Watches & Jewellery

Time is up for above-inflation price hikes

Watches An outbreak of candour in the industry suggests that rampant price rises are a thing of the past, says Syl Tang

tterances from the Swiss watch industry tends to be sugar-coated, which is why Georges Kern, chief executive of IWC Schaffhausen. caused such a stir in November 2015: he said that watches in the industry were overpriced – a rare statement in general, even more so from a company owned by Richemont, one of the world's biggest luxury conglomerates.

His brand has decided to bring prices down by focusing on its two mid-level collections, Pilots and Portofino, launched in December 2014. Indeed, IWC confirms that prices for new Pilots are lower now than when similar models were launched in 2012.

As the brand with the highest growth within Richemont, one of the big three watch groups, Kern's move may indicate what consumers can expect from Baselworld: prices adjusted downward.

It can't come soon enough, says Adam Craniotes, chief executive of Red Bar, the worldwide watch lovers' group, as inflation has been widespread and relentless. "Honestly, it's every brand. I don't think there's a single brand that didn't take advantage," he says.

Some within the watch industry are even pleased that prices are now being examined. Alain Zimmerman, chief executive of Baume & Mercier, a Richemont brand, says: "I'm so happy that price has finally become part of the discussion. In the past, price didn't matter a lot [to other brands]. For many people \$2,000 is a hell of a lot of money." Baume & Mercier decreased prices on its Classima range by 10 per cent two years ago.

Watch prices have been outpacing inflation, says Jon Cox, head of European consumer equities for Kepler Cheveux. "From 2000-14, the value of the industry has increased on a growth rate of 6 per cent year over year, but in unit terms, there was no growth. So the boom is entirely due to prices." But core global inflation has not been above 3 per cent since 2000, according to JPMorgan.

A more likely explanation for such exuberant prices rises is the increase in wealth around the world. According to the World Wealth Report 2015, compound annual growth in wealth between 2009 and 2014 was 7.7 per cent. Wealth in Asia, the key new market for luxury goods, went from \$5.9tn in 2002 to \$15.8tn in 2014.

The consequence of such wealthdriven demand is that when growth falters — such as with the current collapse in commodity prices and the rise in the Swiss franc after it was unpegged last year — the luxury market does too. The Federation of the Swiss Watch Industry recorded a 3.3 per cent decline in value of sales from 2014 to 2015, with Hong Kong falling by 22.9 per cent and mainland China by 4.7 per cent.

In the light of such news, it is less surprising that the discounting of soughtafter watches can be openly found across reputable internet retailers. David Sadigh, founder and chief executive of the Digital Luxury Group, a Swiss-based watch industry analysis company, says he constantly sees steep discounts: on Jomashop.com, a watches

and luxury goods website, he says you can find Rolexes with discounts of between 10 and 25 per cent, "and Raymond Weil is 75 per cent off. I'm seeing an Audemars Piguet at 20 per cent discount and the James Bond Omega is at 38 per cent off. This is the model they just launched last

year." Watch companies viewed China's unprecedented growth as a reason to ramp up production, such as with the acquisition in 2012 of La Joux-Perret by Citizen, which cited expansion into China as the reason for the purchase.

But appetites for luxury goods were already slowing down as far back as 2012, when Pinault-Printemps-Redoute saw just a 2 per cent increase in Gucci's sales in the Asia-Pacific region. With the production cycle of Swiss watches at anywhere from a year to four years for the haute horlogerie pieces, makers are now facing excess inventory.

"Most of the brands," says Mr Sadigh, "are telling you they're not aware of the discounting, but in some cases they know they sold watches to distributors or retailers which they knew did not have the capacity [to sell through]. They say, 'Oh, I don't know where my watches went,' but they do."

Online discounts may represent a first quarter reaction to the soft 2015 holiday season. But the discounts could also be part of a wider trend; Patek Philippe, which declined to be interviewed, made a price adjustment downward in select markets 12 months ago because of the unpegged Swiss franc, according to an open letter from chief executive Thierry Stern to retail partners.

Others in the industry are wary. "We know what's going on, and unfortunately there's no business as usual," says Stephen Urquhart, chief executive of Omega, who indicates the brand will not reduce prices but acknowledges 2016 will be a challenge.

"We've been through this. Omega has been trying to get its position back properly so the worst thing to do is to lose consistency."

mega is a case study in what will and won't work in shoring up prices. It has spent recent decades rebuilding brand value to restore it to its pre-1970s position when it was head to head with Rolex in prestige, pricing and demand. Approximately 10 years ago, the company dropped numerous retailers such as American department store Macy's and started building standalone flagships in an effort to bring back parity. This leaves it less at the mercy of wholesale distributors' pricing policies.

Following similar logic, over much of 2014-15, brands within the Richemont group opened standalone stores, seizing control of their inventory and distribution. The conglomerate currently does over 50 per cent of all retail sales within their own stores, according to the World Watch Report.

