

The State of Fashion Watchmenes & Jewellery

The State of Fashion

Watches & Jewellery

June 2021

This publication is the first in a series of special edition reports that *The Business of Fashion* and McKinsey & Company will release complementing the annual State of Fashion reports. This first edition analyses the fine jewellery and watch industries over a future time horizon of 2021 to 2025.

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EXECUTIVE SUMMARY

Bringing the Sparkle Back After a Dark Spell



This publication is the first in a series of special edition reports that *The Business of Fashion* and McKinsey & Company will release complementing the annual State of Fashion reports. While the main State of Fashion report analyses the shifts that will shape the global fashion industry in the year ahead, the special editions focus on subsectors, verticals, geographies and topics over longer future time horizons, in this case five years. For this first edition, the authors chose to analyse the fine jewellery and watch industries, which have seen significant and lasting impact from the Covid-19 pandemic.

With combined annual sales of over \$329 billion in 2019, as estimated by McKinsey (see Exhibits 5 and 8), fine jewellery (\$280 billion) and watches (\$49 billion)¹ are highly significant industries in terms of their contribution to global business. They also represent meaningful cultural assets that have for centuries reflected human preoccupations with creativity, status, symbolism and self-expression. Yet today, both sectors find themselves at an inflection point.

As uncertainty caused by the Covid-19 pandemic rippled across the globe and short-circuited demand, the fine jewellery and watch industries suffered revenue declines of 10 to 15

and 25 to 30 percent respectively,² according to McKinsey estimates, putting further strain on slow-to-adapt players and crystallising emerging trends in the market. Physical retail's closure for extended periods revealed cracks in the fine jewellery and watch industries' slow transition to digital – which lags far behind other luxury categories – with online sales representing approximately 13 percent of the market for fine jewellery and just 5 percent for watches.³ Meanwhile, the abrupt halt to global travel stifled fine jewellery and watch purchases made by consumers on trips abroad, which accounted for some 30 percent of the pre-pandemic market for both sectors.⁴

While global travel is not expected to return to pre-pandemic levels much before 2024 according to McKinsey recovery scenarios, the fine jewellery and watch industries can get some of their sparkle back with a new set of rules that enable them to regain lost momentum. By 2025, we expect demand to increase from younger consumers as well as those shopping domestically, amid continuing restrictions on international travel and the rise of domestic duty-free zones in China. Already the biggest regional market, accounting for approximately 45 percent of branded global fine jewellery sales and approximately 50 percent for watches, Asia is set to expand its share even further, with China leading the way.

As part of the broader fashion industry, fine jewellery and watches share some common dynamics with luxury apparel and footwear. Yet, at the same time, the industries operate at a different pace from fashion and the direction of change is not always the same. They are set apart by different consumer behaviours, levels of brand penetration and paths to purchase, among other market dynamics. Moreover, since both the fine jewellery and watch industries have seen change accelerate throughout the pandemic, they merit a dedicated analysis that supplements our annual review of the broader fashion industry in *The State of Fashion* report.

This inaugural *The State of Fashion: Watches and Jewellery* special edition by *The Business of Fashion* and McKinsey & Company analyses the driving forces behind the industries' changing dynamics. The scope of the market analysis featured in the report covers fine jewellery above the entry-level segment — that is jewellery which contains precious metals, such as gold and silver, and precious gems and is priced over \$360⁵ — in addition to watches spanning the premium to ultra-luxury value segments, meaning those priced over \$180, in which the majority of industry value lies. This excludes the entry-level watch segment which is shaped by distinctly different market dynamics.

Through executive interviews and analysis of public and private companies, market intelligence and consumer surveys, we have identified six seismic industry shifts that we believe will influence transformational change in the fine jewellery and watch industries over the next five years. These cover a variety of perspectives ranging from consumer behaviour and business models to the products themselves. The report also spotlights several additional unfolding industry shifts. While these important shifts should be on industry leaders' agendas over the next five years, they offer less certainty in terms of their trajectories, timing and magnitude of impact on individual players.

