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Watch makers 'hit the era of Roma

De Grisogono is owned by Italian-Lebanese jewellery designer and ladies' man Fawaz Gruosi. Bond girl Caterina Murino and supermodel Naomi Campbell, both fans of his elaborate jewellery, are friends.

Mr. Gruosi acknowledges that profit vanished as sales plunged in 2009, the Swiss luxury watch industry's ugliest year since the 1970s, when cheap Japanese quartz-crystal watches flooded the global market.

The privately held company let 18 per cent of its employees go – about 150 remain – and closed its Hong Kong boutique.

"It was a nightmare," he says.

He expects 2010 to be another rough year.

"Everyone is saying the crisis is over. But I don't have the same feeling. We are selling things that are not necessary to people. Even if they have money, they are more cautious about spending it."

While other luxury watch makers say the worst is over, many industry executives, private entrepreneurs and analysts do not expect a quick return to the double-digit export growth rates of the last decade, when Swiss watch making more or less doubled in size on a happy combination of rising prices and export volumes.

Jon Kepler, an analyst in Zurich with Kepler Capital Markets, expects the Swiss watch industry to grow about 10 per cent this year over 2009's "meltdown," driven by retailer restocking and consumer demand from China and few other countries that are quickly minting millionaires.

Still, he expects some industry consolidation and bankruptcies this year. In the end, he says, it boils down to the wealth effect. "Financial markets are a barometer of confidence and there is a clear correlation between spending on luxury goods and stock market performance," he says.

The wealth effect, or lack thereof, is hurting more than the watch industry. The business of making and selling luxury items, from Porsches to diamond jewellery, is still



The Starcruiser by Geneva watch maker MB&F. To survive and thrive, the big industry names will have to keep cutting costs, and perhaps production, and maintain tight relationships with their retailers. MB&F

By the numbers

€200,000

Price of a Meccanico watch

651

Number of components in the Meccanico, which watch maker de Grisogono bills as the most complicated timepiece in the world

177

Number of Meccanico timepieces de Grisogono hoped to sell by now

35

Number of Meccanicos the company has actually sold

20

Percentage decrease of Swiss watch exports in 2009

18

Percentage of employees de Grisogono let go as sales plunged last year.

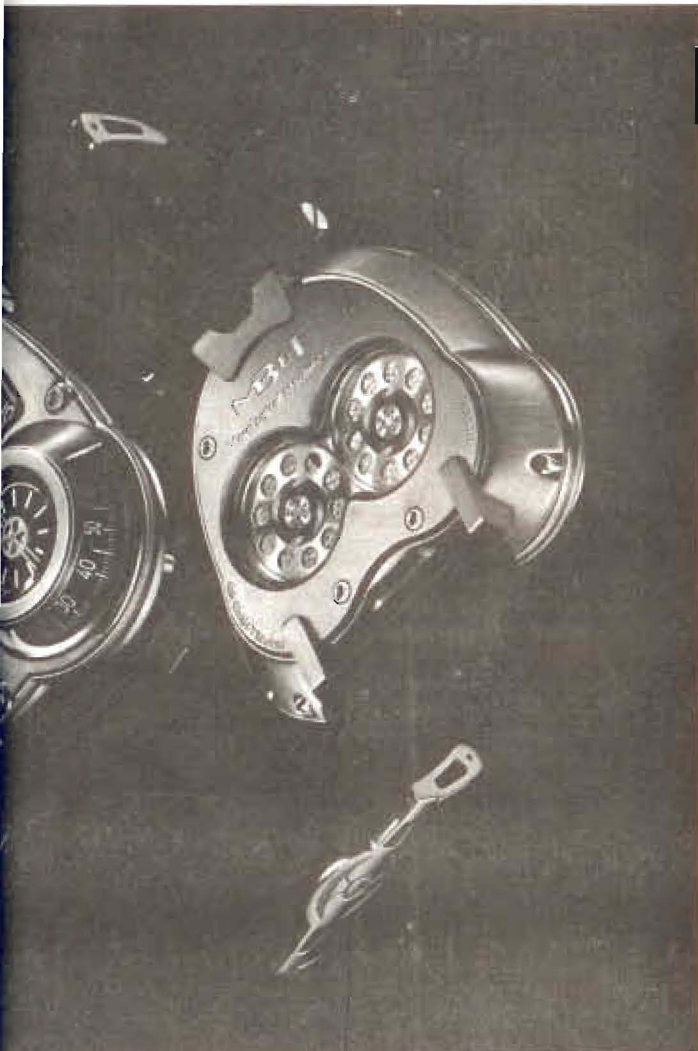
» Staff

in the doldrums. Late last year, Bain & Co. forecast global luxury goods sales would fall 8 per cent in 2009, to €153-billion, and grow by only 1 per cent this year.

