

China, the Horizon Brightens

Contrary to what some might believe, the sale of traditional watches in mainland China remains relatively stable with approximately 2% growth between 2015 and 2016. Considering inflation, which rose between 3% and 4%, this is truly a stable situation. If inflation is not taken into account, the traditional watch market shows a slight decline. The value of the market is approximately 8.5 billion euros. Although the difficulty in China is that not everyone has the same figures!

Luxury orientations

However, by 2020, it is foreseen that the watch market will reach 10 billion euros, with annual growth between 4% and 5%. It is interesting to observe where and why traditional watches are purchased: between 2014 and 2016, watches made up 50% of total spending on luxury products by the Chinese! For men, the proportion rises to 71%. The watch remains an extremely powerful object in China, with very considerable growth potential among women. The purchasing power of the Chinese continues to increase, and their purchases are branching out into all sorts of luxury products. In parallel, the average price of the watches purchased by the Chinese continues to increase as well.

Today, it is estimated that the luxury watch segment constitutes only 1% of sales in terms of volume, compared with 14% mid-range and 85% entry-level products. By 2020, the share of luxury products should rise to 3% and that of the mid-range to 22%.

Hong Kong is no longer enough

What should also be emphasised is that the Chinese are purchasing less and less in Hong

Kong, Macao and Taiwan. The decrease has been constant since 2015. In previous years, the Chinese purchased one-third of their watches in these three zones; but today, they only make 23% of their purchases there. Today, the Chinese increasingly purchase in mainland China, a region that remains stable with approximately one-third of purchases. But the purchases outside of mainland China, Hong Kong, Macao or Taiwan are increasing. Today they represent 45% in total!



by Dr. Julie Laulusa
Managing Partner, Mazars
Mainland China-Shanghai

€10bn

By 2020, it is foreseen that the watch market will reach €10 billion in China

Indeed, the Chinese are travelling more frequently. Each year, there are fewer countries that require a visa. It is therefore easier for them to travel throughout the world. So it is not that they wish to purchase watches abroad, it's just that they are travelling more.



The market of the future, in my view, therefore, depends on a watch that goes beyond telling the time: one that is chosen either as a status symbol – which is to say, a traditional watch – or for the data that it can provide, which is the case of a connected watch. To survive, the watch market must provide symbolism... Or technology.

- Dr. Julie Laulusa

Businessmen armed with cameras

Moreover, a new phenomenon is sky rocketing: that of dai gou. You may order luxury products for a lower price than in China by commissioning a “businessman” to purchase them. These dai gou travel throughout the world, visiting boutiques and sending the images of products to their clients, who authorise their representatives to make the purchase in return for a commission. In such a transaction, the businessman is the one who takes the risk at customs, not the end client. A few weeks ago, I was in a department store in Paris, and I saw at least ten people using their telephones to make a detailed recording of a dress, a bag, jewellery or a watch, before sending the images to their clients via WeChat for their confirmation of the purchase. The salespeople of the department stores allow them to do so, since they are good clients.

Chinese customs began imposing stricter controls, and since April of 2015, any purchase of a value over 10,000 RMB (approximately 1,300 euros) is subject to a 60% tax. But in this system, it is not the end client who must go through customs. Repeat offenders are made to reimburse the amounts. To begin with, in 2015, the controls were truly systematic, but this caused long lines to form in the airports. Consequently, customs officers now implement sample or random controls.

Why purchase watches abroad?

There are three motivating factors. First of all, the price is lower: according to one study, more than 86% of Chinese consumers decide to purchase abroad based on this criterion. Next comes the question of product authenticity, which comes into play when a real luxury watch is being purchased. In China, a number of scandals involving the authenticity of products – even in official boutiques – made headlines just a few years ago. Such issues are no longer a problem, but the events marked the public imagination in China. The third factor is the broader selection of products and better service.

Today, the question of e-commerce is also on the table. However, 84% of Chinese still prefer to purchase in a boutique rather than on the internet, simply because a boutique offers a better guarantee of quality and enables the



84%

of the purchases are offline

client to try the piece on, but also because the Chinese fear that the internet fails to offer after-sales service. This service point is very important. However, it must be noted that in parallel, the majority of these 84% believe that they might one day purchase a watch online. But not a very expensive product: most of them do not wish to pay more than 7,000 RMB, or 1,000 euros.

The major issue in China remains their distrust in the authenticity of more expensive items. This is the barrier that brands must overcome. If they can – if the tracking and product guarantee are truly effective – then the Chinese have no objection to purchasing online.

What about second-hand watches?

Overall, the market is more open in HongKong, where there are more second-hand stores than in mainland China, and in Europe, where there are a great number of second-hand sales websites today. The problem in mainland China is that there are no intermediaries to guarantee the product on this second-hand market: for the time being, all transactions are made directly between private individuals on sites like Taobao.

Moreover, the watch is an object that is bought as a status symbol in China, and there is a kind of reticence in acquiring second-hand products for special occasions,

since used objects do not have a good image. Consumers want the latest model, the trendy one! Today, 80% of brand-name watches are purchased by millennials, including a majority by those aged between 20 and 30 years old and one-third between 30 and 40 years old. These groups are very sensitive to fashions.

An idea of the future watchmaking market in China

The Chinese market is flourishing since the Chinese truly adore watches, which are lifestyle and status symbols to them. Anything related to symbolism is deeply rooted and will not disappear within five years. On the contrary, there is still great potential for traditional mechanical watches. Exceptional collectors' watches are not under threat.

The only segment that might suffer today is that of the entry-level and mid-range traditional watch, with the advent of new connected watch producers. The connected watch attracts not only young and athletic people, but also seniors, since these watches can provide information useful for their health (in 2030, 30% of the Chinese population will be over 60 years of age, and will still maintain considerable purchasing power).

The market of the future, in my view, therefore, depends on a watch that goes

The annual growth of the watch market in China

4-5%

beyond telling the time: one that is chosen either as a status symbol – which is to say, a traditional watch – or for the data that it can provide, which is the case of a connected watch. To survive, the watch market must provide symbolism... Or technology. ●