We expect demand to increase from younger consumers as well as those shopping domestically, amid continuing restrictions on international travel and the rise of domestic duty-free zones in China.

In the fine jewellery market, a brighter future lies ahead for branded jewellery, which according to McKinsey estimates will see compound annual growth rates (CAGR) of 8 to 12 percent from 2019 to 2025. As price points in branded jewellery can be around six times higher than of unbranded products, competition between established luxury jewellery brands, fashion brands and new direct-to-consumer (DTC) companies will heat up as players compete to win customers who are turning towards brands that reflect their distinct point of view.

Meanwhile, sustainability will play an increasingly important role in buying decisions. Purchases of fine jewellery that are influenced by sustainability will more than triple in the years ahead, presenting an opportunity for the industry to learn from its history and make positive change. To show consumers that they are sincere about driving environmental and social

EXECUTIVE SUMMARY

progress, companies will need to establish more transparency and traceability in their supply chains and move beyond the performative marketing that has plagued the industry in the past.

Finally, no business leader can ignore the game-changing impact of digital transformation in the years ahead. While the jewellery industry had been slow to make the leap to online sales, the pandemic has fundamentally reset expectations for both consumers and companies. The onus will be on business leaders to create compelling online solutions that serve a clear customer need and measure up to trusted face-to-face interactions which form part of the magic of the in-person buying experience.

The next five years also offer significant opportunities for players to rewrite the rulebook across products, distribution models and engagement strategies.

In the premium to ultra-luxury watch industry, McKinsey analysis predicts a slower growth rate of 1 to 3 percent each year between 2019 and 2025 (compared to branded fine jewellery's growth at 8 to 12 percent a year) which is a symptom of structural weaknesses in the short- to medium-term. Shifting consumer demand will require brands to fundamentally rethink their go-to-market strategies. As a result of this and a broader reshuffle of deeply embedded market dynamics, approximately \$2.4 billion in revenue will transfer from retailers to watchmakers⁶ as direct-to-consumer business models take centre stage. This will fundamentally upend the industry's current structure, requiring brands to improve client serving capabilities and multi-brand retailers to search for new ways to add value.

As brands forge closer relationships with their customers, they will also find opportunities to double-dip in the revenue pool by engaging in the

pre-owned market. Driven by younger consumers in addition to collectors and cost-conscious shoppers — as well as an increasingly authenticated supply on digital marketplaces — the pre-owned watch market is set to become the industry's fastest-growing segment, reaching \$29 to \$32 billion in sales by 2025.⁷ With digital pre-owned marketplaces currently dominating, brands must urgently decide how they want to participate.

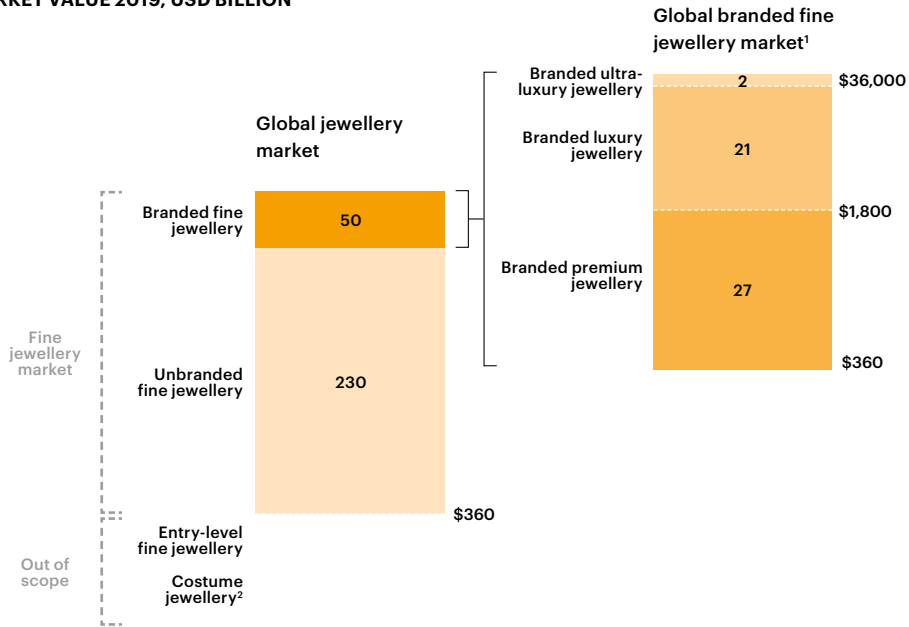
Finally, established mid-market players, mainly based in Switzerland, will be squeezed at both ends: by smartwatches, digitally native brands and fashion players at the bottom, and at the top by a shift in demand to higher-value segments. As a result, they will risk foregoing \$2.5 billion in value by 2025.⁸ Incumbents must breathe new life into both their products and brand narratives if they are to stem this revenue erosion.

