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Haute école de gestion
Genève

Sales internationalization of Swiss luxury watchmakers in China and Hong Kong

**Bachelor Project submitted for the degree of
Bachelor of Science HES in International Business Management**

by

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Declaration

This Bachelor Project is submitted as part of the final examination requirements of the Haute école de gestion de Genève, for the Bachelor of Science HES-SO in International Business Management.

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Simeon BADOUX

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Executive Summary

The Swiss luxury watch industry has been the market leader since the 1990's. From the beginning of the 21st century they have enjoyed a tremendous increase in exports worldwide. Recently, starting 2014, the market has been dropping. Decreasing sales in China and Hong Kong and mostly to Chinese consumers are to blame. The slowdown of the Chinese economic growth, increasing taxes imposed on luxury products are some of the few reasons for this slowdown.

My first step for this research was to analyze the Chinese market in order to verify if this downward trend is lasting or if there is growth potential in the country. This meant identifying the current challenges Swiss watchmakers are facing and whether there are still potential customers in China. My findings showed that Chinese are still very eager to purchase Swiss brand name watches. They also showed that large groups of Chinese consumers have been left out by brands whose stores do not yet reach them. These groups are the new middle class and upper-middle class citizens that are rapidly growing in Tier 2 and 3 cities all across China. Watchmakers have indeed focused almost all their presence in China's major cities but have remained absent in smaller ones. To note there are currently over 100 cities in China with over 1 million citizens.

My second step was to find the most effective way for watch brands to reach this spread out population of potential customers. In the slowing watch market, investing in physical presence and stores is a risky and financially heavy decision for brands. The alternative is to develop online advertisement and sales. China is an extremely well developed e-commerce country which has embraced online purchasing. Online platforms such as Tmall and WeChat have largely surpassed the western Amazon and Facebook and user accounts often exceed half a billion. They offer companies varied services for online sales and advertising. While partnering with these companies', Swiss watch brands will be able to access their current sales and distribution systems as well as benefiting from their vast knowledge of consumer behavior in China.

I have therefore concluded that although there are threats to selling online, such as counterfeiting, there is a concrete opportunity for Swiss watchmakers to increase their sales once again. Many watch producers still argue today that the internet is no such place for sales of luxury watches. Nevertheless, the evidence is compelling that e-commerce is a very effective and promising way to reach Chinese consumers. They must decide if they want to follow this market evolution and hop on board the "E-wagon".

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1. Introduction

1.1 Aim of the project

In 2014, The Swiss watchmaking industry reached its highest sales peak in history. However, since this peak, global sales of Swiss watches have been decreasing at an alarming rate. This market evolution was caused mainly due to the decrease of sales of luxury watches, which yield the highest value, and of sales to Hong Kong and China, the largest consumers markets. These two phenomenons are inherently intertwined. With this in mind, it is important to study three key elements. Which factors are currently influencing the decrease of luxury watch sales in China? Is there current growth potential for sales of luxury Swiss watches? What will be the most suitable sales channel for Swiss watch brands?

1.2 Methodology

During my primary research I studied various watch reports. The Digital Luxury Group 2012 “The World Luxury Index China. Watches” and Credit Suisse’s October 2013 “Swiss Watch Industry “Prospect and Challenges””. These sources gave a background of the history of the watch industry as well as its behavior near its peak. This allowed me to gain an overview of how watch brands perceived their current market and forecasted its evolution. I then studied, The Federation Horlogère (FH) “2015 Annual Report” and their “The Swiss and World watchmaking industries 2016”, both these documents analyzed the environment in which the watch market was decreasing. They suggested reasons for the industry’s poor performance. Finally, I studied the most recent watch reports done by Deloitte’s “2016 Swiss Watch Industry Study” and HKTDC “Research 2016: China’s Watch Market”. These documents gave me the perspective of each side, on one hand the Swiss manufacturers on the other the Chinese consumers.

1.3 Statement of problem

However, none of the reports gave a clear statement as to how watch brands could modify their sales process in order to invert this downward trend and once again increase their sales in the region. With the growing popularity of terms such as E-commerce, Industry 4.0 and so on, I focused my attention on online sales within the China. I noticed consumption traits showing that Chinese consumers had already grown used to online purchases as it is simpler, quicker and often cheaper for them to do so.

My study therefore focused on whether it is interesting or not for luxury watch brands to consider modifying their sales channels by incorporating online e-commerce in their business. I took a look into the changing demographics of China and the different alternatives of online platforms luxury brands have at disposal. Finally, I also studied the necessity for the online presence of brands in the country and social media's potential for reaching consumers.

My research focuses on the sales of accessible and exclusive luxury watches; those being sold for usually more than CHF 1'000.-. This mostly means that I have excluded the Swatch brand from my research. They have indeed been following different trends, such as the large introduction of smartwatches and are able to operate their business in a different manner than luxury brands such as Rolex or Breguet.

1.4 Definitions

1.4.1 Internationalization

It is the process for a company to expand its operations outside of their country's borders. In this research, I am looking into the internationalization of the sales of Swiss watchmakers. These brands are already present on the Chinese market. The aim is to value if further developing their internationalization by implementing online sales channels in a viable solution. [Business Dictionary, 2017]

1.4.2 E-commerce

Electronic commerce consists of sales transactions carried out via the Internet and delivered directly to the consumer. Most common platforms for Switzerland include Amazon and Zalando. Common advantages of e-commerce are direct delivery, ease of comparing products, stronger market competition leading to lower prices, vast array of items available and online payment. Disadvantages are the lack of seeing the product before purchase, impersonal and sometimes scarce customer service and waiting for the product versus buying it directly. We will notice that these factors influence sales of luxury watches tremendously. [Investopedia, 2017]

1.5 Overview of the Swiss watch industry

The export of Swiss watches is currently the fourth largest export industry of Switzerland. Representing around 6.5% of the country's CHF 300 billion exports, it is behind the Gems

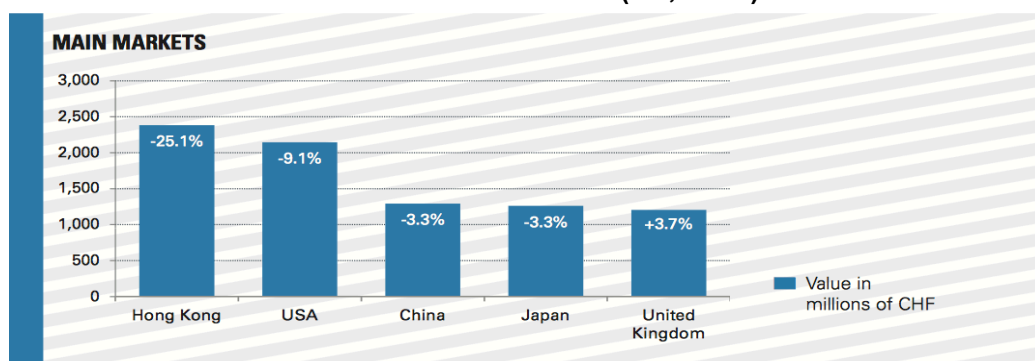
and precious metals industry (32.4%), Pharmaceuticals (22.1%) and Machinery (7.4%). [World's Top Exports, 2017]

Swiss watch sales depend tremendously on foreign demand, about 95% of our total watch production is sold abroad. In 2016 the total value of watch exports was of CHF 19.4 billion. The export market for Swiss watches has been undergoing a constant decrease since 2014 when it hit records sales of CHF 22.25 billion. Pursuing this trend, the market has decreased between 2015 and 2016 by 9.9%. [FH, 2017]

This decrease is mainly due to diminishing foreign demand. High-end and luxury watches which account for two-thirds of the total value of exported watches have been hit the hardest. Watches worth over CHF 3'000.- have had a decline of sales value of 11.6%. These alone account for 80% of the total export value decline. [FH, 2017]

Chart 1 shows that Hong Kong is the largest importer of Swiss Watches, the United States are a close second followed by China. This table also shows that almost every export market is currently decreasing with the United Kingdom as the only exception. The rate at which the Hong Kong watch market is decreasing is tremendous and will be discussed later on.

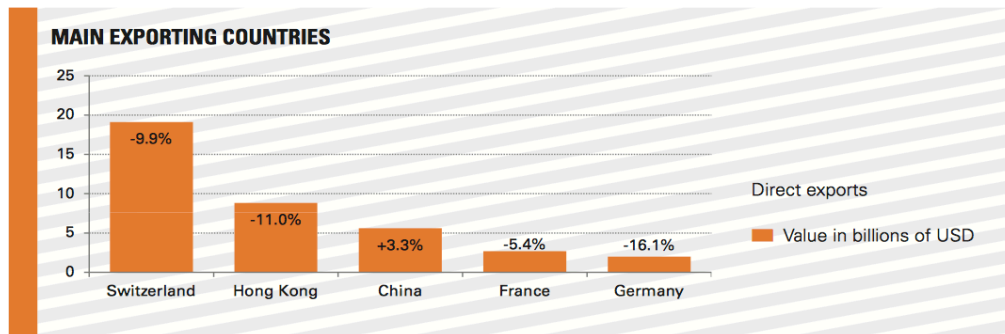
Chart 1 - Main Markets (FH, 2017)



The Swiss watch industry is controlled by a few large groups, mainly Swiss groups Swatch and Richemont and French Group LVMH. Switzerland occupies a unique position in the world of watchmaking through their multiple brands these groups dominate the luxury watch segment worldwide. [Watch Time, 2017] The high value of Swiss watches sold means that Switzerland is by far the largest exporter in terms of value.

In Chart 2 we see that the Swiss watch market largely surpasses any other country in terms of value.

Chart 2 - Main Exporting Countries (FH, 2017)



On a quantitative state however Switzerland does not produce nor export nearly as many watches as other countries. As seen on Table 1, China exports over 25 times more watches than Switzerland and Hong Kong almost 10 times more.

The difference in value and quantity is explained by the value of watches exported. On average the price of a Swiss watch is CHF 708.- whereas a watch from Hong Kong will average at CHF 24.- and in China only CHF 4.- [FH, 2017]

Table 1 - Main Wristwatch Exporting Countries (FH, 2017)

MAIN WRISTWATCH EXPORTING COUNTRIES

	Millions of units	Variation
China	652.0	-4.5%
Hong Kong	241.0	-12.9%
Switzerland	25.4	-9.8%
Germany	17.5	-20.5%
USA	10.4	+9.2%

In Switzerland watches are not only an important source of revenue, they have been part of the countries history, pride and heritage. These combined factors have contributed to the international success and dominance of luxury watches worldwide.

1.5.1 Segmentation of Swiss watches

Switzerland has an incredible amount of watch brands. These brands vary in price to accommodate most consumers on the market. Watches are usually segmented by price ranks. On Figure 1 we see the bank Pictet's take on the segmentation Swiss watch brands. Watches costing over CHF 1'000.- are generally where the affordable luxury segment begins. [Rolex Forum, 2017] This graph shows the extent of the large groups' ownership of various brands. It is a very general graph as brands offer multiple product lines that vary in price. These are the standard categories in which these brands are

usually viewed. As a first comment regarding internationalization, given that watch brands are usually part of a group they can benefit from joint supply channels and selling points which facilitates the process and reduces costs.

Figure 1 - Positioning of Watch Brands (Pictet, unknown date)

Movement	Watch market		Segment definition	Retail price	The Swatch Group	Richemont	Bulgari	LVMH	Hermès	Gucci	Others
Mechanical 33%	48% of total watch market value	Switzerland (close to 100% *)	Exclusive LUXURY (22% of market value)	More than EUR10,000 to EUR6,000	Breguet Glashütte Original Jaquet Droz Léon Hatot Blancpain	A. Lange & Söhne Piaget Vacheron Constantin	Daniel Roth Gerald Genta				Patek Philippe F.P. Journe Audemars Piguet Franck Muller Roger Dubuis Parmigiani Ulysse Nardin
			Accessible LUXURY (26% of market value)	EUR6,000 to EUR2,000	Omega Jaeger-LeCoultre IWC Cartier Van Cleef & Arpels Officine Panerai	Bulgari	Zenith	Bédat & Co. Rolex Girard Perregaux Chopard			
Quartz 66%	52% of total watch market value	Switzerland (nearly 11%)	Mid Price	EUR2,000 to EUR1,000	Longines Rado Union	Baume & Mercier Montblanc Dunhill		Chauvet Ebel Louis Vuitton	Hermès	YSL Gucci	Raymond Weil
		Others (less than 10%)			EUR1,000 or lower	Tissot Mido Certina Hamilton cK Watch Pierre Balmain				Eterna Festina Maurice Lacroix Mondaine Sector Seiko	
		Asia (nearly 70%)	Low Price	Endura Swatch Flik Flak				Casio Others			

1.6 The History of Swiss watchmaking

To understand how a country as small as Switzerland became the world leader in watchmaking, it is important to have a look back on the industry and the influence world events have had, which allowed its growth.

