

"Clients are still viewing digital as risky and are under-appreciating its impact"

● Where to now for print? Page 32

ANALYSIS 5

Luxury watches find booming market in China

Newly affluent Chinese men are purchasing high-end watches to act as symbols of their social status. Glenn Smith reports

SECTOR INSIGHT

Having a Swiss-made watch clasped around one's wrist is a talisman of attainment for Chinese men.

"A watch is a must," says Sandy Chen, research director, TNS China. "When buying up, they start with a luxury watch, next comes the luxury car, and last is the luxury apartment. Men compare and discuss watches, and they need a watch of a certain quality to be part of the social circle."

The most aspirational brand is Rolex, cited by 31 per cent of consumers in a survey of men and women with monthly household income above Rmb 9,000 (US\$1,300), as reported in the 2009 TNS China Luxury Study. Omega (18 per cent), Vacheron Constantin (nine per cent), Longines (eight per cent) and Cartier (seven per cent) follow.

The Chinese shop overwhelmingly by brand rather than model. "This is the early stage of luxury consumption," says Chen. Awareness of classic watches, their brands and product imagery is low, compared to that for luxury cars, even though today more people buy high-priced watches than cars.

Darryl Andrew, CEO of Synovate China, adds: "A few brands such as Rolex and Omega have emerged as badges or symbols of success, making it hard for other brands to get traction. Panerai, Piaget and Vacheron Constantin have better pedigrees but have yet to establish a profile in the market."

China is probably Asia's largest end destination for luxury watches, as it is believed to have knocked Japan from the top spot last year.

For the Swiss brands, 2008 was certainly a spectacular year. Global sales totalled CHF9.9 billion (US\$9.3 billion), according to the Federation of the Swiss Watch In-

dustry (FSWI), and 46 per cent of those watches went to Asia, with an average export price of \$563. The recession didn't strike until the year's last quarter. Sales fell 26.3 per cent to CHF7.3 billion for January to July 2009 versus the same period of 2008.

Hong Kong is the world's biggest buyer, importing CHF1.2 billion from January to July this year, most of which it re-exports.

How many of those watches bound for Hong Kong end up in China is a bit of a puzzle. FSWI president Jean-Daniel Pasche says: "We estimate that 30 per cent of the volume and 10 per cent of the value of Hong Kong's import is re-exported to China. But we don't know how many watches are sold in Hong Kong to Chinese tourists."

One motivation is a 20 per cent luxury tax the Chinese Government imposed on watches priced above \$1,200 in April 2006.

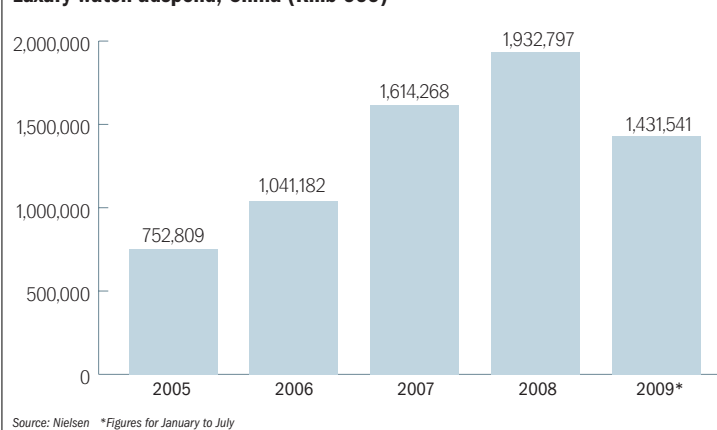
"Many of the affluent still buy watches in Hong Kong where it is cheaper," says Jessica Lo, managing director, China Market Research Group (CMR). "But young consumers are buying cheaper watches in China. There is a shift away from the pirated watches that are everywhere — people now want the real thing."

For many, buying a luxury watch means a visit to Xinyu Hengdeli, the country's largest luxury watch retailer. Xinyu Hengdeli already has 210 outlets, and plans to expand to 300 by 2011. Swatch Group holds an 8.1 per cent stake and LVMH Moët Hennessy Louis Vuitton holds 7.5 per cent in Xinyu Hengdeli.

"A notable trend is for retailers to ask fashion brands to design special watches exclusively for their stores," says Michelle Wang, founder of the consultancy, The Genesis Solutions.

The momentum of the market is apparent in Nielsen adspend numbers. TV, newspaper and magazine expenditure more than doubled

Luxury watch adspend, China (Rmb 000)



Key brands' adspend for OOH media

Brand	H2 2008 (Rmb million)	H2 2009 (Rmb million)
Citizen	29.9	22.6
Tissot	13.0	15.3
Ebohr	0.2	10.7
Seiko	3.5	4.7
Oris	2.1	4.4
Omega	2.0	3.9
Titus	1.2	3.7
Tag Heuer	2.0	3.7
Cartier	2.7	3.4
Tudor	2.1	2.5

Source: CTR Media Intelligence



Rolex... a badge of success in China

from Rmb 752 million in 2005 to Rmb 1.9 billion last year. The current year should achieve a new high, as from January through July, adspend had already totalled Rmb 1.4 billion. Synovate's Andrew says that out-of-home is a favourite vehicle for luxury watches.

"When you are in the airports at Beijing or Shanghai, there are mas-



Piaget... is yet to gain traction

sive posters you can't miss," he said. "It is very targeted. They're going after people who can afford international travel."

"If you look at the in-flight magazines of China's airlines, you will be amazed at what is being advertised."

Got a view?

Email feedback@media.asia

Analyst comment



Florent Bondoux
WorldWatch-
Report project
manager

"China was one of seven key export markets for which we analysed the online demand of 25 luxury watch brands in the WorldWatchReport 2009, a survey of 300 million search queries sorted by intentions such as brand, model. One of the findings was that China is becoming the leader in searches for luxury watches among Asian countries. Already 6.9 per cent of total search volume emanates from Chinese consumers, compared to 4.7 per cent for the Japanese. This is surprising considering that Japan has a more sophisticated digital culture and a longer history as a luxury goods market.

Looking at Greater China, search volume figures for Hong Kong and Taiwan equalled less than half of China's demand (25.3 and 18.6 per cent respectively). In Hong Kong, demand for Swiss luxury watches showed a notable preference for the prestige category — including Rolex, Omega, TAG Heuer and Breitling.

Online watch demand in China is concentrated in Beijing and Shanghai, as well in the province of Guangdong. This is precisely where the Swiss watch exporters have established their strategic points of sale.

Compared to the six other countries in the study, China displayed a unique search structure, with the highest percentage of brand-related searches and the lowest percentage of model-related searches. China is also growing the fastest. This may lead to a two-tiered world market in which some countries will increasingly shift toward the use of social media in their marketing, while young markets, such as China, will remain in a discovery and education phase."

from our Vantage Point

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