While there is little doubt that the market will continue to present tough conditions for both the fine jewellery and watch industries, the next five years also offer significant opportunities for players to rewrite the rulebook across products, distribution models and engagement strategies. The impact of the global pandemic on the fine jewellery and watch industries has only made these necessary changes more apparent. The players who anticipate and embrace these marketplace shifts can take advantage of the glimmers of light that will punctuate an otherwise cloudy recovery period.

Exhibit 1:

The global fine jewellery market for pieces priced over \$360 is analysed in this special edition

MARKET VALUE 2019, USD BILLION



1. Fine jewellery players that are known regionally or internationally, that sell non-commoditised items that are viewed as a store of wealth or heritage and/or are purchased because of the brand, which generate a price premium. It does not include celebrity lines for large retailers, brands sold mainly by local stores or custom pieces from local stores.

2. Costume jewellery spans across price points. It does not include precious metals or gemstones.

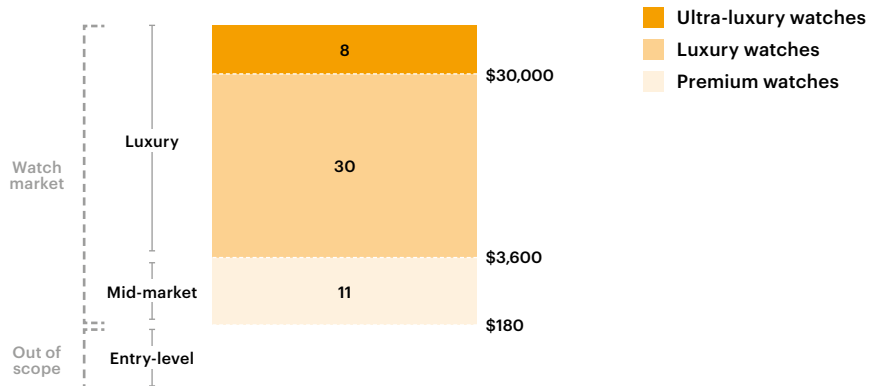
Note: All market valuation figures are approximates

Source: McKinsey analysis, expert interviews

Exhibit 2:

The global watch market for watches priced over \$180 is analysed in this special edition

MARKET VALUE 2019, USD BILLION



1. Excludes smartwatches

Note: All market valuation figures are approximates

Source: McKinsey analysis, expert interviews

Adapting to an Industry Undergoing Rapid Transformative Change

Key Insights

- After suffering double-digit revenue declines due to the pandemic, both the fine jewellery and premium to ultra-luxury watch industries are poised for steady growth through 2025, though watches will be significantly slower than jewellery.
- The rebound from the global pandemic will happen faster in some regions and consumer segments than others; the pace of growth for both sectors in Asia will remain above the global average each year through 2025.
- With international travel between the main shopping regions only expected to fully recover after 2024, brands will focus more on domestic sales, particularly in China.