Germany was the first country to produce clocks small enough to be carried around. The first ever miniaturized clock to have been called a watch was made in the very beginning of the 16th century. Quickly after, this know-how and production of watches started to spread to nearby countries such as France, Italy and Switzerland. [First Class Watch, 2015]

The Huguenots in France became some of the most skilled producers in the world. During the French Wars of Religion, also in the 16th century, the Huguenots fled France to escape from the mass persecution of Protestants taking place. Many came to Switzerland and settled in the Geneva region and brought with them their skills and expertise in watchmaking. The region slowly became known for high quality watchmaking. [First Class Watch, 2015]

Later on during World War II, as most countries were at war and redirecting all production capabilities towards their army and weapons, Switzerland benefited from its neutral status and maintained watch production. As Switzerland was one of the few countries that kept producing watches this ultimately gave them a monopoly on the market. In addition, as Swiss watches were considered the most reliable many countries were purchasing them as the need for precise timing was of the essence during this time of war. The success of Swiss watches continued until the 1970's where the Swiss watch industry was supplying approximately 50% of the world's demand for watches. [Credit Suisse, 2013]

However, between the 1970's and 1980's, the Swiss watchmaking industry went through a crisis, known today as the Quartz Crisis. Switzerland's producers had missed out on the market evolution. Most watch producers worldwide had began producing quartz watches, which are electronic watches. Swiss producers did not want to change their pride products and continued producing mechanical watches. However, consumers were not purchasing them. Indeed the electrical watch revolution which was largely lead by Japanese brands, Seiko for example, were being sold at much cheaper prices. [CS, 2013]

With the diminishing demand of mechanical watches the Swiss watchmaking industry nearly disappeared. With over 1000 companies closing their doors and 55'000 jobs being taken off the market, the Swiss watchmaking industry was on the verge of collapse.

1.6.1 Swiss watch recovery

The rebirth of the Swiss watch industry can be attributed to a repositioning strategy took by Swiss watch brands in the mid-1990's. Their strategy was to focus on high-value and luxury watches. They had missed the 1970's market change but had this time identified the current threat to the watch industry. [CS, 2013]

During the 1990's, electrical devices such as mobile phones and computer were on the rise and becoming more and more affordable for consumers. These machines were more reliable as time indicators than most watches. Therefore, rendering the need for watches obsolete. The traditional wristwatch as it had been known had lost its main function, time measurement. [CS, 2013]

Swiss watchmakers knew that in order to stay relevant and to continue existing they would need to change their position in the market as well as their image in the watch industry.

Watch brands went through a process of rebranding, with their focus on high-end watches they transformed their market position by finding new selling points and appeal in watches, such as:

- They marketed by selling the emotional and symbolic value of their watches. Owning a Swiss brand name watch became a pride for consumers, it conferred social status, through its exclusivity and quality.
- Advertisement also promoted different aspects of the watch, technical improvement, company know-how, heritage and traditions, brand reputation, luxury materials and overall aesthetics of the products.
- Putting forth the “Swiss Made” label. Switzerland benefits from a positive international view, the country inspire quality, tradition and reliability to consumers which is what luxury watches strive to produce and sell.

The change in perception of Swiss watches in consumers happened. Luxury Swiss watches were a must among elite groups. It had indeed become a cultural and social status symbol. This especially impacted mechanical watches who prior to the watch crisis had been selling as low-end watches were suddenly being revived as prestige and luxury products which took an impressive boom in sales. [CS, 2013]

In parallel to the repositioning Swiss watchmakers were making, a new phenomenon was taking place worldwide, the rise of globalization for luxury products. There were wealthy groups of society in every country and all of them wanted the most prestigious products available. Between 1995 and 2012 the worldwide sales of luxury goods bounced from 77 billion to 212 billion Euros. Luxury Swiss watches were the main brands sought out by consumers. [CS, 2013]

Chart 4 and 5 show the market transformation of how Swiss watches were being sold internationally. Since 1992 the amount of Swiss watches being exported was on a downwards trend, mostly due to Quartz watches. However, the value of the watches being exported was increasing rapidly (notice export price Chart 4). The growth in the market is due to the high-value focus mentioned previously. Watch prices were rising and establishing themselves as the main luxury watches worldwide. We see clearly in 2012 for example that although sales of mechanical watches were less than one fourth of total watch exports they represented over 76% of the export value. The average price having gone up from CHF 200.- in 1995 to almost CHF 700.- in 2012.

Chart 3 - Exports by Type of Watch, Number of Units (Credit Suisse, 2013)

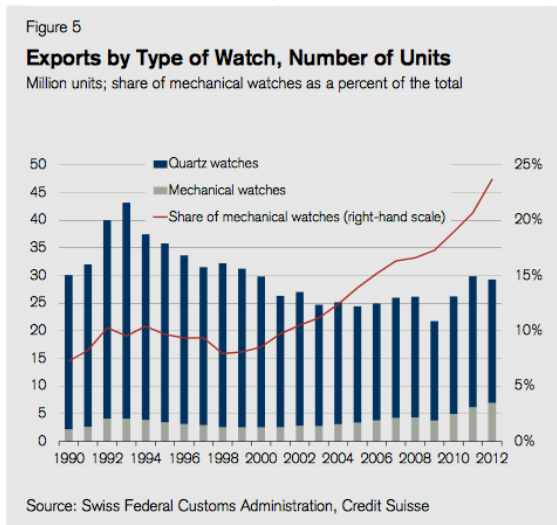
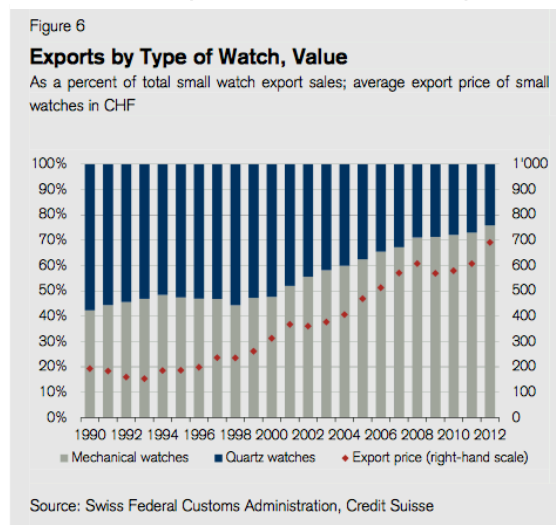


Chart 4 - Exports by type of Watch, Value (Credit Suisse, 2013)



The destination for Swiss exports as well as their main consumers evolved tremendously throughout the years. In 2000, the United States was the largest market of Swiss watches sales with an 18% market share, Hong Kong due to its role as a special administrative region of China was second with 14%, Japan was third at 9% and Mainland China only had 0.4% of direct market exports. However, in 2008, Hong Kong became for the first time the largest importer of Swiss watches and by 2012 was the responsible for 20% of Swiss watch sales. China became the third largest export market with 8% and the United States who suffered the most during the economic crisis maintained its second place with 10% of exports. Swiss watch brands were growing at their largest rate ever due to the growth of Chinese consumption. [CS, 2013]

1.6.2 Hong Kong's historic role

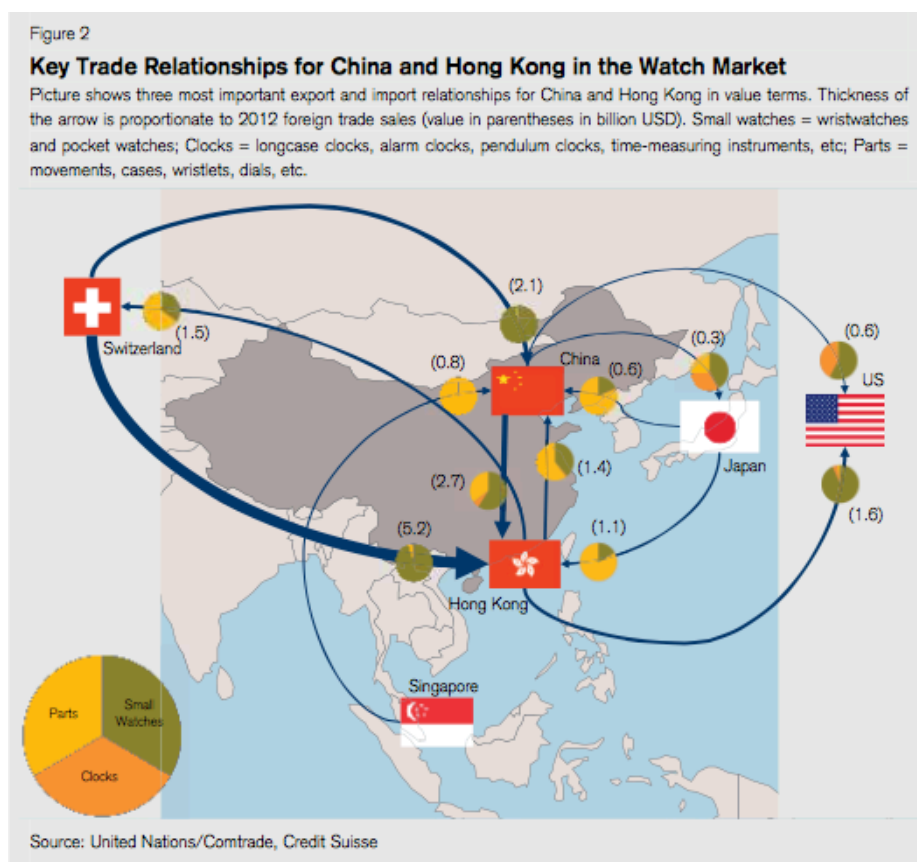
Hong Kong, for many years, occupied a vital role for companies willing to interact in business with China. As a special administrative region of China they acted as a bridge linking and facilitating business between China and the rest of the world. Hong Kong acts as a business hub for Swiss companies. With its current status it operates as an independent territory which applies its own trade policies. They do not impose any taxation or customs duties on imported products. This has made it a favorable destination for sales and distribution center, re-exporting watches to surrounding countries in Asia, mainly China. [The Economist, 2014]

Finally, being a popular destination for Chinese tourists, as they did not then need visas to visit, the city attracted many wealthy Chinese seeking to purchase luxury products in bulk during shopping trips. [The Economist, 2014]

Hong Kong's role, as will be further explained, has diminished along the years. China has now opened its borders and become directly accessible in the global economy. Nevertheless, Hong Kong is currently the largest importer of Swiss watches in the world

Figure 2 expresses the vitality of Hong Kong in the watch industry at its peak in 2012. Hong Kong as a business hub was the distribution center of products leaving and entering China. It is interesting to note that these trades did not only include finished products but also Chinese watch parts that were used by producers worldwide.

Figure 2 - Key Trade Relationship for China and Hong Kong in the watch market (Credit Suisse 2013)



2. Market Analysis

2.1 Current Hong Kong and Chinese market

2.1.1 Hong Kong

Since the beginning of 2008, Hong Kong has been the largest importer for the Swiss watch making industry. Being a Special Administrative Region of the People's Republic of China it became a key partner for Swiss watchmakers in order to reach mainland China's growing wealthy class. [CS, 2013]

Nevertheless, in the 2016 Deloitte survey it appeared that Swiss watch companies had reserved opinions of the importance Hong Kong will have in the future. Indeed, the market has been declining tremendously since 2014. It is currently experiencing its largest drop since the 2009 economic crisis [Deloitte, 2013]

This evolution poses great stress and pessimism for Swiss watchmakers who have for many years increased their production potential and suppliers in order to fulfill the growing orders coming from these regions.

