

21.11.2022

The World Cup will take place in Qatar. Or will it? We ignore the long-term impact of the pandemic on massive global events.



SURVIVING COVID-19

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During the last few years, the Swiss watch industry has been faced with a growing number of challenges: shifting consumer interests, the emergence of the smartwatch, oversupply, as well as a series of external financial and political shocks. In retrospect, these seem bumps on the road when compared to the major impact of Covid-19. The pandemic throws a spotlight on the very essence of the industry's business model and reveals its fundamental structural flaw: an increasing absence of social relevance. Yet, there are opportunities to take advantage of a tough situation to make changes for the better.

The consequences of Covid-19 will be more severely felt than any previous challenge in the watch industry. The inevitable painful changes being made could however lead to a different, more appropriate set-up than the out-grown concept of "easy fast money." Whether the industry is capable of altering its approach in implementing vital reforms is of course the big question.

The background of the crisis

Let's assume all cards are on the table. In assessing how to respond to Covid-19, we must first understand how this new type of change substantially differs from earlier crises faced by what was historically a pretty resilient watch industry.

1. **The growing industrial polarisation** of recent years means that the resilience of many watch companies (which do not have easy access to liquidity) has diminished, while a handful of groups and independent brands are more dominant than ever: Rolex, Patek Philippe, Audemars Piguet, Swatch Group and Richemont.
2. **Fighting the coronavirus itself will take time**, until infection tests, antibody detectors, therapies and finally vaccines are globally and widely available (autumn 2020 to summer 2021). A full immediate and complete relaunch of social life and business activities (a business "big bang") is unlikely. International travel and leisure will not resume soon, especially for the key Chinese clientele. It took the Swiss luxury watch industry 2½ years to overcome the Lehman shock – back then, China's GDP was still growing at annual rates of +9%, helping to compensate for the decline or stagnation in demand in Europe, the USA and elsewhere. Within the new situation, anything close to the levels of watch sales of 2019 may not materialise before the middle of 2022.



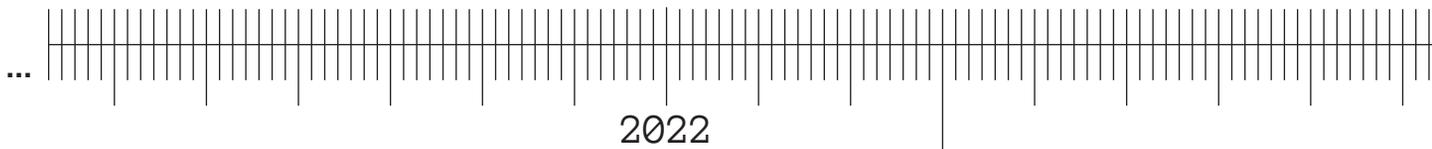
"Above all, the watch industry must be capable of preserving its social relevance in a post-Covid-19 world."

3. **Industry's readiness to adapt:** The current crisis and looming recession will result in never-seen layoffs, postponed investments, reduced R&D activities, tight cash positions. Reaching a "new normal" will require an extraordinary entrepreneurial reaction to shifting circumstances.
4. **Consumer purchasing power:** Consumers need stable employment conditions and regular income, as well as sufficient savings, to be able to spend money on non-essential goods such as mechanical luxury watches. Given the amplitude of the crisis's economic fallout, customers will not see a solid financial base in the near future.
5. The most important aspect to assess may well be **the psychological effect of Covid-19**. A virus is an invisible threat, which is particularly scary, compared to more tangible crises. It is difficult to assess the full extent of the damage and the appropriate actions to take, as illustrated by the unpreparedness of the most powerful countries in the world in facing the pandemic. As luxury is a "good mood" business, and given the uncertainty Covid-19 is causing, fear will continue to paralyse consumers' minds and purchasing habits for a long while.
2. Disappearing market players and merging companies will result in **more oligopolistic structures**. With the loss of hundreds of thousands of jobs in the luxury industry (e.g. Chinese OEM business, manufacturers in northern Italy, the German car and the Swiss watch industry), a rich culture and age-old savoir-faire in terms of traditional artisanal craftsmanship will be endangered.
3. Intensified competition will cause increased **marketing and sales "fusion"**: brands venturing into retailing and e-commerce; wholesalers creating in-house brands; online platforms considering brick & mortar.
4. Luxury brands will come under pressure to better justify **their social relevance**, as their "raison d'être" in times of crisis is questioned. This will require stronger efforts to build attractive and credible positionings and more engagement with consumers on a personal (human) level beyond the online sales channels.
5. The relevance of **digital channels will grow**. Classical wholesale will be particularly hit as the crisis strengthens consumers' experience of online shopping. This will be to the benefit of big brands with the funding and infrastructure to manage the digital complexity.