Emerging from the Covid-19 pandemic, both the fine jewellery and watch industries will find their paths shaped by several macro-level factors that will force players to rethink their priorities and, for some, fundamentally alter their business models. At the same time, the fallout from the pandemic will create new opportunities for unprecedented growth, with digital channels playing catch-up to those in other industries while consumers reassess their priorities and switch

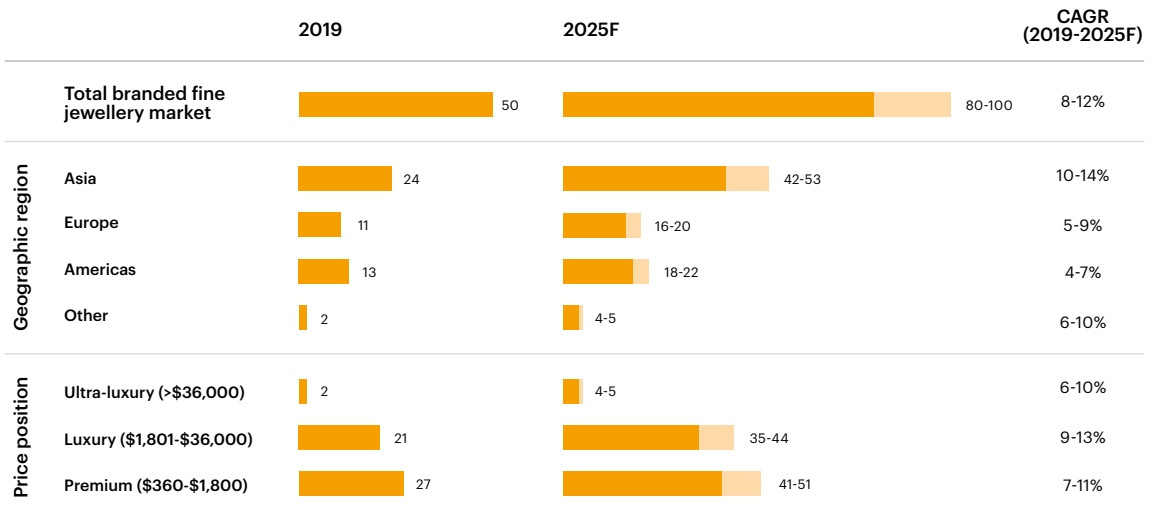
up deeply engrained shopping habits. Despite a challenging period of recovery ahead causing some slow-to-adapt players to lose out, both the fine jewellery and watch industries overall are poised for steady growth as we look forward to 2025.

Across the globe, recovery of consumer spending is expected to vary by geography and consumer segment. In the US, recovery will be much more rapid for young to middle-aged high-income individuals whose jobs were less

Exhibit 3:

The global branded fine jewellery market is expected to grow significantly in the coming years, with Asia leading overall global growth

MARKET VALUE, USD BILLION



Note: All market valuation figures are approximates

Source: McKinsey analysis, expert interviews

Exhibit 4:

The global retail value of branded fine jewellery is expected to grow 8 to 12% per year from 2019 to 2025

BRANDED FINE JEWELLERY; CAGR 2019-2025F

Price position ¹	Asia	Europe	Americas	Other	Total
Ultra-luxury jewellery (>\$36,000)	10 to 14%	4 to 8%	4 to 8%	4 to 8%	6 to 10%
Luxury jewellery (\$1,801-\$36,000)	10 to 14%	7 to 11%	6 to 10%	7 to 11%	9 to 13%
Premium jewellery (\$360-\$1,800)	10 to 14%	4 to 8%	4 to 8%	4 to 8%	7 to 11%
Total	10 to 14%	5 to 9%	4 to 7%	6 to 10%	8 to 12%

1. Represents the core product offering of a company, i.e. if a company mainly offers ultra-luxury jewellery, its total turnover is counted in this category

Source: McKinsey analysis, expert interviews

INDUSTRY OUTLOOK

impacted by the pandemic,⁹ which will prove a boon to luxury spending. By contrast, recovery patterns in many European countries, like the UK and France, are expected to be much less distinct across age and income cohorts.

Demographic evolution will also create significant changes to which both industries will need to adapt. Globally, ultra-high-net-worth individuals with assets over \$100 million will further outgrow other income groups,¹⁰ increasing the size of the addressable market for luxury players. Meanwhile, the Chinese consumer will grow in importance for global brands as the centre of gravity for fine jewellery and watches increasingly tilts towards Asia.