There are a couple reasons for this downward trend that can be easily identified, some of these reasons are the same for China and Hong Kong but it is important to show the dependence Hong Kong has on China. Any governmental or economic change can directly impact Hong Kong sales:

- China has been going through challenges. They are experiencing their own economic slowdown and market share declined for the first time in 2015. This has made consumers more attentive and careful on spending's. [Gentlemen Marketing Agency, 2016]
 - A decrease of about 20% of foreign currencies in the National Bank. This means that less liquidities are available and fewer spendings from China are occurring on an international level.
 - President Xi Jinping's anti-corruption campaign lead to a decrease in luxury purchases by Chinese and therefor directly impacted Hong Kong. [Gentlemen Marketing Agency, 2016]
 - There have been fewer Chinese that have visited Hong Kong in recent years. This can be explained by a two main reasons. Firstly, there has been changes in visa requirements for Chinese tourists. In addition, current political uncertainties in the region meant less shopping tourists coming to Hong Kong. Finally, Chinese
-

tourists are now travelling to more various destinations such as Japan, South Korea and Europe where they can buy their luxury watches. [Gentlemen Marketing Agency, 2016]

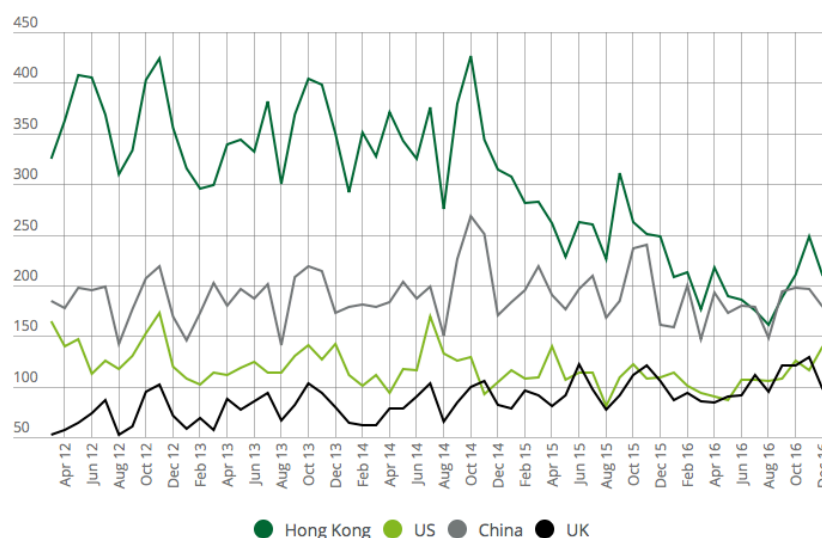
- The strength of the Swiss Franc is causing a price increase for Swiss products, largely impacting the luxury industry. After the Swiss National Bank abandoned the exchange rate floor in 2015, prices for Swiss products increased globally. [Deloitte, 2016]

Finally, one of the main reasons why exports to Hong Kong have been decreasing is that watch resellers are not being able to sell their current watch inventory and therefore cancelling future orders. Resellers and stores in Hong Kong have accumulated inventory build-up and are resilient in placing new orders before being able to liquidate their current stock. Watch companies are trying to find ways around this overload of luxury watches in the area. For example: The group Richemont, which owns brands such as Jaeger-LeCoultre, Vacheron Constantin, IWC and Piaget, has been buying back inventory from their resellers. They want to relieve market congestion and free up display cases for their newer collections, hoping these will sell better. [Deloitte, 2016]

Chart 5 shows the incredible decrease that exports of Swiss watches to Hong Kong have taken. We can notice that it has almost been cut in half. China has also been experiencing decreases in sales but at a much smoother rate. For the small increase at each end of the year, this is due to the higher amount of festivities and cannot be considered as the market growing again.

Chart 5 - Swiss Watch exports (Deloitte, 2017)

Swiss Watch exports (CHF, m)



2.1.1.1 Grey market

The last notion of inventory build-up and stock liquidation introduces another issue Swiss watchmakers are having in the region.

The flood of Swiss watches in Hong Kong and the impossibility for resellers to liquidate their stock is forcing them to sell genuine watches at a lower price without the permission of the brands. Such practices are done in order to increase their available liquidities and can therefore order newer collections. The discounts offered generally vary between 30% and 40%, versus the maximum of 20% allowed by most manufacturers. These watches can be recognized due to the lack of “manufacturer’s warranty card, dealer’s stamp and serial number” which are removed in order to reduce traceability. [American Watch Clockmakers Institute,-]

This secondary market is known as the grey market. For watch producers having their products sold at a discounted creates several issues:

- High reputational risk, luxury watches are not meant to be sold at affordable prices. If high-end consumers believe it is an affordable product they will not buy the brand’s products. It can be viewed in this regard, luxury is often assimilated with scarcity, the less a material is available the more expensive it costs. The same goes for luxury items. [AWCI, -]
- Warranties are often invalid. In order to discourage unauthorized transactions manufacturers refuse warranties for products sold on the grey market. Unfortunately, consumers don’t always understand that their purchase was done unlawfully. They often think they found a good deal and discover only later on when the watch needs to be repaired. A poor experience for a Chinese consumer with a brand can quickly turn into an uncontrollable word-to-mouth nightmare. [AWCI, -]
- This is an illegal business. Unknowing consumers can get punished by the government if their purchase is discovered. This can create huge negative public relations waves for a company if their products are the reason someone was punished. [AWCI, -]

2.1.2 Evolution of the Chinese market

Switzerland’s exports and sales of watches have grown tremendously in the last decade. This has been made possible greatly because of the economic rise of China and their love for foreign luxury products. However, in recent years the market has gone through many phases and has had to operate through various challenges.

In the end of 2012, as the Swiss export to Hong Kong and China was at near its best, Chinese President Xi Jinping launched a nationwide anti-corruption campaign. The goal

of this campaign was to hammer down on the high levels of corruption that were taking place among the country's elite operatives and civil servants, commonly referred to as "tigers and flies". [Wikipedia, 2017] This campaign had a direct impact on the Swiss luxury watch industry whose products were being sold in China and Hong Kong and frequently being used as gifts to state and company officials during trades, meetings and agreements.

Following Xi Jinping's campaign, sales of Swiss luxury watches decreased, it was reported by the Federation of the Swiss Watch Industry (FH) that between 2012 and 2013 direct exports to China had diminished by 12.5%. [Financial Times, 2014]

This decrease was also caused in part by Chinese consumers becoming more aware of the high domestic prices they were paying. The Chinese government imposes high VAT, import taxes and their consumption tax on luxury watches is 20%. This led to a fall in sales in mainland China. [Financial Times, 2014]

However, this did not mean that Chinese were purchasing less luxury items. Indeed, while sales were decreasing in mainland China, sales of luxury items to Chinese were growing globally. Chinese were travelling and purchasing their luxury watches abroad. In 2012 there had been 83 million overseas trips coming from China and in 2013 had reached 97 million. [Financial Times, 2014]

The FH's report showed that between 2012 and 2014 exports of Swiss watches to the United States grew by 12.8% and in the United Kingdom by 44.5%. Between 2014 and 2015, Japan and South Korea also became a prize destination for Chinese tourists to purchase luxury goods, the Japanese market growing by 251% and the South Korean by 33%. Interestingly at the same time, Chinese consumers were losing interest in Hong Kong. The region who is still today the largest importer of Swiss luxury watches dropped by 25%. [Financial Times, 2014] In 2012 the Wall Street Journal estimated that China overseas buyers were spending over CHF 15'000.- in shopping per trip. [Digital Luxury Group, 2012]

Many watch companies, such as Roger Dubuis and Jaeger-le-Coultre, were spending most of their advertisement budget in China. They concluded that although sales were not happening in the country, brands needed to be known and interest Chinese before they travelled abroad. [Financial Times, 2014]

In 2014, estimates showed that although China accounted for only about 8% of exports of Swiss luxury watches, Chinese were actually purchasing about 35% of these watches worldwide. [Financial Times, 2014]

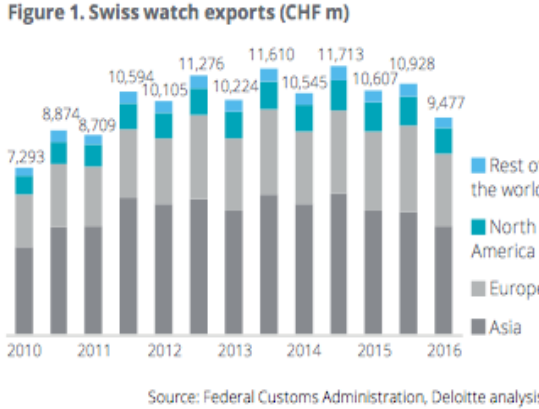
“People assume luxury equals China, but it doesn’t. Luxury equals Chinese”

Mr Erwan Rambourg, HSBC’s global co. Head of consumer and retail research in Hong Kong 2015

In 2015 China experienced a first time drop in its stock market. On the 12th of June 2015, Shanghai’s stock market bubble exploded, within the next month the Shanghai Stock Exchange had lost a third of it’s value. [Wikipedia, 2017] This financial uncertainty and period of reduced growth meant that Chinese were more cautious in spending their money. One of the first segments to be impacted was the luxury market. The most affected types of products were men’s clothing, handbags, suitcases and watches. This happened at the same time as the arrest of Zhou Yongkang, former Chinese security chief, which re-launched Xi Jinping’s campaign and revived fears of arrest. [Gentlemen Marketing Agency, 2016]

For the first time since 2009, exports of Swiss watches had decreased. The Deloitte Chart 6 clearly shows the beginning of this trend. We can observe that most regions were still remaining quite stable. Export to Asia however, which are mostly motivated by Hong Kong and China, is the most noticeable decreasing markets. Combined, these two economies were responsible for the decrease of Swiss watch exports which were not growing sufficiently elsewhere.

Chart 6 - Swiss watch exports (CHF m) (Deloitte, 2016)



Additionally, the Chinese customs department increased their efforts to crack down on illegal Daigou activities. Estimates of the Daigou luxury market evaluated an impressive drop in sales going from 55-75 Billion RMB to 34-50 Billion RMB. This effort continued in 2016, checking tourists returning from vacation. [Gentlemen Marketing Agency, 2016]

In 2016 the Chinese government was trying to drive up local sales of luxury goods. In efforts to do so, the Chinese customs introduced a tax on imported watches by tourists.

This tax increased from a previous 30% to a much higher 60%. Swiss watchmakers estimate this will have a considerable impact on sales of Swiss watches internationally as the taxes for a watch will now be over half of the watches value. [Deloitte, 2016]

In addition, there have been less and less Chinese tourists visiting Europe and Switzerland. The Chinese government introduced a new visa application system to the Schengen Zone. Chinese willing to travel abroad can no longer send their passport directly to consulates. They now have to go in person to a Consulates as fingerprint identification is now part of the visa process. The Swiss consulates are usually found in major cities such as Beijing, Shanghai and Guangzhou. [Deloitte, 2016]

As a direct effect there has been a strong decrease of Chinese tourists in Switzerland, between January and June 2015 451'000 Chinese tourists had visited Switzerland, during the same period in 2016 there were only 373'000. Although the change has had very little effect as of the end of 2016, Swiss producers are afraid that if this trend is maintained, sales of watches within Switzerland and Europe will likely suffer. [Deloitte, 2016] The Swiss government and the National Tourist Office are currently working on a simplified process that would only require mobile biometric stations to get a visa in order to counter this decrease. [Deloitte, 2016]

Finally, visits to Europe have been impacted in recent years due to the continuous terror attacks. To mention a few: London, Paris and most recently Manchester attacks. Chinese have indeed come to understand that Europe is having issues with terrorism and Chinese are deciding to visit other destinations they view as safer, like Japan.

In addition to market demand being lower, Swiss watchmakers have understood that their prices are too high due to taxes and the strong Swiss Franc. Some watch brands such as IWC Schaffhausen, Baume and Mercier and Blancpain have decreased the prices on some of their lower product lines. They did so with reservations, the luxury industry is mostly about the perception of the brand. Price reductions are always a risky take on business as it could unwillingly modify the consumers view of the brand. [Deloitte, 2016]

2.1.2.1 What are Daigous?

Daigous are illegal sales channels in China. As China imposes high taxes on luxury items many Chinese try to find ways around they system to purchase cheaper luxury items. Daigous consists of Chinese going to purchase luxury goods abroad, where prices are cheaper, and bringing them back without declaring them to customs and finally selling them at a profit while remaining cheaper then store bought items.

