

SWITZERLAND: An encouraging outlook

Makers who know their niche and have efficient distribution fare best. Report by Frances Williams



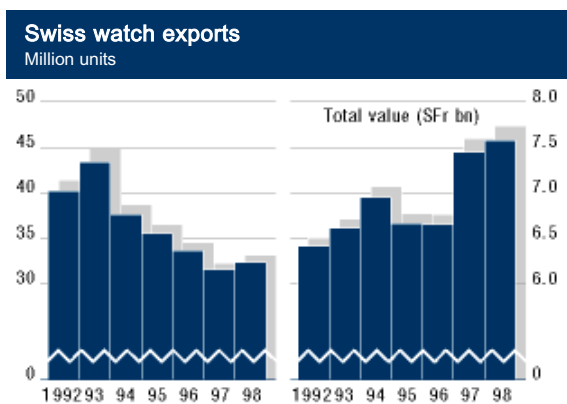
Jewellery & Time

The Swiss watch industry, the world leader, turned in a remarkably resilient performance in 1998 despite earlier fears that the Asian economic crisis would seriously erode sales and earnings. The prospects for 1999 also seem to be encouraging, barring a slide into global recession - but stiff competition in all segments of the market is likely to increase concentration in the industry, according to analysts.

Exports reached a record value of SFr8.4bn last year, up 1.3 per cent on 1997, as higher demand in the US and Europe more than compensated for the slide in Asia.

More surprising, sales in recession-hit Japan also rose by more than 7 per cent, cushioning to some extent a drop of nearly a quarter in exports to Hong Kong, Singapore, Thailand and Taiwan.

Exports of finished watches, accounting for SFr7.6bn of the total, increased by 2.2 per cent to 32.2m units, though sales of movements were down 3.7 per cent to 6m.



Source: Federation of the Swiss Watch Industry

These encouraging overall figures nevertheless conceal divergent experiences of individual companies. The slump in east Asian emerging markets has hit some smaller groups such as Corum which are heavily exposed to the region.

Falling sales of gold watches since 1997 in favour of steel have also hurt specialised watch producers including Rolex, Switzerland's biggest maker of gold watches.

"There's a shift away from medallion man (gold watch and Rolls Royce) to something more understated (steel watch and BMW)", says **James Amoroso**, industry analyst with Bank Julius Baer in Zurich.

Steel watches last year accounted for 37 per cent of total Swiss watch exports by value, an increase of a quarter over 1997.

Companies such as the Swatch Group, Tag Heuer and Vendome (the luxury brand group owned by Richemont) have more than held their own by increasing sales in growing markets and exploiting (and moulding) changing consumer tastes.

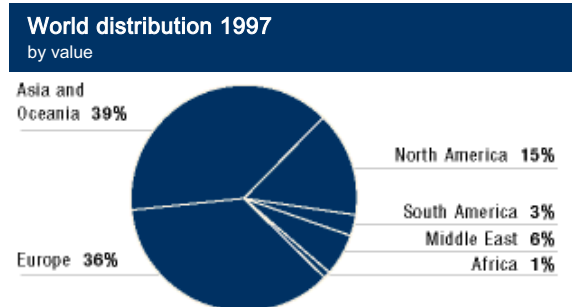
Swiss watchmakers have also been pushing up unit value. Sales of the cheap stylish Swatch, for instance, which soared in the early 1990s, have plateaued at 18m-20m units a year - but the average price has risen due to higher sales of Irony metal watches which cost more than the plastic Swatch.

The same is happening in the luxury category.

Though sales of gold watches have declined, "there's a general trend towards more sophisticated and expensive movements", says Pierre Tissot of Lombard Odier, the Geneva-based private bank.

In the mid-price range of steel watches, consumers are opting for more expensive models.

The Swatch Group, which as well as the ubiquitous plastic Swatch owns top of the range brands such as Blancpain and Omega, boosted turnover and net profits by more than 7 per cent last year, helped by the successful launch of its Calvin Klein line.



Source: Federation of the Swiss Watch Industry

Tag Heuer, which produces mostly steel watches, also improved margins and profits in 1998 despite declining revenues because of lower demand in Asia.

Analysts are generally positive about the outlook for 1999 in the face of still difficult global economic conditions. Sales volumes in Asia are expected to bottom out, with revenues increasing at least in line with the rising value of local currencies.

Growth in Europe and the US, the single biggest market for Swiss watches, is set to slow but not disastrously.

Another positive factor is the apparent end of a damaging price war in the watch movements sector reflecting a fight for supremacy between Seiko and Citizen of Japan on the primary Hong Kong market.

The Swatch Group, which is the world's third biggest producer of watch movements, made a loss on this business last year as the cost of simple movements fell to below one franc.

However, the yen has since risen and movement prices have begun to increase, which should help the company's results in 1999.

The group, which is sitting on a big cash hoard, is also known to be on the prowl for acquisitions, especially at the top of the range with sport or fashion connotations.

Switzerland still has nearly 600 small watch and components makers, in addition to the big four which together represent 75-80 per cent of sales.

According to industry estimates, the Swatch Group may account for a third of industry turnover, Vendome for about a fifth, privately-held and secretive Rolex for perhaps 15 per cent and Tag Heuer for 7 per cent.

Pierre Tissot of Lombard Odier believes companies now need a critical mass to compete globally. "The key is not only to have the right product and marketing but also to control the distribution system", he says.

There will always be a place for niche companies with clearly defined brands, says **James Amoroso** - "but the others will have problems".