Mapping the scenarios

A new "resurrection" of the Swiss watch industry requires not only a good understanding of how the pandemic differs from earlier crises, but also an evaluation of the different directions the industry may take.

1. Shocked consumers could react in **two different ways**: follow an intensified "carpe diem" attitude to engage even more strongly in consumption; or pursue a path of renewed moderation by purchasing less or in , or purchasing less as a whole, or purchasing more sustainable goods and services. Obviously, brands will need to decide how to adapt to either case in terms of target grouping, product offering and positioning.
6. Yet, as smaller brands and start-ups are about to find out in the coming months, **online is no El Dorado**. It is already a congested environment. Given the overall stagnation of Swiss watch exports since 2012 (!), the surge of online sales only represents a shift of distribution channels (and profits) with hardly any overall value addition for the industry.
7. The watch industry will give more importance to **long-term goals** such as healthy equity and adequate liquidity, at the expense of short-term sales and profit ambitions. This includes more realistic planning and budgeting procedures. Since 2000, more than seven major crises have hit the luxury industry. None of them was reflected in any forecasting.



The way out

Covid-19 puts enormous pressure on companies and brands who will have to act fast and professionally to minimise damage and to secure their survival. Obviously, a small family-owned dial manufacturer in the Jura is in a different situation than a large integrated watch brand. Short term, companies especially need to preserve liquidity, while securing some revenues. Getting financial support from the government or banks is critical for many companies today. There also exist a number of less conventional ways out of the crisis.

1. Brands should take advantage of their CRM programmes to **maintain 1-to-1-communication with consumers** to strengthen bonds in a time of mutually experienced crisis: thoughtful (non-commercial) messages from CEOs, “stay at home” emails, virtual factory tours, live social network sessions, donations to local hospitals, etc.
2. In the current situation, sales through grey market channels and discounting are probably appealing, but they **should be minimised** to avoid damage to brand image in the long run.
3. **R&D efforts** should continue to be able to offer attractive products and services once consumers come back. Yet, important novelties should be introduced only when consumers are more receptive again.
4. Big market players ought to resist the temptation of making power plays in these difficult times. On the contrary: they need to **support crucial suppliers** in their struggle for survival to ensure that traditional and special manufacturing techniques and knowledge do not get lost. A healthy and diverse biotope of market players accounts for much of the industry’s credibility as a traditional and human business. Hence, strong groups and brands ought to help, for instance, those small, independent brands that have been left high and dry by the disappearance of Baselworld.
5. As painful as this may be, owners of weak companies have to prepare **exit scenarios**, while strong players could seize attractive M&A opportunities. Regardless of previous investments, the crucial question is: under what conditions will the future be profitable?

Growth of Swiss watch exports and GDP of selected economies (% prev. year)

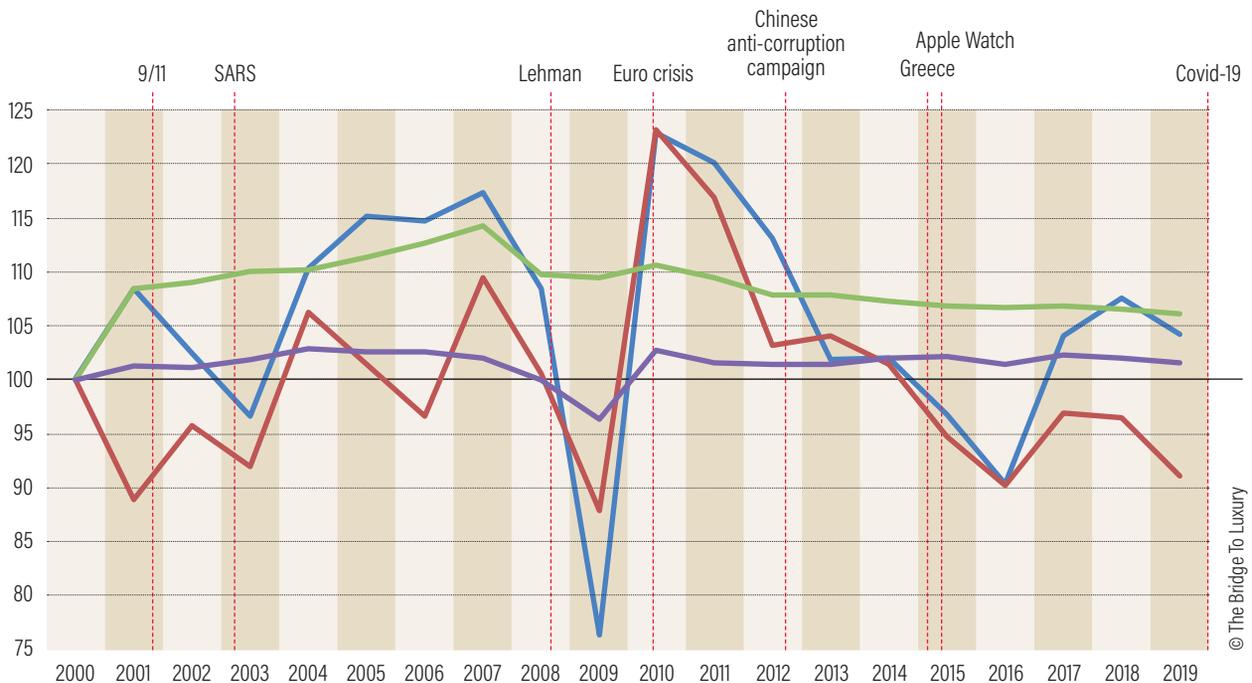
- Growth watches above 500 CHF/unit export value
- Growth watches up to 500 CHF/unit export value
- GDP growth China
- GDP growth G7