Brands within the Swatch Group such as Longines have rapidly moved to greater control. In the last twelve months, the company has opened three of its own shops in the United States, a market where it did not have a single standalone boutique a year ago.

This suggests that it will be able to maintain prices, as does its ownership: Richemont, Swatch and LVMH can absorb the costs of excess stock or counteract the effects of increased costs.

Cut prices please prospective buyers – but almost no one else, says Mike Margolis of Horology Works, which represents H Moser & Cie, Hautlence, Anonimo and Cyrus watches across North America. "My personal opinion is a price decrease makes everybody angry: the guy who bought two weeks ago is angry, the dealer is angry; the only guy who likes you is the one who hasn't bought yet."

Of the brands represented by Margolis, he indicates that none has thus far indicated a price shift downwards for Baselworld, with the exception of Hautlence which has already made a correction on one reference after feedback indicated it was initially slated too high.

Pressure on prices comes from the Apple Watch too, which starts retailing at \$549 and goes up to \$1,500 for a model with a leather strap by Hermès. If Apple releases a major update, the Digital Luxury Group estimates the likely sales of 25-30m pieces would hammer the mid-priced Swiss watch market at a time it

can ill-afford.

The importance of prices is more than symbolic. Even if they do start to come down, whether openly at Baselworld or surreptitiously afterwards, it may not be enough to protect independent brands, says Jon Cox of Kepler Cheveux, who suggests that consolidation and takeovers are likely. Prices may only be the first things to fall.

Hammer time

May's flagship Geneva watch auctions should provide a barometer of the preowned watch business in the face of a decline in new retail sales and general feelings of economic uncertainty, writes Simon de Burton. Here, experts from the five leading specialist auction houses give their opinions on the state of the collector market.

Aurel Bacs Phillips/Bacs & Russo, Geneva There will be watches with estimates from



(\$3,000-500,000). And I think that says something about the way we need to view the current market - that quality can actually be accessible.

Bidders will range from students to billionaires, and they will all be there to buy an epic watch. But to be "epic", a watch no longer needs to have a sevenfigure value. It needs to be in great, original condition and have a name that resonates.

Watch to watch: Breitling Duograph

presented to Jack Brabham for winning the 1960 Formula One championship. Estimate SFr30,000-60,000 (\$30,000-60,000). May 14, Geneva.

John Reardon

Christie's, New York It is clear that the world of watch auctions is becoming more and more about vintage, even in Hong Kong

where the sales have traditionally been dominated by modern pieces.

Many collectors are asking themselves why they would consider spending \$5,000 on a Patek Philippe Calatrava [a simple three-hand watch] with a repolished case and a refurbished dial when that same \$5,000 could buy something such as Universal chronograph in superb, original condition.

Watch to watch: 1817 Breguet pocket watch formerly owned by Charles-Louis Havas, founder of l'Agence France-Presse. May 16, Geneva.

Tim Bourne Sotheby's, London Speaking to people in other areas of the pre-owned business, there



inventory out there. But I think the auction houses have several advantages, not least in the fact that we don't have to lay out large sums of money on stock. We can also be selective about what we consign and can advise sellers of values based on current market conditions.

I think the future lies in smaller, very well curated sales and while major pieces will continue to come to auction, the market is not likely to be flooded with them. As with the art market as a whole, I think people are feeling cautious about spending bigger sums. Next sale: May 14, Geneva.

Julien Schaerer Antiquorum,

Geneva We're heading towards our big May sale with a realistic attitude – there's a definite uncertainty

in the world right now, and I think we're feeling that in the auction market.

Interestingly, however, we are noticing that collectors are looking harder to find vintage brands that are on the rise – prices of some watches by makers such as Universal and Heuer, for example, have doubled, tripled and even quadrupled during the past three years.

We're also seeing an increase in demand for dive watches from the

1960s and 1970s by previously overlooked manufacturers such as Yema, Elgin and Benrus. Not long ago, when they could be bought for \$200, collectors would scarcely look at them. Now they are fetching \$1,000-2,000. Watch to watch: Corum "Buckingham", originally owned by Elvis Presley. Estimate \$10,000-20,000. April 13, New York.

Jonathan Darracott

Bonhams, London We hold regular auctions of more affordable watches [from £500] at our Knightsbridge rooms . . . but none



of the Knightsbridge lots sold for an exceptional sum - bidding seemed very controlled, and buyers had clearly done their research and set limits on the amount they were going to spend.

I think the biggest threat to the watch business as a whole is probably from the grey market. If watches don't sell at retail and end up in the salerooms, they inevitably fetch one third to one quarter of the new price. We wouldn't turn new watches away, of course – but we're conscious that, when retailers resort to selling at auction, it's usually the start of a downward spiral. Watch to watch: Rolex "Comex"

Submariner dive watch. Estimate £40,000-60,000. June 22, London.