Usual cities for Daigou shoppers to visit are: Hong Kong, Seoul, Tokyo and New York. Daigous have recently taken a larger presence online, selling on e-commerce platforms, which insures their anonymity. The Chinese government is working hard to destroy Daigous as they are stealing large amount of tax income from the government, selling untraced corruption goods as well as aiding the proliferation of counterfeited goods. People found operating a Daigou risk heavy fines or imprisonment. [Wikipedia, 2017]

2.1.3 Chinese taste in watches

It is indeed important for luxury watch companies to understand Chinese taste and preferences. In 2016 The HKTDC conducted a market research to understand which attributes and factors were important for Chinese consumers when purchasing a watch. They also studied how Chinese have been purchasing watches so far and how much they are willing to pay.

The main reasons Chinese consumers say they wear watches are: To bring out their personal taste and image (50%), they like watches (49%), to accessorize (48%), time keeping (40%). Most respondents agreed that wearing a watch portrays the image of a person who is mature, stable and punctual and that wearing a nice watch can be favorable during business events. [HKTDC, 2016]

The 2016 HKTDC study showed that Chinese own on average 3 watches. The type of watches varies between men and women.

	Men	Women
Business watches	69%	51%
Casual fashionable wear	69%	83%
Smartwatches	55%	55%

Men who usually own several watches usually tend to have one for their work environment and another for leisure. Women on the other hand mostly own leisure watches. They tend to chose a watch based on its design and style. However, Chinese women are increasingly interested in purchasing Business watches as they are rising to higher positions in companies. The Chinese market does tailor many business watches to women. [HKTDC, 2016]

For Chinese men, the most important factor before purchasing a watch is the brand followed by design and style. Chinese prefer styles that are recognizable and that can

quickly be affiliated with a specific brand. In terms of watch preferences most Chinese consumers are still in the primary stage. This refers to consumers who own a few watches that conserve a traditional style. [Hong Kong means Business, 2016]

Chinese are often influenced by their entourage and mostly their peers when purchasing a watch. It has been noticed that brands will sell differently in areas due to consumer awareness of the brand. Chinese will purchase a luxury watch mostly in order to show it off and be recognized as someone successful. In areas where only famous brands such as Breitling and Rolex are known it is unlikely that consumers will purchase a Jaeger-Le-Coultre or Chaumet as these are brands known mostly by connoisseurs and watch enthusiast in China.

2.1.3.1 Spendings on watches

Finally, according to a 2015 Chinese online poll, consumers were asked how much they would be willing to spend on a watch. The vast majority (62.3%) answered that they would pay less than RMB 10'000 (CHF 1'420)¹, 21.3% were willing to pay between RMB 10'000 and RMB 30'000 (CHF 1'420-CHF 4'260), 8.5% between RMB 30'000 and RMB 50'000 (CHF 4'260-CHF 7'100), 5% for a watch costing between RMB 50'000 and RMB 100'000 (CHF 7'100 and CHF 14'200) and finally 3% were willing to pay over RMB 100'000 for a watch (CHF 14'200). [HKTDC, 2016] As this survey was done online it has to be understood with a pinch of salt as findings do not reflect actual real time events. Nevertheless, as Swiss luxury watches tend to cost CHF 1'000.- and upwards it can be determined that a large amount of Chinese consumers are willing to pay a decent price to purchase a quality watch. As we can see 37.7% of consumers revealed that they were willing to pay over RMB 10'000 for a watch. Even if we take a much more conservative estimate of 10% (much lower as a reserve to online surveys which can often express desires as opposed to reality and because only people with an internet access could enter the poll) when applying the fact that China has a population of now over 1.3 billion this still amounts to 130 million potential consumers for watches going upward of CHF 1'000.

2.1.4 Chapter conclusion

2016 was another tough year for the Swiss watch industry, as sales continued to drop in both China and Hong Kong. According to many market experts, exports are likely to

¹ Exchange rate of May 2017 was used to convert RMB into CHF according Xe currency converter

continue falling. It is evident that there are many challenges facing the watchmaking industry in China today. Taxes imposed by the Chinese government are putting the most strain on the watch industry with their constant increases. We will see later that the Swiss-Chinese free trade agreement will not have as much impact as was once thought to decrease prices in China. Swiss watch producers have no impact on these taxes and therefore must comply to what the government imposes. However, there are true signs that show that Chinese consumers are still very much interested in purchasing Swiss luxury items. With the signs coming from Hong Kong that they are no longer the go-to destination they once were for Chinese tourists, Swiss watchmakers need to find new routes to reach their Chinese customers. Finally, I don't believe price dropping is the correct procedure. In many industries as soon as one market player reduces prices the rest are usually pushed to follow. In the luxury watch department this would be counter-productive as price reduction will further the decrease in exports value while rendering the product more common. Chinese like a good deal but they keep in mind that they want their watch to portray wealth as well. Time will tell if this is a viable solution.

2.2 Challenges in the Chinese market

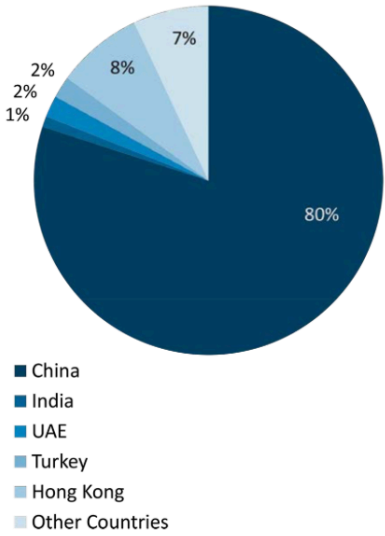
In addition to the Hong Kong and Chinese market challenges mentioned in the previous chapter, the Swiss watch industry is facing more environmental challenges.

2.2.1 Counterfeited watches

The war on counterfeited merchandise is one that almost every brand has to fight. However, when it comes to Swiss luxury watches it is relatively bizarre as the country producing the most fake watches also happens to be the biggest consumer of genuine watches.

During 2016, the FH estimated that over 40 million fake watches were produced worldwide this is, in comparison with the actual 30 million genuine watches manufactured, an astounding amount. These counterfeited watches are often of luxury brand-name watches and sold worldwide. [Deloitte, 2016]

Chart 7 - Origin of counterfeit products (FH, 2016)



Origin of counterfeit products (Source: TAXUD)

General effect of counterfeiting

- Is an illegal act and punished by law;
- Is often linked with human trafficking and undeclared workers;
- Is deigned theft as well as intellectual propriety infringement;
- Has a negative impact on company sales and the general economy;
- The industries often ignore safety and health codes for their workers;
[AWCI, -]

In Chart 7 it is easy to understand the weight China has in term of counterfeited watches, with 80% of the worlds production of fake watches this shows that the need for cooperation and partnership with the Chinese government's is essential to help combat the proliferation of fake watches. [FH, 2016]

In Switzerland brands protect their products internationally by patenting their brand, brand domain, designs and drawings on an international scale through the World Intellectual Propriety Organization (WIPO)

2.2.1.1 Organizations working against watch counterfeiting

In Switzerland, the Federation Horologère (FH) works to help their members defend their products internationally. With the help of the Anti-Counterfeiting Group and the Internet Unit, these organizations work in partnership with countries in order to takedown counterfeiting companies.

Their goals are to protect Swiss geographical labels ("Swiss" and "Geneva" gives a strong importance in terms of quality and reputation to products and are strictly regulated labels), analyze fake watches, lead direct market investigations, defend intellectual property rights, raise international awareness in populations, training authorities to detect fake watches (as technologies are advancing quickly this process has to be renewed frequently and help governments combat prevalence of counterfeiting sales online). [FH, 2016]

Intellectual Propriety in China has always been an issue for companies as copying products is usually common practice in the country. However, China does have an Intellectual Propriety agency called "State Intellectual Property Office of the People's Republic of China, a.k.a. SIPO. [Wikipedia, 2017] Also fighting against counterfeiting in China, the Anti-Counterfeiting Group works directly with the Chinese "Quality Brands Protection Committee" which is a member of the organization.

2.2.1.2 Online counterfeit watches in China

Counterfeiters have discovered that selling online is an efficient sales medium. There is a growing number of offers and advertisements online for fake watches, with or without the knowledge of the customer. Selling online presents a unique advantage to counterfeiters as they can easily remain anonymous.

Online ads on social media and Chinese websites have gained popularity, in order to counter this growth, the FH opened offices for its Internet Unit in Hong Kong in the end of 2015. Indeed, in recent year Chinese sales platforms have become important sales channels for fake watches. These fake platforms are exceptionally hard to identify and takedown. They often target phone users, specific local markets and are untraceable abroad. In addition to the language barrier it is almost impossible to close them from Switzerland. This new team has been showing progress in its fight against illegal online counterfeit. New tools are currently being designed to recognized and notify the unit when identifying false ads. [FH, 2016]

Online purchasers are often young consumers who are relatively uninformed and hope to purchase a luxury item. They are easy targets for false advertisement and fake products which can look authentic. It is hard to believe luxury Swiss watches will be on sale for up to 90% but with all the online sales platforms in China they sometimes think they found the lucky page. The FH is hoping that consumer will start learning to differentiate between authentic and fake pages. [FH, 2016]

This online counterfeit takes place on even the biggest sites in China. In 2011, the Chinese equivalent of Groupon, Gaopeng, had a deal for genuine Tissot watches. The website was selling brand name watches for a little over \$100.-. They turned out to have been counterfeit and the website reimbursed all the purchases. The company said they had been tricked by fake documents. [Reuters, 2011]

Other big online sales company Tmall.com was contacted by the FH. They had many infringements in regards to “Swiss made” labels on the description of various watches. Advertising a false origin is also a form of counterfeiting. The process however to take this false information down was relatively easy as the website has introduced an informal system to notify violations to their intellectual property staff. [FH, 2016]

Although there are signs of decreasing amounts of fake watch sales online this still remains one of the core problems anti-counterfeit agencies are dealing with.

2.2.2 Smartwatches

There is currently little sign that smartwatches will pose direct market threat to luxury Swiss brands. However, it is important to mention how their sales have skyrocketed. In 2015 Apple introduced its “iWatch”, this launched the smartwatch trend (Samsung and Swatch quickly followed with their own versions). By the end of the year roughly 30 million smartwatches had been sold worldwide and estimates predicted that 50 million smartwatches were to be sold in 2016. [Deloitte, 2016]

Many luxury watch brands consider that smartwatches would not fit into their brand’s portfolio. This could potentially lower the brand’s image. Although both are worn around the wrist, consumers have very different expectations of these two products. Watches are to be elegant whereas smartwatches should allow making phone calls, keep track of their health, keep a calendar and so on. [HKTDC, 2016]

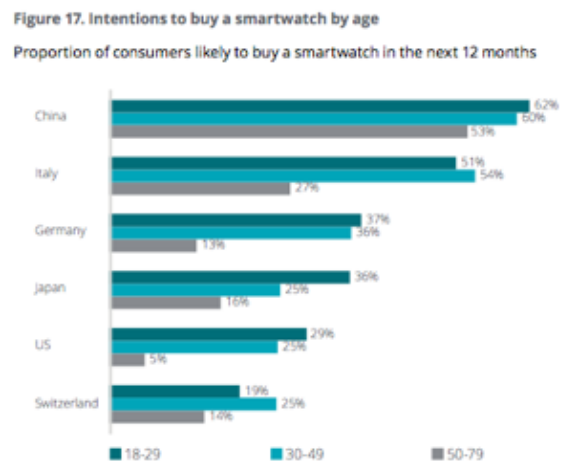
Tag Heuer and Breitling have nevertheless taken a leap forward and introduced their own line of Smartwatches. In 2017 Tag Heuer is launching their new watch Connected 45 which will retail at around CHF 1’500.- whereas Breitling introduced the Exospace B55 selling at over CHF 8’000.-, the iWatch costs about CHF 300.- in Switzerland [Deloitte, 2016]

Deloitte surveyed consumers worldwide in order to find out the popularity and purchase intentions of smartwatches. The findings were that 59% of surveyed consumers were likely to purchase a smartwatch in the next 12 months. Out of these people 62% were between 18-29, 60% between 30-49 and 53% between 50-79.

Chart 8 shows that not only does the Chinese market strongly react to new technologies but that people of all age groups are seeking these alternatives. They are the largest population group to be interested in this trend.

For some Swiss watch brands there is a growing idea to introduce high-end Smartwatches for young and wealthy consumers. This would create an early on brand awareness and would hopefully encourage them to remain loyal to the brand later on.

Chart 8 - Intention to buy a smartwatch by age (Deloitte, 2016)



2.2.3 Competition in China

The watch market is separated in three main categories: high-end, mid-range and low-end products. The same goes for China.