The recession is still hurting more than a few watch companies, big and small. Among the biggies, Bulgari, the Italian maker of ultraexpensive jewellery and watches, on Friday revealed a 5.1-per-cent drop in fourth-quarter sales, to €297-million, sending the shares down by a similar percentage.

The two other big, publicly traded names, Swatch Group (owner of the Swatch, Breguet, Blancpain and Omega brands) and Richemont (Cartier, Montblanc, Baume & Mercier, Jaeger-LeCoultre, IWC, Piaget and A. Lange & Sohne) have put out stronger outlooks, indicating a rebound of sorts. John Cox, an

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Top 10 customers

Here's a look at the value of the top 10 markets for Swiss watch exports for January-November, 2009, measured in Swiss francs:

HONG KONG: 1.9 billion (\$1.9-billion), down 22.9 per cent from all of 2008

UNITED STATES: 1.3 billion, down 39.6 per cent

FRANCE: 889.1 million, down 13.3 per cent

ITALY: 837.7 million, down 11.9 per cent

GERMANY: 731.8 million, down 13.2 per cent

JAPAN: 700.0 million, down 33.9 per cent

CHINA: 623.2 million, down 19.4 per cent

SINGAPORE: 612.6 million, down 15.3 per cent

BRITAIN: 498.6 million, down 15.1 per cent

UNITED ARAB EMIRATES: 396.8 million, down 34.7 per cent

Source: Federation of the Swiss Watch Industry FH

to forecast," federation president Jean-Daniel Pasche said.

Total employment in the Swiss watch industry - 53,000 jobs in 2008 - dropped by an estimated 10 per cent last year, the Federation says. Anecdotal evidence suggests the job-loss figure is deeper because many of the new, smaller brands did not have the liquidity or sufficient clout with retailers to stay afloat.

"The new brands got hit very hard in the last year," says Maximilian Busser, 43, the former head of Harry Winston timepieces, who launched Geneva timepiece maker Maximilian Busser & Friends (MB&F) in 2005.

Some of them deserved to disappear, he said, because they weren't delivering "any sense of value." A few of the watch makers bought off-the-shelf movements, slapped ostentatious gold or diamond-encrusted cases around them and used clever marketing to build hype. "Some watches with stock innards sold for \$400,000," he says. "We hit the era of Roman decadence."

When the financial crisis and recession hit, retailers found themselves vastly overstocked with watches and stopped taking supplies from the manufacturers (most watch makers do not own retail outlets). Now that the destocking process appears to have finished, retailers are taking new supplies, though they are favouring the big, well-known brands such as Rolex over the smaller brands, Mr. Busser says.

To survive and thrive, the big industry names will have to keep cutting costs, and perhaps production, and maintain tight relationships with their retailers, industry executives say. The small workshops that charge \$50,000 or more for timepieces will have to offer highly creative designs made from the finest materials, and avoid making watches unless they have money-down buyers. That's MB&F's strategy.

"I travelled like a madman to meet my clients and help the retailers sell my pieces," Mr. Busser says. "I know 40 to 50 per cent of my clients. If I had not done this, I would have been a casualty."

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analyst in Zurich with Kepler Capital Markets, has "buy" ratings on both.

(The industry's other heavyweights, Rolex and Patek Philippe, are not publicly traded and are thought to have had a tough 2009).

Mr. Cox said that while the industry mood is better today than it was a year ago, the enthusiasm is tempered. "You'll see a nice spike in 2010, driven by [retailer] restocking," he says. "In 2011, you'll probably go back to lower watch export growth."

The easy-money era ended with a bang in 2009, when watch exports fell 20 per cent or more. The Federation of the Swiss Watch Industry says exports of all brands of timepieces were 20 million units in the first 11 months of 2009, compared with exports of 26 million for all of 2008. As for 2010, "it's too difficult

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