion are crucial," she said in an interview in February.

Meanwhile, some in the business in Switzerland, which accounts for over half of global watch exports in value, are watching with trepidation as more Apple smartwatches are shipped out.

After a 50 per cent jump in sales in 2016, the Apple Watch, Apple CEO Tim Cook announced, has ousted Rolex, the world's Number One manufacturer of mechanical timepieces. According to technology market analyst firm Canalys, Apple exported eight million smartwatches between October and December last year – 1.2 million more than the total shipment of Swiss mechanical timepieces.

While the 18 million watches Apple shipped for the full year still fell behind Switzerland's export of 24.2 million timepieces, the forecast is that the iconic American brand will overtake the Swiss this year.

Doomsayers who saw the launch of the Apple Watch as the death knell for the Swiss mechanical watch would take these numbers as proof that their prediction has come true. Enrique Dans, a business school professor who specialises in innovation and digital transformation, is one.

Writing in *Forbes* magazine last May, he said: "Swiss watchmakers have completely lost market leadership of 'things we wear on our wrists', and trends suggest that the supposed advantage based on intangibles such as style or tradition will not be enough to guarantee their survival."

The Apple Watch "has completely revolutionised market preference and greatly modified the decisions we make around what we wear on our wrists", according to him.

In Dans' view, the mechanical timepiece, with its emphasis on "tradition, style and other intangibles", is basically an emotive object that appeals to the heart, while the smart watch is "a computer on the wrist" with "a vast showcase of apps". It's a no-brainer, he reckons, that rationality will eventually steer people to choose the smartwatch over the mechanical piece.

Through Jean-Claude Biver's marketing eye however, the Apple Watch is heaven-sent for fine watchmaking. "I was convinced (from the first day) that the Apple Watch would be successful," the LVMH head of watchmaking told US watch magazine *WatchTime* recently. "We must take advantage of Apple. An Apple Watch is probably one (of) the best promotions we (as an industry) can get."

The industry guru explained that it's easier to sell the Apple Watch to young netizens in today's digital age. In time, many of them could, for a



Patek Philippe's Calibre 89, unveiled in 1989, featured 33 complicated functions. It helped to revive interest in mechanical timepieces. BT FILE PHOTO



Apple exported eight million smartwatches between October and December last year – 1.2 million more than the total shipment of Swiss mechanical timepieces. BT FILE PHOTO

change, move on to mechanical timepieces.

Which is why TAG Heuer, one of the brands under his watch, is giving customers who buy its smartwatch the option to trade it for a mechanical timepiece at an attractive price during the watch's two-year warranty period.

Few in the industry see the demise of the mechanical timepiece. They say there will always be people who yearn for the past and value traditional craftsmanship. For some, the more technology invades, the greater will be the desire to hark back to the antiquated and the retro, it seems. The portable mechanical timepiece, initially in the form of the pocket watch, has been around since the 16th century. Something which has lasted this long – 500 years – is not about to vanish overnight.

The smartwatch is not the first to pose a threat to the mechanical timepiece. Cheap, and more accurate, quartz watches in the 1970s-80s nearly killed the Swiss watch trade, once Switzerland's third largest export industry. Valued at US\$20.2 billion in 2017, the watch industry (including clocks) now ranks fourth on the list of top 10 Swiss exports, behind gems, pharmaceuticals and machinery.

During the quartz invasion, production of Swiss mechanical watches was slashed by almost half between 1974 and 1983. Two in three workers in the industry lost their jobs in 1970-1985.

Many Swiss watchmakers switched to quartz watches to survive, but others like Patek Philippe and Rolex stuck to mechanicals. Patek pushed on to create the world's most complicated timepiece to celebrate its 150th anniversary. The resulting Calibre 89, a pocket watch unveiled in 1989, boasted an astounding 33 complicated functions. It made headlines around the world and helped to revive interest in mechanical timepieces.

"Calibre 89 was a turning point in the mechanical watch recovery," says Joe Thompson, who is regarded as the most experienced watch journalist in the English-speaking world.

One new mechanical watches were back in business when IWC Schaffhausen took more than 100 orders for the DaVinci, the perpetual calendar-chronograph complication it launched in 1985. IWC had thought it could sell only 10 to 15 pieces, given its price – a whopping US\$25,000 – and the weak market for mechanicals.