The Chinese consumer will grow in importance for global brands as the centre of gravity for fine jewellery and watches increasingly tilts towards Asia.

The region has already grown to represent a significant portion of both markets, with an estimated 45 percent of all branded fine jewellery sales and 50 percent of premium to ultra-luxury watch sales now made in Asia. Accompanied by rapidly growing wealth in the region — the number of households in Asia with incomes above \$70,000 is expected to almost triple by 2025¹¹ — the pace of growth for both fine jewellery and watches in the region will remain above the global average each year. Sales of branded fine jewellery in Asia are expected to grow at a 10 to 14 percent CAGR between 2019 and 2025 (compared to a global branded jewellery average of 8 to 12 percent), while watches will grow at a CAGR of 2 to 4 percent (compared to a global average of 1 to 3 percent).

Meanwhile, international travel flows will continue to impact where spending on fine jewellery and watches takes place. Prior to the pandemic, McKinsey research estimates that 30 percent of

global purchases of fine jewellery and watches were made on international shopping trips, which took a serious hit in 2020. With travel between the main shopping regions of Asia, Europe and the United States only expected to fully recover after 2024,¹² the road to recovery for international purchases will be long. In the meantime, domestic purchases are expected to continue to rise and partially fill the void. According to Agility Research, over half of affluent Chinese consumers who bought a watch in the second half of 2020 did so domestically.¹³ This will likely boost duty-free shopping hubs like the Chinese island of Hainan, which has benefited from the rise of domestic luxury purchases.

Clear-Cut Gains in Fine Jewellery

Looking ahead at the fine jewellery market, McKinsey research expects it to grow at a 3 to 4 percent CAGR between 2019 and 2025, expanding from \$280 billion in sales to between \$340 and \$360 billion. The lion's share of this growth will come from several segments that will outpace the overall market. First, branded jewellery, which currently comprises less than 20 percent of the market, will grow to represent between 25 to 30 percent of the market by 2025. While unbranded jewellery will retain the largest market share, competition from brands to seize some of that majority will heat up. Second, fine jewellery will enter a stage of unprecedented digital evolution following a tangible shift in consumer comfort with purchasing fine jewellery online, sparked by the global pandemic. As such, we expect online channels to grow at a 9 to 12 percent CAGR from 2019 to 2025.¹⁴ Finally, branded purchases from Asian consumers will unlock 10 to 14 percent CAGR for the Asian market over the same period, which is the highest growth in branded jewellery sales globally.

Exhibit 5:

The global fine jewellery market is expected to grow 3 to 4% per year from 2019 to 2025 with the branded fine jewellery market leading overall growth

		2019	2025F	CAGR (2019-2025F)
Overall market	Branded and unbranded fine jewellery market value ¹	\$280 billion	\$340-360 billion	+3-4%
	Branded fine jewellery market value in Asia ²	\$24 billion	\$42-53 billion	+10-14%
Consumer preferences	Share of branded fine jewellery segment ²	18%	25-30%	+8-12%
	Share of sustainability-driven fine jewellery purchases	5-10%	20-30%	+25-35%
Channel	Share of online sales	13%	18-21%	+9-12%

1. Represents branded and unbranded jewellery priced at \$360 and above
 2. Represents branded jewellery priced at \$360 and above

Note: All market valuation figures are approximates

Source: McKinsey analysis, expert interviews

Exhibit 6:

The global watch market¹ is poised for modest growth from 2019 to 2025 with the Asian market and the luxury watch segments driving overall growth

MARKET VALUE, USD BILLION

		2019	2025F	CAGR (2019-2025F)
Total watch market¹		49	52-59	1-3%
Geographic region	Asia	24	27-30	2-4%
	Europe	16	16-18	0-2%
	Americas	6	6-7	0-2%
	Other	3	3-4	0-1%
Price position	Ultra-luxury (>\$30,000)	8	9-10	2-3%
	Luxury (\$3,601-\$30,000)	30	33-38	2-4%
	Premium (\$180-\$3,600)	11	10-11	-2-0%