The pitfalls

There will be no “status quo ex ante” for the Swiss watch business after Covid-19. If the industry wants to survive in the mid- to long term, an honest analysis of its weaknesses and threats needs to be undertaken:

1. The opportunities provided by the digital and online revolution **should not be narrowly interpreted** as an opportunistic means to increase revenues. Digital activities have to represent the high level of luxury in terms of emotional storytelling, individual and top customer brand experiences, or service quality.
2. Despite the success of online selling, watch brands need to **reconsider the importance of traditional wholesale (and retailing)**. Premium, prestige and luxury brands cannot be created online alone. Regaining consumers’ trust by investing into real human relationships will be paramount.
3. The luxury industry as such is being **challenged by other industries**. Hence, “team playing” is essential. In particular, strong groups should consider generic actions (shared advertising campaigns, international road shows, exhibitions, global watch museums and halls-of-fame) to promote the essence of high-end goods and services.
4. **The consumer needs to be rediscovered** after Covid-19. To do so, brands should invest more in professional and comprehensive market research to assess these needs.
5. The industry needs to **prepare better** for the crises of the future: strong funding, realistic commercial targets, professional planning and budgeting tools.



One last word

Above all, the watch industry must be capable of **preserving its social relevance** in a post-Covid-19 world. Nothing is more central to the human being than the notion of time – besides, perhaps, the experience of love! The authority of those who invent and manufacture timekeeping instruments should be to mirror the big events of our times. Why are the “products” of Shakespeare, Beethoven or Van Gogh still so relevant today? Because their creative and emotional storytelling provides some lessons about human life and carry even more meaning in times of crisis.

While companies like Mercedes, Yves Saint Laurent, Pernod Ricard and many more high-end brands have made efforts to provide encouraging messages of solidarity to society in difficult times, the watch industry has remained more or less mute – except for publicly fought egocentric quarrels about trade fairs. Why should consumers continue to care about (expensive) mechanical watches, if manufacturers do not express any empathy in times of Covid-19? The watch industry is losing touch with reality.

China no longer provides an easy way out of a crisis, and nor does the possibility of margin shifts from tradition-

al wholesale to brand boutiques and online sales. The jokers have been played. To secure long-term survival, the industry has to regain consumers’ trust – over and above the numbers that have been stagnating for years. The manufacturers of writing instruments, porcelain, tableware, bespoke suits, tapestries and antique furniture all once proudly claimed to be invincible until consumer disaffection taught them otherwise – today they are extinct dinosaurs. Cracks are starting to appear even in the mighty German car industry.

How can the watch world better embrace its own time? Sustainability, the #metoo movement, technical revolutions, globalisation, and demographics are global human topics that have to be taken into consideration by a sensitive industry in more significant efforts of branding and public relations. There must be more social relevance than merely sponsoring sports events, VIP testimonials, interchangeable product packshots, CI/CD streamlined brand boutiques, or the opportunistic rush into online selling. To survive, watchmaking needs to overcome a restrictive vision of itself as a commodity supplier, and reconsider what it can bring as true and important values to a dynamic, yet insecure global society with its rightfully demanding consumers. ♦