The high-end watch market is largely dominated by Swiss brands, According, to the Digital Luxury Group the top watch brands in China in 2012 were: Omega, Rolex, Longines, Cartier, Rado, Patek Philippe, Vacheron Constantin, IWC, Piaget and Chanel. Out of these 10 brands 8 of them were Swiss. This clearly shows the importance Swiss watches has in China. Back then, these 10 brands accounted for 80% of online searches for luxury watches, which showed the desire Chinese had for these specific well-known household brands. [DLG, 2012] We can easily say that as of today, competitors for Swiss watches are mostly other Swiss watches and I remind many of these brands additionally belong to the same watch groups.

The mid-range market is more cluttered, brands from the United States, Europe, South Korea, Japan and Hong Kong compete for their market share. The low-end is mainly Chinese watches. Chinese brands are often assumed to be of poor quality and cheap, but this is a quick assumption, new Chinese watch brands are appearing on the local market and increasing in quality. [HKTDC, 2016]

2.2.3.1 Chinese watch brands

China's most established domestics brands are Fiyta, which offers worldwide shipping, Tianjin Seagull, Ebohr and finally Rossini [HKTDC, 2016] a watch company founded by a Swiss watchmaker in Singapore before it was moved to China in 1984. [Fine Watches of China, 2017] These brands are still young are unknown to most consumers but they have been acquiring their market position in China and growing at a decent pace. Many of them are starting to be present in international expositions such as the Hong Kong clock and watch fair and Baselworld. [China Daily, 2015] They are repositioning their brands from the infamous "Made in China" towards "Created in China". Indeed, these brands are developing new techniques of watch making and patenting many of their processes. According to HKTDC 2016 report, Tianjin Seagul has patented their state of the art Tourbillon and minute-repeated. China is the largest producer of watch parts in the world. 27% of watch movements are purchased from China. They are still far from being direct competitors to household names like Breitling or Breguet but their potential cannot be entirely underrated as they could one day catch up with Swiss brands. It is important to remember that the Chinese government is currently increasing taxes on

foreign luxury watches. Local producers will not be as heavily taxed and might one day be interesting for high-end local consumption. [HKTDCC, 2016]

2.2.4 Chapter conclusion

With the Chinese government cooperating more with watch unions and anti-counterfeiting organizations, this allows them to take down fake watch resellers easier. However, sales online of counterfeiting goods will slow down the pace at which Swiss brands are willing to sell their products online. Indeed, this will create a larger confusion in consumers having to work harder to distinguish real watches from fakes online. Smartwatches as mentioned are not yet direct competitors as they serve a different utility. Apple watch has even withdrawn their golden iWatch selling for \$17'000 from the market due to lack of sales. Additionally, sales of other luxury smartwatches have received very little market success. In time though, as smartwatches will incorporate more and more vital functions, medical tracking for example, their services might surpass the show of status and success that Chinese desire. Finally, as of the evolution of smartwatches, the rise of Chinese watch brands will also play a larger role in the future. In many industries Chinese brands are catching up with foreign brands. For example: computers with Lenovo and phones with Huawei. Nothing says the same can't happen with luxury watches. This possibility is still far but with the help of the Chinese government as well as their market proximity and the knowledge these brands are acquiring, they could either one day become part of the current leading watch groups or become direct competitors. As they are present in events like BaselWorld it shows they are attracting international attention

2.3 Events in the Swiss watchmaking industry

2.3.1 Swiss Made requirements

In this research I have not talked much about Swiss watch companies producing in China. Indeed, for high-end watch brands this is a very delicate situation and topic. On the one hand, they would be able to produce at a lesser cost and have production proximity to their Asian market but on the other hand most consumers value the "Swiss Made" label as one of the most significant factors of Swiss Luxury watches and the product quality and authenticity it provides.

According to Swiss law, these are the current requirements Swiss watch brands need to meet in order to market their products as Swiss Made:

- The watches movement have been cased up in Switzerland
- The watches final inspection is done in Switzerland
- The movement within the watch are Swiss

In order for the movement to qualify as Swiss it must:

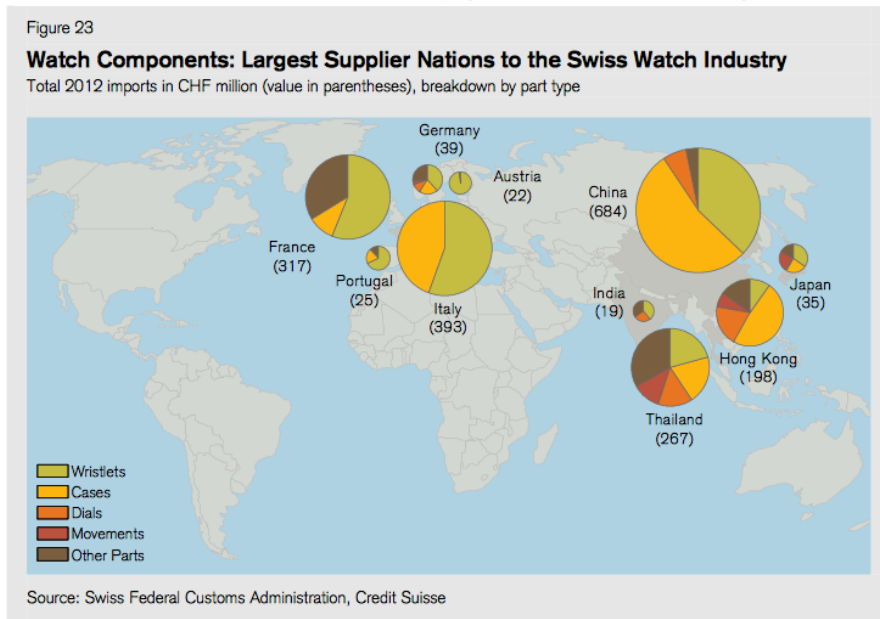
- Have been assembled in Switzerland
- Gone through inspection within Switzerland
- The components must come from Swiss manufacturing for at least 60% of its value. This has been raised as of 2017 from the previous rate of 50% [A blog to Watch, 2014]

Most of the value of watches is either found in the materials used or in the movement of the watch. With all these requirements it is hard for Swiss watch companies to internationalize too much of their production or assembly line. This would lead to multiple back and forth of the watch between Switzerland and China which would increase the duration of production but also maybe ultimately be more expensive. The risk of losing the right to market their watches as “Swiss Made” would be considerable. Many consumers have stated that they had no interest to purchase a luxury Swiss watch brand that was produced in China. The reputation of “Made in China” does not resonate well with luxury brands.

Furthermore, the 2016 Deloitte report shows that a great deal of luxury Swiss watchmakers have in fact been increasing their production facilities in Switzerland. Jaeger-le-Coultre, Vacheron Constantin, Piaget, Hublot and Patek Philippe have recently increased their production capabilities. Patek Philippe is currently investing CHF 450 million to increase their production plant in Plan-Les-Ouates. [Deloitte, 2016]

However, Swiss brands do import watch components from China and internationally. On Figure 3, we can see the vast market of watch parts imports to Switzerland that was taking place in 2012, at the height of Swiss watch production. China was already the largest supplier. The most imported parts to Switzerland are the wristlets at over 50% (bracelet of the watch) and the case of the watch at almost 20%. These parts are not as vital in the Swiss made law so can be used even for Swiss Made products.

Figure 3 - Watch Components: Largest Supplier Nations to the Swiss Watch Industry (Credit Suisse, 2013)



2.3.2 Bi-lateral agreement and import taxes to China

The Swiss-Chinese free trade agreement officially came into place as of July 2014.

The goal of this agreement was to facilitate business between the two countries and decrease import tariffs. China had agreed to progressively decrease import tariffs to 0% for 84.2% of Swiss products imported. [HKTDC, 2016]

Among discussed products we find the case of Swiss watches. Tariffs of watches according to the agreement were to decrease by 18% the first year then by another 60% in the following 10 years. [HKTDC, 2016]

Since its implementation the FH has been paying close attention to the bi-lateral free trade agreement. In the beginning, Swiss watchmakers and exporters ran into issues with Chinese customs. Many agents had no knowledge of this agreement nor what it implied. Maritime exports which hardly impact luxury Swiss goods, were those who encountered the most difficulties. However, for air traffic imports transiting through Hong Kong, documentation required by the Chinese customs has decreased and the process has been simplified. There is no longer the obligation to deliver the “Non Manipulation Certificate” previously needed. [FH, 2016]

The FH had other concerns as well: plans of the Chinese government to increase taxes on high-end Swiss watches, also known as luxury tax. The Chinese government is planning to launch a nation-wide tax reform which has the potential to increase duty rates but also lower the base value of products included in this tax. This would lead to larger amount of brands and watches being imposed by these taxes. [FH, 2016]

This decision for this reform belongs only to the Chinese government. However, the FH considers that if such a tax reform should occur this would highly contradict with the efforts previously taken during the signing of the free trade agreement and the expectations for a positive impact for sales of luxury watches heading to China. Indeed, the Free-trade agreement does not include VAT and consumptions tax, meaning that the prices of Swiss high-end watches are unlikely to decrease in any significant way. [FH, 2016]

2.3.3 Chapter conclusion

Swiss-Made requirement having being increased, means that luxury watch producers are now even less likely to internationalize their production abroad. This increase however has benefits for some companies. Rolex for example, produces almost all of their watch parts in Switzerland, going as far as melting their own steel. For companies in this situation, this change does not impact them and simply adds value to their “Swiss Made” label. For brands that are now under the requirements they will have to bring back parts of their production back to Switzerland. With companies strengthening their production in the country it is unlikely to observe any major delocalization. Finally, as the Swatch group has decided to stop selling watch components to competitors, many brands have also been brought to develop their own production capabilities.

In addition, Swiss watch brands were hoping that the free trade agreement would allow them to harmonize their prices in China with international markets. If such had been the case, it would have been a major selling factor for brands and would have seen a large increase in sales within the country.

3. Discussion

Having identified the market trends in China. We can now look at how luxury Swiss watch brands have to go about their sales internationalization, where they will be able to find new consumers and how they can reach them.

3.1 Sales Channels in China

3.1.1 Demographics of China

Before thinking of selling in China, watch brands have to understand where their potential clients are. China's market landscape is changing. Indeed, the population and wealth distribution has been evolving drastically, major cities such as Shanghai, Beijing and Shenzhen are still the main economic centers of China but it has to be understood that other cities are growing tremendously and lifting a large part of their population into the middle and upper middle class.

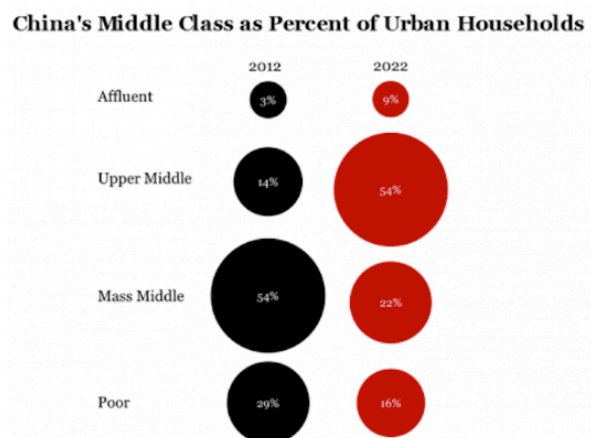
China currently has a population of over 1.38 billion. In 2015, 730 million Chinese were living in cities and considered "urban". Forecasts by McKinsey & Company, Chart 9, show that by 2022 an estimated 550 million Chinese will belong to the Middle class. This upwards trend will mostly occur in urban areas where by 2022 54% of the population will belong to the upper middle class. On Chart 9 found below we see the upward shift of a large percent of urban cities moving upwards in revenue and status. In China wealth classes are distributed: [Business insiders, 2016]

- Affluent: Over \$34'000
- Upper Middle: \$16'000-34'000
- Middle: \$9'000-16'000
- Poor: Under \$9'000

These people are future consumers for luxury watches. It is hoped that China's middle class will be a market driver for re-launching the country's luxury consumption of watches.