Auction houses were doing a booming business selling vintage watches. Italians, who loved watches, suddenly went crazy about the chronograph, the watch with a stopwatch function. They elevated the Rolex Daytona chronograph to iconic status, spreading the chrono craze to the rest of Europe and the United States.

German philosopher Friedrich Nietzsche famously said: "That which does not kill us, make us stronger." He could have been talking about the Swiss watch industry, which has since emerged from the quartz crisis in much better shape. The industry survived the 2009 Great Recession with barely a scratch – and it has just recovered from an export slump that lasted nearly three years.

The quartz revolution awakened Swiss watchmakers to the importance of technology, leading them to embrace game-changing micro-mechanical manufacturing tools like CAD/CAM and CNC machines. This was a major factor in the mechanical comeback.

"It supplemented Switzerland's traditional hand-made craftsmanship," Thompson said in a four-part report for the Hodinkee watch website. "The new technology enabled the creation of a new generation of watches with high complications that came in the wake of Calibre 89."

While concerned about the mechanical watch's future, FHH's Lupo is also confident that the industry will overcome the challenges it faces. "We can remain optimistic if we look at the capability of watchmaking maisons to adapt to changing markets," she said in another interview last year.

The Swiss watch industry has indeed made big changes in the past decade to ride the economic ups and downs, political uncertainty, changing spending habits and technological disruptions. Once fashionably large and chunky timepieces have given way to watches that fit the smaller wrists of a new breed of buyers – the Asians.

Even Officine Panerai, the watchmaker identified with the big watch and with popularising it,

Last October, actor Paul Newman's Rolex Daytona chronograph fetched US\$17.75 million at an auction, making it the most expensive wristwatch ever sold. PHOTO: AFP



rolled out a new watch collection this year with cases as small as 38mm – a far cry from the giant 47mm Panerai case.

The smaller case also appeals to the ladies, who have become the growing customer segment in a declining watch market. When sales dipped in 2015-16, women models were put forward as the main attraction of many new watch collections. IWC, which once prided itself on making watches "engineered for men", re-introduced its DaVinci line fronted by women timepieces.

The new women models were not simply smaller versions of men's watches, or bling pieces bedecked with diamonds and rubies. They were designed and made from scratch with women in mind – and included highly complicated perpetual calendars and minute repeaters.

Sky-high prices for mechanical timepieces that can run into millions of dollars have also come down to earth, relatively speaking. You can now pay just over S\$20,000 for a coveted Swiss-made tourbillon, the gravity-defying complication that

"Education and promotion are crucial."

Fabienne Lupo, Foundation de la Haute Horlogerie, who sees declining interest among the younger generation as the biggest threat to the watchmaking trade



used to be sold for upward of S\$100,000.

"Affordable luxury" and "entry-level" have entered the marketing lingo of Swiss watchmakers, along with the production of steel timepieces which are cheaper to make than gold pieces.

Less expensive models are introduced not only to kickstart sagging demand, but also with an eye to the future – to build a new customer base for tomorrow. To attract young buyers, Vacheron Constantin, the oldest name in luxury timepieces, unveiled the FiftySix collection in January with prices at just half those of existing Vacheron models.

The new Swiss timepieces are also more reliable and precise – thanks to innovations in new materials such as silicon, ceramics and carbon. Both Rolex and Omega have extended the warranty period for their watches from two to up to five years.

Panerai has even presented a model with a 50-year guarantee.

Omega is currently fitting its new watches with an anti-magnetic movement that's 15 times stronger than the strongest anti-magnetic model in the market. With the magnet present everywhere these days – every smartphone, for instance, is equipped with one – it's harder now for mechanical watches to avoid its damaging effects. Omega's move is therefore timely and welcomed.

The advances made in mechanical watches have apparently produced a renewed interest in them. Timex, an American brand now owned by a Dutch conglomerate, has just announced its return to mechanical watch production – after manufacturing quartz timepieces for 35 years.

Auction houses are receiving record bids for vintage mechanicals. Last October, a Rolex Daytona chronograph that once belonged to actor Paul Newman fetched US\$17.75 million, making it the most expensive wristwatch ever sold.