1. Represents watches priced at \$180 and above (premium watches to ultra-luxury watches) in the first-hand market, excludes smartwatches

Note: All market valuation figures are approximates

Source: McKinsey analysis, expert interviews

INDUSTRY OUTLOOK

Pockets of Growth in Watches

Unlike jewellery, the watch industry, spanning the premium to ultra-luxury segments, is dominated by a small group of luxury brands — whose core products are priced between \$3,601 and \$30,000 — and ultra-luxury brands with price points above \$30,000, many of which are based in Switzerland. According to McKinsey estimates, together, they make up 78 percent of the watch industry's retail value, which in 2019 was worth \$49 billion. Between 2019 and 2025, we expect the overall market to grow at a 1 to 3 percent CAGR, with the luxury and ultra-luxury segments continuing to dominate and drive growth. Mid-market brands with a core offering between \$180 and \$3,600 are expected to see their gains stagnate, either remaining flat or declining at a rate of 2 percent per year. On the other hand, Asia will be the growth driver for the overall market with a 2 to 4 percent CAGR, compared with most other regions whose growth will be limited to 0 to 2 percent.¹⁵

Together, these macro-level shifts will reshuffle the value pool across geographies, channels and consumer segments for both the fine jewellery and watch industries, shaking up business priorities for executives in the years ahead. While the next five years will be marked by recovery from pandemic shocks after a prolonged crisis, they will also be characterised as a time of unprecedented change, with significant opportunities emerging for players who embrace new ways of doing business. For those unable or unwilling to adapt, however, there will be consequences.

Perspective on Industry Profitability

With a fixed cost base of roughly 60 percent of revenue, the profitability of players in the fine jewellery and watch industries is determined by scale, exposure to higher-margin direct-to-consumer channels and the pricing power of their brand.

Looking back, the watch industry saw its peak profitability in the decade leading up to 2015, with players like Swatch and the specialist watchmakers division of Richemont posting EBIT (earnings before interest and taxes) margins upwards of 25 percent.¹⁶ This was largely driven by buoyant emerging market demand, especially in China, and consistent yearly price increases in response to robust global demand. From 2015 to 2020, profitability growth turned for many watch brands due to various market shifts, including the crackdown on extravagant gifting in China and the rise in popularity of smartwatches over traditional timepieces, especially among young consumers. During this period, many watch brands saw profitability reduce to low double digits, if not less.

Once 2020 hit, the Covid-19 pandemic further reduced revenues for the global watch sector by 25 to 30 percent. In a market with low single-digit global growth, the major drivers of profitability going forward will be cost efficiency gains and the ability of brands to grab market share through the development of direct-to-consumer and digital channels.

The profitability of jewellery brands is typically higher than that of watch brands. For example, Richemont's specialist watchmakers division's average EBIT margin between 2002 and 2016 was 20 percent, whereas it was 29 percent for the group's jewellery maisons division.¹⁷ There are two main reasons for this: demand for branded jewellery, similar to leather goods, has been consistently high in the last decade and jewellery brands were quicker to shift sales to direct-to-consumer channels.

We expect branded jewellery to continue to follow the path of leather goods with sizable, top-of-mind jewellery brands like Cartier, Van Cleef & Arpels and Bulgari sustaining EBIT margins above 30 percent. While these jewellery brands were greatly affected by the pandemic, they are now benefitting from recovering demand, greater cost efficiencies made in the last year and further development of digital channels. Smaller jewellery brands may struggle more to capitalise on recovering market fundamentals given their limited brand awareness and their continued reliance on wholesale, which remains wounded by the pandemic.