Another change in demographics is the location in which these new middle and upper middle class consumers are. Swiss watches companies have mainly focused their sales and marketing efforts in China's Tier 1 cities. It is now essential for companies to

Chart 9 - China's Middle Class as Percent of Urban Households (Business Insider, 2016)



understand that China is much more than a couple big cities. China currently has over 100 cities of over 1 million citizens. These megacities are also driving income and growth of wealthy consumers. [The Guardian, 2017]

The Tier of cities is established based on the GDP, political importance and population of each city. [South China morning post, 2016]

Figure 4 - Share of middle class, by type of city (JingDaily, 2013)

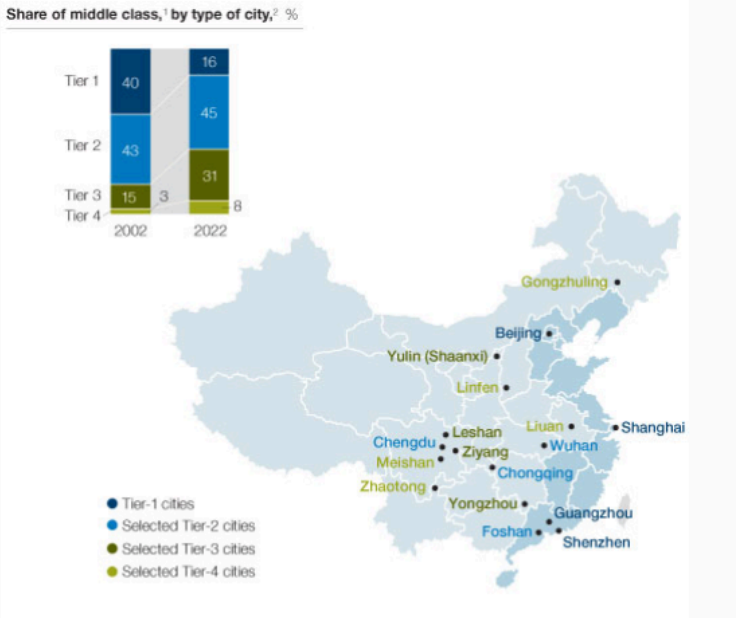


Figure 4 shows how the different Tier of cities are evolving. During the beginning of China’s economic growth, Chinese citizens left the countryside in mass and flocked to major cities in hope to obtain a better job and salary. This influx of workers first raised the amount of lower class citizens in Tier 1 cities, they later on became large groups of middle class citizens. Today however, a shift is occurring Tier 2 and 3 cities are rising in income and becoming more attractive for workers. The main cities have become overcrowded; Chinese are now deciding to move to smaller cities which allow them the same quality of life. The McKinsey & Co Map shows that Tier 2 and 3 cities will have a larger amount of the country’s total middle class citizens by 2022. [Jing Daily, 2013]

Finally, China’s coastland cities have historically been wealthier than inland cities, many of them grew as trade and port cities during colonization and therefore grew in importance, population and wealth. Today cities inland are becoming more and more important in business and estimates show that they will slowly be catching up in share of middle class citizens.

Swiss watch brands have not really developed and exploited these lower Tier cities in terms of sales. Indeed, consumers in Tier 2/3 have very little options to purchase luxury Swiss watches. The HKTDC market survey discovered that consumers from Tier 1 cities were those purchasing luxury items abroad and sales in China were usually driven by

Tier 2 and Tier 3 citizens travelling to major cities to purchase their luxury goods. [HKTDC, 2016]

Swiss companies have the knowledge of these potential consumers they now have to decide which sales channel they will implement in order to reach this vast and less congested China.

3.1.2 Point of sales

There are many different ways for Swiss watchmakers to sell in China, they all offer different advantages and disadvantages that are weighed by companies internationalizing.

3.1.2.1 Physical distribution

As seen in Hong Kong the typical point of sales for Swiss watchmakers is to partner with local distributors and sellers. This process would share the financial risk between the two sides as the distributors would purchase the product but the watch company would ensure marketing costs. This is an easy way to do business as the watch producer would benefit from a pre-existent distribution and sales line.

“According to statistics made by Fortune Character Institute, as of 2013 there were almost 6’693 watch shops in China. These were split in two types of shops: 5’967 were authorized dealerships, importing and selling multiple brands of luxury watches and 726 were directly-operated shops, meaning stores opened and ran by watch companies.” [HKTDC, 2016]

Table 2 - Sales channels (Deloitte, 2016)

Figure 20. Sales channels

Where will you most likely purchase a watch?

	Top answer	Second best answer	Third best answer
Switzerland	Online shop	Multibrand watch and jewellery boutique	Department store
US	Online shop	Department store	Mono-brand store
Germany	Online shop	Multibrand watch and jewellery boutique	Department store
Italy	Multibrand watch and jewellery boutique	Online shop	Mono-brand store
China	Mono-brand store	Online shop	Multibrand watch and jewellery boutique
Japan	Multibrand watch and jewellery boutique	Department store	Online shop

In China, the main trend is that consumers still prefer purchasing their watches in stores. Deloitte surveyed Chinese watch consumer, Table 2, who answered that unlike countries like Switzerland, the United States and Germany, they still valued the experience of purchasing their watch in a mono-brand store. [Deloitte, 2016]

The HKTDC's survey validated this information by stating even further that 84% of Chinese consumers preferred purchasing in store. Their main convictions were that in-store purchases allowed them to try the watch on which is important before a purchase, they had a guarantee the watch was real and could get after-sales warrantee in the shop. [HKTDC, 2016]

3.1.2.2 Vertical integration

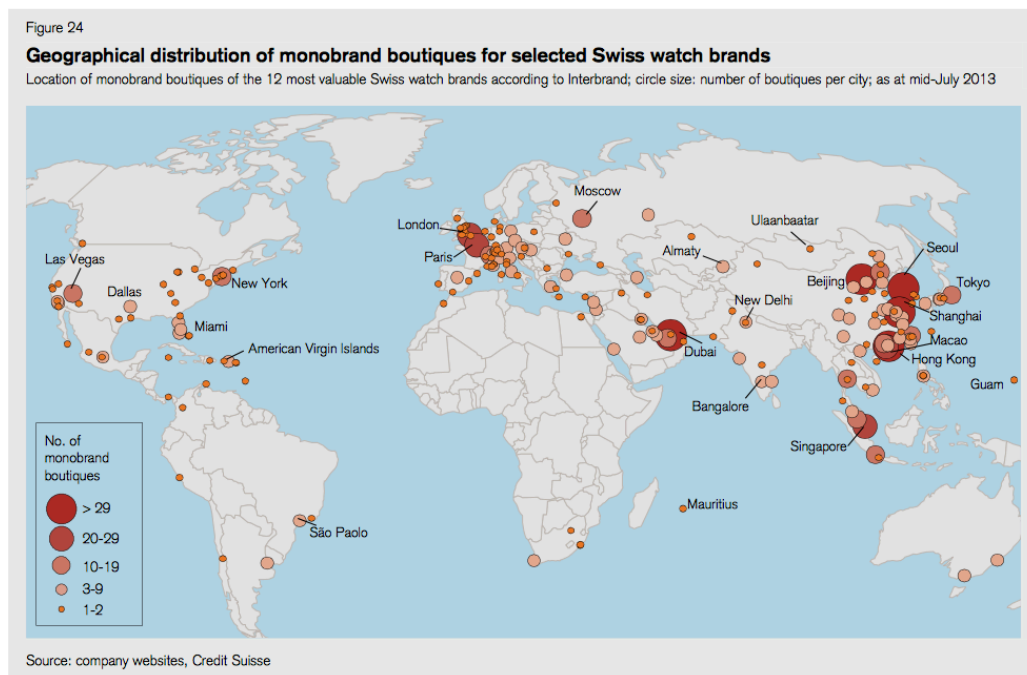
Vertical integration of their sales has been the current ambition of Swiss watchmakers. This is the process for a company to absorb one of the previous or next step of their supply chain. In this case to own the stores in which their products are being sold. This has appeared in China with luxury brands in two ways: Monobrand boutiques and Flagship stores [HKTDC, 2016]

3.1.2.2.1 Monobrand boutique

Monobrand boutiques as said before are the preferred way for Chinese to purchase luxury watches. In terms of marketing these boutiques raise a lot of awareness, selling only the brand in question. [HKTDC, 2016]

In 2012 already, China had the highest concentration of Monobrand boutiques, On Figure 5 we notice that watch brands have flocked and congested in many of the major cities in China and Hong Kong.

Figure 5 - Geographical distribution of monobrand boutiques for selected Swiss watch brands (Credit Suisse, 2013)



3.1.2.2.2 *Flagship stores*

These are usually the best stores of a brand. They are often found in prime location. They distinguish themselves by usually holding a large variety of the brands product line as well as the priciest products. [Global Negotiation, 2017]

Patek Philippe for example opened two Maison Patek Philippe in China, in Shanghai (2012) and in Beijing (2014), these were previously only found in Geneva, London and Paris and have the specificity of being the only points of sale that showcase the entire current collection of the brand. [Patek Philippe, 2017]

The Shanghai Maison Patek Philipp is situated in a prestigious neighborhood on the Bund alongside the Huangpu river. The first floor presents the entire current collection while on the second floor are displayed rare handcrafted time-piece as well as luxury handcrafted items. There is also “The Collectors Lounge”, which offers high-end watch collectors and enthusiasts a place to discover and discuss watches. [Patek Philippe, 2017]

The Beijing Maison is found in the art and culture district of Beijing. A prime location as their goal was to attract wealthy art and high-end watches connoisseurs and create an environment for consumers to discuss their love for watches as well as having brand experts available for questions. [Patek Philippe, 2017]

Rolex also created the Rolex Experience in Shanghai, in the House Roosevelt on the Bund. They created an exhibit putting forth their heritage as a brand and displaying their current collection. This House is used to educate Chinese consumers on the Swiss watch brand but also build up brand loyalty and word-to-mouth marketing from the experience. [Rolex, 2017]

Swiss watch brands often teamed up with mainland Chinese companies to market their products. They set up counters and stores in high-end shopping centers and malls. This allowed them to take advantage of fully operational distribution and sales channels.

Watch brands understood that in order to increase their sales and market presence they needed to have a physical presence in the country. Whether it be to showcase collections or sell products as they would in Geneva, watch brands have internationalized their store presence in China greatly. However, company stores and Maisons are congested mostly in China’s major business and political cities, known as Tier 1 cities, such as Beijing, Shanghai and Guangdong. [HKTDC, 2016]

These two types of stores present several advantages. As they are directly controlled by the company, they have a direct influence on staff and the knowledge of the brand they can display. Additionally, in recent years, as the Hong Kong and Chinese grey market has been growing it allows watch producers to control prices more efficiently. Unsold items can be returned easily. The companies can also react to market trends quicker as they are using their own logistics and not depending on orders of a second party.

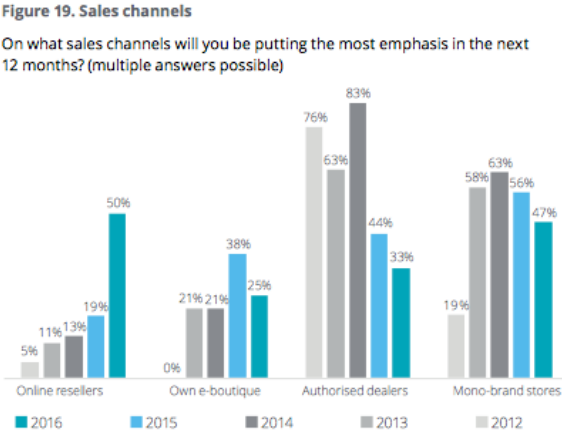
These stores are widely used and implemented by luxury watch companies. Nevertheless, they come at a high investment cost. In order to reach wealthy consumers, watch brands have to rent retail places in costly neighborhoods of Chinese cities. They hold full financial responsibility regarding the success of the store.

3.1.2.3 Online distribution

As sales channels are evolving worldwide, the ease to access the internet and the accessibility to mobile phones have made digital sales channels grow in importance.

As we can see on the Chart 10 market survey, watch producers have for the first time identified online resellers as their most important focus for sales, in a close race with Monobrand stores which still remains a prime focus for brands. [Deloitte, 2016]

Chart 10 - Sales Channels (Deloitte, 2016)



Indeed, online resellers such as Alibaba, have grown in importance and changing the usual way of consumption worldwide. Admittedly, Swiss brands were first unreceptive to the idea to sell their watches online. Many high-end watch brands believed that the internet was not a proper selling place for luxury items.