While sales in the primary market are not fully back at the levels before they fell three years ago, demand for pre-owned watches is getting hot. Established Swiss watchmakers like Audemars Piguet, Breitling, MB&F and H Moser & Cie are already jumping into the resale market. Vacheron, which has been selling old Vacheron timepieces since 2005, is stepping up its presence in the vintage business.

But much of the trade in pre-owned watches is done on the Internet, a sales platform most Swiss watchmakers are still grappling with. Worldtempus, "the most authoritative digital influencer" on fine watchmaking, says building e-commerce and digital channels will be the most urgent challenge for the mechanical watch industry to tackle this year, more so than market expansion, R&D and cost savings.

Online authorised dealers are seen to be the most important channel for the next five years, but that's not to say that brick and mortar stores are now deemed obsolete. Studies have shown that while watch buyers will do their research online, they will purchase offline – the opposite of what other types of customers do.

Getting the digital balance right is key. So is mastering social media. Worldtempus says watchmakers must place this at the top of their marketing strategy, because social media is the biggest influencer of the customer's decision to buy a watch.

To Swiss watchmakers faced with the digital challenge, the smart watch is then largely a distraction. Figuring out how to market and sell their mechanicals in a digital world is really what the watch industry should focus on – if it wants to catch the next wave of the resurgence in mechanical timepieces.

peckming@sph.com.sg
@PeckmingBT

Watch brands need to deal with the Internet: Su Jia Xian

SU Jia Xian is only 32 years old but he's been talking and writing about watches for more than half that time, building up a store of knowledge and experience in the world of horology that belies his age. The Singapore Management University graduate with a double degree in economics and management now has his own blog, SJX Watches, which ranks in the world's top 10 watch websites in the English language. He writes for over a dozen publications in Asia and advises watch companies, auction houses, institutional investors and collectors. Below are SJX's observations and views of how the watch industry has changed since he bought his first watch – a TAG Heuer 2000 model – when he was 12.

BT: Where is the industry at today?

SJX: Production is growing again, because sales appear to be recovering. Products are getting slightly more affordable, though not more diverse or interesting. There are probably still too many brands producing high-end watches, competing in a space that is too small for all of them. The key buyers are still in the same places as before, mainly East Asia, with Hong Kong and China being the biggest.

BT: How has the business changed since you first



SJX: "Brands that are tightening their supply chain to reduce leakages to the grey market will benefit in the long term."

entered it?

SJX: Volumes haven't really grown, but prices have risen tremendously, making the business much larger and lucrative. In many ways it's less interesting, because a lot has already been invented or created, meaning that new products often feel derivative. Brands don't really seem to be trying hard to do something different – unsurprising given the fact that many already have a profitable franchise doing what they do.

BT: What are the factors shaping the business now?

SJX: The Internet is rapidly growing in importance, but brands don't really know how to deal with it. The ones that are taking advantage of it are the secondary market players – auction houses, dealers – and the media, like blogs. Distribution is another big factor. The recent slowdown taught brands a lesson everyone knew but forgot, and it appears some brands that can afford it are tightening their supply chain to reduce leakages to the grey market. Brands that do this properly will benefit in the long term.

BT: What kind of future awaits manufacturers and retailers?

SJX: For some brands the future is bright. They are making products that are desirable, while restricting supply of watches, cutting their retail outlets and marketing in a savvy manner. Such brands will strengthen quite significantly. Other brands are still groping around in the dark, and the disparity between the leaders and stragglers will increase.

Retailers are still going to be important, but I think the big retailers will become more and more dominant. The mid-sized outfits will find it hard to survive, especially since the leading brands go with the big players. Small retailers will probably survive in two ways: selling niche independent brands to collectors, or being an authorised retailer of Rolex or Patek or some other top-tier brand in some far-off locale.

BT: How are retailers affected by all the changes?

SJX: Retailers are going online, but restricted by what brands allow them to do. I think they will get there eventually, since brands themselves are going online and also allowing online publications to sell. The strong brands will do more direct sales, because their brands have the cachet to pull that off. That will mean pricing parity globally, at least on a tax-free basis, something that was never really achieved in the past.