As do customer, they attach great value to their offered in-store sales experience, they are not just selling a watch but a way of living and personal advice to the client. It is also important for consumers to be able to see and try their watch before a costly purchase. [HKTDC, 2016]

This process cannot be reproduced online and cheapens the experience consumers have when purchasing a luxury item. In addition, it is a safer and more reassuring

process for clients to purchase in-store as they have a guarantee of the authenticity and quality of their purchase. [HKTDC, 2016]

Traditional stores are currently still the main marketing and sales channel for foreign brands in China. Online sales of watches currently only cover 6-7% of the country's market. When it is at least 8% in most other countries. Nevertheless, with the current rise in mobile phone sales, online applications and e-commerce platforms, there are signs that this business will quickly take off in future years. According to Xiao Xiao, CEO of Wbiao.cn, he estimates that online sales of foreign watches will reach around 30% by the year 2020 and will decrease in-store. [Hong Kong means business, 2016]

3.1.3 Chapter conclusion

As of now, the demographics of China is changing, large cities are less congested and cities with wealth groups have appeared all across the country. This spread means Swiss watch brands need to be more attentive on their distribution channels. We have noticed that Chinese still prefer buying their brand watches in stores. This means brands need to further their physical presence across the country and have available products for sale. Chinese consumers are often willing to invest a large part of their income in order to purchase a luxury good but brands have to make them easily available in order to keep this cost as low as possible. Travelling abroad is a considerable cost for Chinese which makes it impossible for them to purchase these items. In addition, customer travelling will have a harder time with their warranties in case the watch breaks. Still I believe that the Chinese market holds great potential for Swiss watch brands. Trends have shown that newly wealthy Chinese often purchase large amounts of luxury goods. The fact that they are so spread out shows the growing importance that online sales will take in the next decade. As said there are studies showing that this mean of purchase will grow tremendously. Online distribution allows access to luxury Swiss watches for these new consumers, who are considered to be one of the main driving forces for the re-boost of luxury watch sales. I however, don't believe that these brands should try to develop their own e-boutique and distribution systems. This work has already been done by major companies. It would require a huge investment and workload.

3.2 Digital Channels

3.2.1 The Online signs

In recent years' Swiss watch brands have been attracting a lot of curiosity from Chinese consumers online. Between 2012-2013 Baidu saw a rise of 120% of online searches for luxury watches. [FT, 2014] In 2014 the World Watch Report done by Digital Luxury Group found that 23% of online searches for luxury watches worldwide had come from China, an increase of 59% from the previous year. They also noticed an increase for searches of 145% for women's watches. [DLG, 2012] This increase continued to validate that Chinese consumers were interested in Swiss luxury brands and that they were adapting with new technologies to acquire the desired knowledge. The growth of mobile phones was once again a trigger in these increased researches that allowed consumers to become more aware of foreign brands and prices internationally. In 2016, 75% of watch brands now have online presence in China. [Jing Daily, 2016]

In 2015, in order to help brands spread online, the government increased online payment limits from \$10'000 to \$50'000 for cross-border transactions. As well as offering tax advantages for such transactions. [Gentlemen marketing agency, 2016] Although quickly after in 2016 as the Chinese government increased taxes for travelers returning with luxury goods they also introduced an import tariffs on items ordered online. As a way to yet again fight Daigous but also increase national sales. [The Top Tier, 2017]

The 2016 HKTDC report also stated that the internet was becoming one of the most important sales and marketing channel for watch brands. Consumers can purchase and compare watches easily through e-commerce platforms and company websites. Vertical business to consumer industries, which are industry specific, are becoming more reliable and relevant to the needs of consumers. Since 2014 during the 12th China Watch & Clock Summit Forum industry specialists have been weighing the importance for companies to take part in the current online sales transition. [HKTDC, 2016]

3.2.2 E-commerce platforms

For luxury watch brands willing to internationalize their sales online, they can either create their own online boutique, which is a costly investment and means companies have to create their own distribution process, or they can partner with Chinese companies that already specialize on online sales and who have existing distribution channels. Here are some of the most prevalent potential partners for Swiss watch brands.

3.2.2.1 Wandiaowang

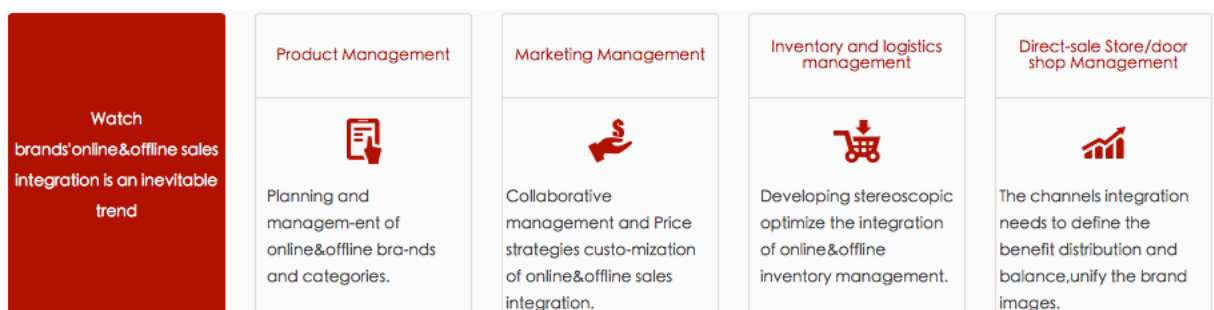
Wbiao.cn is a Chinese vertical B2C internet-platform that specialized on online sales of international watches in China. It is one of the main online resellers and has specialized its business in high-end watch distribution. It was established by current CEO Xiao Xiao in 2011. [Hong Kong means business, 2016]

According to Xiao, in 2011 selling watches online was quite unpopular for reasons mentioned previously. The company had a hard time finding suppliers and customers willing to purchase online. They slowly started to source sales from existing Chinese dealers and were gradually able to import directly from European brands. Today wbiao.cn is a leading e-commerce platform for international watch companies. In addition to their own e-shopping webpage they also partner with other companies in the online sales, such as Tmall and JD.com. They on average sell 10'000 watches per month in China but are expecting sales to increase greatly in the future. Their clientele is essentially young men, making up about 70% of their client basis with 70% of their order coming from mobile phones. [Hong Kong means business, 2016]

Wbiao.cn currently sells watches from most Swiss luxury brands such as Rolex, Longines and Patek Philippe holding watches whose value largely exceeds CHF 3'000. (See annexes) Although they are not selling directly in partnership with brands. I can only assume that they are selling for Chinese resellers. [Hong Kong means business, 2016]

For Swiss watchmakers, companies like Wbiao.cn are strategic partners to sell online in China. The company has quickly gained recognition and offers many services to brands willing to enter the online market in China.

Figure 6 - Wbiao.cn services (Wbiao.cn, 2017)



Their services cover most steps of the sales chain: Product management, Marketing management, Inventory and logistics management and Direct-sales stores. (Figure 6)

Being that they cooperate with other large sales platforms, Wbiao.cn offers a direct access to multiple selling platforms to foreign watch companies. They have been involved in the introduction of various brands to the Chinese market such as Swiss brands Epos and Paul Picot both selling high-end watches. [PR Newswire, 2017]

3.2.2.2 *JingDong Grou*

Also known as JD.com, is a sales company founded in 1998. Since 2004 they have moved their business online. Today it is one of the two largest B2C online retailers in China, both in volume and revenue. They sell almost any type of product possible, which is probably not the most suitable for Swiss luxury watch brands. JD.com currently has 236.5 million active customer accounts. They have one of the vastest distribution capabilities in the country and are attracting more and more international companies to utilize their sales channel. [Wikipedia, 2017]

3.2.2.3 *Tmall Global*

Is part of Tmall, which is currently the largest online reseller in China, controlling over 50% of B2C sales in China. The company was founded in 2008 and focuses on selling brand name products to consumers across China. They are a B2C platform operated in China by Taobao, the Chinese equivalent of Amazon or Ebay which are themselves part of the Alibaba Group, and most pertinent platform of the group for luxury Swiss watches. [Nanjing Marketing Group, 2014]

Through Alibaba and Tmall.com, Tmall Global is accessible to China's more than 650 million internet users. As of now, Tmall Global had very little experience in selling luxury Swiss watch but has, in 2017, signed a distribution contract with TagHeuer. The Swiss brand is once again taking the market lead and putting efforts to reach younger consumers. 75% of Alibaba group user are under 35 years old and the brand is trying to reach these consumers early on. Tmall is however not new to selling luxury brands as they have already sold luxury cars such as Lamborghinis and Mercedes. [Alizila, 2017]

Tmall is the most accessible company to find information about and offers much of their information in English. They have a lot of experience in working with foreign companies and explain a lot about the company in hopes to attract new brands willing to sell in China.

3.2.2.3.1 Advantage of Tmall Global

- As a part of the Alibaba group, Tmall Global operates with the Alipay payment system, this system is familiar for Chinese who trust in it and use it regularly.
- Tmall Global only works with verified companies, consumers are therefore guaranteed of the authenticity of the products they are purchasing and its origin.
- As part of Taobao and Alibaba, these websites usually lead to Tmall Global when searching foreign brands. This assures a higher traffic rate of their webpage for foreign companies.
- Alibaba purchased UCweb a mobile search tool that allows customers to keep their account when purchasing across the various sales platforms of the Alibaba group. From this unique account the group accesses a vast amount of information concerning their customers and benefits from analytical tools to conduct market researches and study consumption patterns.
- Finally, the UCweb users can receive special offers as well as store credits. [Webretailer, 2016]

3.2.2.3.2 How to become a Tmall Global seller?

Tmall Global, gives an in depth explanation of how to become a seller on their website and according to Tmall.com there are multiple advantages for companies to set up shop on their page. In China, business law obliges companies to open a physical store in the country before being able to start their online retail. E-commerce platform owned by Chinese companies allow brands to bypass this law sell directly in the country. In 2013 Tmall created Tmall Global: an online platform that plugs international companies directly into the Chinese market. The strong advantage for Tmall Global is that products can be shipped internationally and payments can be made in any currency. [China Briefing, 2015]

The goods shipped to China are then dispatched by Tmall.com distribution system until arriving to the final consumer. For luxury goods that are usually expressed mailed this whole process takes between 5-8 working days. [China Briefing, 2015]

In order to start selling on Tmall Global companies must deposit \$25'000. They will also have to pay an annual fee of \$5'000 and commission on transactions ranging between 0.5% to 5%. They company will then be required to open an account on Alipay in order to receive payments. Each transaction is charged with a 1% handling fee. [China Briefing, 2015]

Company requirements for Tmall are:

- A registered company in country of origin
- Retail and trade certificates for overseas distribution
- Ownership of the company or authorized brand agent
- Possess sufficient stock for exports

Brands Tmall global are eager to work with as those:

- Who have existed for over 2 years and whose annual sales surpass \$ 10 million
- Known international brands
- Direct B2C companies which sell finished products [China Briefing, 2015]

3.2.2.3 Logistics with Tmall

Among their services, Tmall offers warehousing spaces for their brands. They prefer for their partner companies to have stock in China or to have some ready to depart to China. [Gentlemen Marketing Agency, 2016]

3.2.2.4 Mei.com

Another online company specialized in the sales of luxury products online, working with over 2'000 luxury brands. Mei.com was purchased in 2015 by Alibaba and incorporated into the Tmall group. The company manages flash sales for luxury products and sales events. [Jing Daily, 2016]

This merger was done because both sides needed what the other had. Tmall wanted to strengthen their position in the luxury market as they have noticed the potential online sales will have in the near future and Mei.com wanted to utilize Tmall distribution means and access to second and third tier cities. As Tmall Global, Mei.com functions for mobile users and says that 80% of their sales comes from their mobile application. [Jing Daily, 2016]

3.2.3 Single's Day

Single's Day takes place on the 11th of November each year and was created in China as a counter to Valentine's where single people could be happy about it and gift themselves presents. This also happens to be the biggest e-commerce sales day in China and the world, surpassing Black Friday. During this single day online sales in 2015 for the Alibaba reached RMB 91.2 billion, almost CHF 13 billion. Being connected through E-commerce platforms during these days allows foreign companies to reach record sales quickly. [The Telegraph, 2016]

3.2.4 Threats online selling

There are concerns among consumers and producers about purchasing luxury goods. First, as said previously there is a high rate of sales of counterfeited goods in China, even on large platforms such as Alibaba, consumers are reluctant to pay large amounts without being guaranteed authenticity. Secondly, the distribution is a risk for the supplier if products never reach the final consumer. A CHF 50'000.- watch is not a good which is sent by public mail, they could easily be high-jacked and sold on the Daigou market. Finally, both companies and consumers need full trust in the platform. If any negative event should occur these platforms could lose all credibility in the sales of luxury goods.

3.2.5 Chapter conclusion

Swiss watch brands have various online platforms available to them Each present their own characteristics and advantages. Tmall Global has a large user basis and habit of working with foreign brands. Wbiao.cn specializes in high-end watches and is trusted by consumers. Mei.com specializes in luxury event sales. Swiss watch brands have the capabilities to meet requirement imposed by these brands in order to become partners. Instead of developing their own distribution process I believe it would easily be favorable to plug into existent ones and launch a fast procedure. This direction would be cheap for watch brands to grow their grasp in the mainland Chinese market. These online companies have all the necessary market knowledge required by foreign brands. They are crucial partners for Swiss watch producers to maximize their sales during special event, distribute within the country and expand to into new cities. The threats have to be taken into account though, as Swiss watch producers will familiarize Chinese consumers with their online presence they are giving counterfeiters reasons to sell their own watches online. For well-known watch brands I believe they can start selling through companies like Tmall. These brands will be easily recognizable by consumers and brand's being verified by Tmall will grant consumers certainty to be purchasing authentic watches. Smaller luxury brands can benefit from platforms like Wbiao.cn. They have experience in introducing brands into the market and as a market specific platforms attracts consumers willing to discover new brands. Their sales are still relatively small but are said to have large growth potential. The failure of an e-commerce partnership, will have relatively small consequences for brands. They simply need to withdraw their product from the website. This is much easier then having to close down a store.

3.3 Online marketing

Marketing and advertisement, is vital to increase sales. Advertisement for Swiss luxury watch brands have commonly been done in print sold in magazines and on billboards, they are likely to be found in Tier 1 cities and airports. In China this has also been the case but as in most countries watchmakers are finding vast opportunities online to reach large groups of Chinese. China's largest online platform have taken an incredible popularity and created enormous user's bases. The largest web platforms are China's main web browser Baidu and telecommunication application WeChat. In order to reach the largest amount of Chinese Swiss luxury watch brands now have to increase their presence on web platforms in order to stay relevant in the Chinese market. As we have noticed it is important for a brand to be well known in China in order to succeed and for brands to be noticed by Chinese tourists before they travel abroad.

3.3.1 WeChat

WeChat was founded in early 2011 by the company Tencent Holdings in China. In 2016, Tencent's net reported profit was of \$1.5 billion. [Tele Crunch, 2016] It is a mobile application which offers an impressive amount of services:

- Instant messages, voice and video calls, like What'sapp.
- Allows users to share pictures and videos, known as WeChat Moment, like Instagram or Facebook
- Provides many delivery services for food and taxi services, like Uber
- Allows user to access their online bank accounts and do online payments

All this can be done from the same application on their phone. This application regroups the service of many different American application and yet is unknown from many foreigners and shows China's advance in terms of operating online. [Gentlemen Marketing Agency, 2016]

As of 2017, WeChat currently has over 846 million users with over 570 million daily users. Most of them who access their account mainly through their phone and over 200 million of them who have their bank accounts linked to the application. As China's most important mobile phone app, WeChat is a key partner for brands willing to reach the most Chinese consumers as it levies an impressive weight in terms of the Chinese market consumption. [Gentlemen Marketing Agency, 2016]

WeChat is a mass market tool for companies, the main advantages for companies to be present on the application is to:

- Attract new followers, having direct contact with consumers is a cheap way for watch brands to present new product lines and service to and advertise during Chinese holidays and high sales events.
- Improving brand image, by having a page consumers become more attentive to design and logo as well as the global aspect of the brand, companies can create mini webpages
- Advertising in WeChat moments: WeChat ads are in-app paid advertisements that companies pay, they can decide the region and how many people will receive the ad and pay accordingly.
- The condition for companies to advertise on WeChat Moments is fairly simple, the brand must have a minimum of 100'000 followers. [Gentlemen Marketing Agency, 2016]

Several Swiss watch brands have already started advertising on WeChat. Tag Heuer launched a WeChat advertisement campaign synchronously with their Asian exhibition called "La Maison". Their goal was to create an online-to-offline experience for consumers. Online they encourage users to follow their page and then attend their in-store event. [Gentlemen Marketing Agency, 2015]

Piaget has also had their go on WeChat advertising, during one of China's festivals known as Qixi, they launched a campaign encouraging to become poets through their page and send them to family and friends. Piaget took a new turn of marketing by directly engaging in an experience with consumers online. This shows that companies are finding various methods to use WeChat as a marketing tool. [Gentlemen Marketing Agency, 2015]

WeChat is also a sales tool, in 2016 IWC launched their online store on the social media site. Consumers can access the IWC page from QR codes found on their poster campaign launched simultaneously as well as through the WeChat company page. About 30 IWC watches are available for purchase. IWC has given a chance to online sales as a complement to their 43 stores in the country. Their main motivation was to meet consumers outside of major cities. This is the only sales line IWC currently has in China. [Digital Commerce 360, 2016] Weibo is the second largest application with similar services as WeChat that can also be interesting for online marketing.

3.3.2 Baidu

Baidu, founded in 2000, is China's most important search engine and one of the most important in the world, it is China's equivalent of Google. In addition to being a web platform Baidu offers many different services such as mapping solutions, cloud storage, music files, hosts china's own Wikipedia and so on. It is the everyday research engine in China and it is vital for Swiss watch brands need to have their company pages on Baidu. The most basic to is Baidu Tuiguang, like advertising on Facebook, it allows advertises to select consumers based on their general searches which are then targeted with an ad and pay depending on the amount of users clicked on the ad. These tools are still in Chinese but a third company is currently working to facilitate and aid the process for foreign companies. They offer other tools such as ProTheme which works with other Baidu union companies and BaiduTv an online advertising agency. Nevertheless, Baidu would be able to grant access to the largest amount of consumers. [Wikipedia, 2017]

3.3.3 Douban

Douban is a lesser known search engine. Although it is quite small with its "only" 60 million registered users. Douban has the uniqueness to be used mostly by upper-class and sophisticated users. Indeed, Douban allows luxury brands to advertise directly to their likely future consumers. Users are usually city citizens who have a proximity to stores and resellers. [Sampi, 2016]

Douban is a unique website for luxury watches marketers as it allows them to advertise directly to consumers that are likely to be wealthy enough to purchase said products. [Sampi, 2016]

Rolex for example has opened their official brand page on Douban which can be accessed directly from their official international website. [DLG, 2012]

These E-commerce platforms and mobile applications are considered to be the futures most important way to advertise to Chinese. They are key strategy partners to have during Chinese holidays and massive sale days. China has multiple event throughout the year where sale skyrocket, Valentines day, Single's day and 691 are the largest sales days. [Webshop in China, 2016]

3.3.4 Chapter conclusion

With the evolution of access to information and technology, Chinese are bombarded with advertisements and company names. Luxury Swiss watch producers have to remain

present on the market and in the minds of consumers. Companies already have large physical advertising campaigns in major cities. This limits the campaign to specific regions and comes at a high cost.

The online advertisement industry in China is proving its effectiveness for brands as it offers various and cost effective solutions. Being able to reach consumers based on their search engines or visited websites allows company to focus on niche markets and tailor advertisement to individuals.

To maintain their luxury image Swiss watch brands will have to opt for subtle marketing campaigns, like the ones mentioned in the chapter. Their goal is not to decrease the brands image through cheap, annoying and repetitive advertising.

I think the best ways Swiss watch brand can proceed in their online advertisement is: To utilize WeChat for pertinent information and communication, engage with consumers on a personal level and through social media and in cities where stores are present link online to offline (O2O) advertising, this means to create the procedure from which a consumer will come across an advertisement and through its construction will lead him to a store where there is usually a second part of the marketing campaign. The Chinese market is very different from European economies. Chinese have the habit to adhere to trends rapidly and are not afraid to try new things. They will quickly share if something pleased or displeased them, Swiss watch companies need to adapt to this way of consuming.

4. Perspectives for further research

My paper is focused on the current situation where the presence of luxury watchmakers on e-commerce platforms is still rare. I have little doubt that in following years the situation will be quite different. As a first step for future researches will be to track the steps brands will be taking towards this sales channel. It will also be suitable to track the evolution and perception Chinese have in regards to online purchases. Finally keeping track of the taxes and tariffs imposed by the Chinese government on luxury Swiss watches.

Additionally, I was not able to find much in depth information regarding the internal process of these online platforms. Being able to research more in depth as to where they are most present. How they distribute, whether it is an internal of external company to distribute. I have only scratched a small proportion of these companies and even having left some that could be also be interesting for Swiss brands.

5. Conclusion

It is evident that sales of luxury watches are decreasing. Some experts have warned about the end of Swiss watchmaking. Historically Swiss watchmaking companies have already faced this kind of situation and making the right strategic decisions is now of the essence to revitalize the industry.

Sales in their main consumer market, China, are falling. They yet again face new challenges and must make key decision. Internationalizing their sales online? Yes, for many luxury brands Internet seems like an unconventional place to sell their high-end watches but changes need to be made or sales will continue to decrease. Chinese demographics show that wealthy Chinese are no longer only found in major cities. The country's economy is creating a large amount of newly-rich across the country. These consumers have the habit of wanting to display their newly acquired wealth and Swiss luxury watches are part of sought-out products associated with success. China offers a vast potential of consumers, who are currently unaddressed.

I believe that Swiss brands should maintain their physical presence in the country and increase their numbers in high-growth cities but as of 2017 their main focus should be their online presence and e-commerce sales. My conviction is based on two key arguments. Firstly, the Chinese market has been decreasing and estimates are showing that it is likely to continue. Heavy investments in Monobrand and Multi-brand stores would represent a high risk factor. Secondly, online distribution is a cheap way of selling to a higher diversity of consumers. This process cuts company costs in areas such as: rent, supplying, staffing and so on. It allows companies to have centralized inventory which can be distributed through the existing systems of e-commerce channels. I believe for niche market brands, like Frank Muller and Ulysse Nardin a company like Weibao.cn is the best partner. They provide multiple services and as a specialized watch e-commerce platform attracts a lot of enthusiasts who will be willing to purchase lesser known brands. For brands well-known to the general market, such as Rolex and Tissot, I believe selling on large platforms would be the best option. Tmall Global is the ideal partner. As a part of Alibaba group it has access to broad technology and consumer information. Tmall Global is one of the platforms that controls the authenticity of the products sold on their website and have experience in dealing with luxury goods. Simultaneously, increasing brand presence on high-traffic sites such as WeChat, will allow Swiss watchmakers to display products and launch campaigns. Additionally they will be able to inform consumers on which platforms their products are available.

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Appendix 1: Sales of Patek Philippe watches on Wbiao.cn



百达翡丽(Patek Philippe) 5227G-010
男士自动机械表

¥ 259700



百达翡丽(Patek Philippe) 复杂功能计
时腕表系列4947G-001 女士自动机械

¥ 373500


Appendix 2: Sales of Patek Philippe watches on Wbiao.cn Rolex sales on JD

综合 ↓ 销量 ↓ 评论数 ↓ 新品 ↓ 价格 ⇅

配送至 北京朝阳区三环以内 京东配送 货到付款 仅显示有货 全球购 618


共300+件商品 1/7

精品推荐




¥1326960.00

百达翡丽(Patek Philippe)
男士复杂功能计时系列



¥83999.00

劳力士(ROLEX)手表 日志型II系列自动机械男表



618

¥78999.00


【京东自营】男士机械手表，日志系列，香槟色表盘，镶钻时标，日历显示点击了解更多点击了解更多

劳力士(ROLEX)手表 日志型系列自动机械男表116233-63603香槟色钻石 【京东自营】

已有10+条评价
劳力士腕表专区

JD自营

对比 关注 加入购物车




618

劳力士(ROLEX)手表 空中霸王型系列自动机械男表114200-70190蓝盘条钉数字

已有40+条评价
劳力士腕表专区

JD自营

对比 关注 加入购物车



618

劳力士 (Rolex) 蚝式潜航者日历型机械男表 水鬼 绿水鬼116610-LV-97200 5.29

已有1条评价
盛世国际

满3000-100 券618-200

对比 关注 加入购物车

Sales internationalization of Swiss luxury watchmakers in China and Hong Kong
Simeon BADOUX

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