Exhibit 7:

The global retail value of the watch market¹ is expected to grow 1 to 3% between 2019 and 2025

CAGR 2019-2025F

Price position ²	Asia	Europe	Americas	Other	Total
Ultra-luxury watches (>\$30,000)	2 to 4%	2 to 3%	1 to 3%	0 to 2%	2 to 3%
Luxury watches (\$3,601-\$30,000)	2 to 4%	2 to 3%	1 to 3%	0 to 2%	2 to 4%
Premium watches (\$180-\$3,600)	0 to 2%	-5 to -4%	-5 to -4%	-5 to -4%	-2 to 0%
Total	2 to 4%	0 to 2%	0 to 2%	0 to 1%	1 to 3%

1. Represents watches priced at \$180 and above (premium watches to ultra-luxury watches) in the first-hand market, excludes smartwatches

2. Represents the core product offering of a company, i.e. if a company mainly offers ultra-luxury watches, its total turnover is counted in this category

Source: McKinsey analysis, expert interviews

Exhibit 8:

The global watch market¹ will see modest growth except for in the mid-market segment

		2019	2025F	CAGR (2019-2025F)
Overall market	Global watch market value ¹	\$49 billion	\$52-59 billion	+1-3%
	Asian watch market value	\$24 billion	\$27-30 billion	+2-4%
Consumer preferences	Share of luxury watch segment ²	61%	64%	+3%
	Share of mid-market watch segment ³	22%	18%	-3%
	Pre-owned watch market value	\$18 billion	\$29-32 billion	+8-10%
Channel	Share of DTC watch sales	20%	27-30%	+7-9%

1. Represents watches priced at \$180 and above (premium watches to ultra-luxury watches) in the first-hand market, excludes smartwatches

2. Represents watches priced between \$3,601 - \$30,000, excludes smartwatches

3. Represents watches priced between \$180 - \$3,600, excludes smartwatches

Note: All market valuation figures are approximates

Source: McKinsey analysis, expert interviews

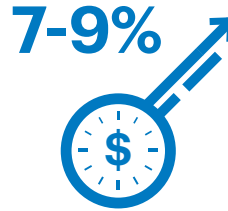
WATCHES

The premium to ultra-luxury watch industry will see value reshuffle across geographies, channels and consumer segments in the next five years as it recovers from pandemic shocks and embraces new ways of doing business. Revenue will transfer from retailers to watchmakers as direct-to-consumer business models take centre stage, while the pre-owned watch market is set to become the industry's fastest-growing segment and mid-market players will be put under pressure from all sides.

01.

DTC Shakeup

Offline retail has been the life source of the watch industry for decades, with multi-brand retailers owning the customer relationship. But as consumers demand better online shopping experiences and brands aim for higher margins, watchmakers will grow their direct-to-consumer channels and take control of the customer relationship through a dynamic, omnichannel approach, as \$2.4 billion in annual revenues are set to transfer from retailers to brands by 2025.



Average annual growth of DTC watch sales is expected to be **7-9% from 2019 to 2025**, increasing DTC sales from **20% of overall sales in 2019 to approximately 30% in 2025**.

02.

Mid-Market Squeeze

The traditional mid-market for watches is feeling pressure from both sides. At the entry level there is intense competition from digital natives, fashion brands and the fast-growing smartwatch category, and at the higher end many customers are trading up to luxury. Mid-market brands must revitalise their brand narratives to differentiate themselves, refine their product offerings and create more intimate connections with consumers, or risk foregoing revenues of up to \$2.5 billion by 2025.



Market share of the traditional mid-market watch segment is expected to decline by **six percentage points from 2019 to 2025 if no action is taken to mitigate competitive forces**.

03.

Pre-Owned Profits

Once the preserve of private dealers and small-scale retailers, the pre-owned watch market has become increasingly attractive thanks to digitisation, which turned it into the industry's fastest-growing segment. The market is expected to reach \$29 to \$32 billion in sales by 2025, which will be more than half the size of the first-hand market at the time. Brands must work hard to capitalise on this shift, and digital platforms will need to sharpen their business models in an increasingly competitive environment.



Pre-owned watch sales are expected to grow **8-10%** annually from 2019 to 2025, increasing from \$18 billion in 2019 to **\$29 to \$32 billion in 2025**.

Audemars Piguet: Preserving Scarcity at Any Cost

by Robin Swithinbank



François-Henry Bennahmias
Chief Executive, Audemars Piguet

One of the industry's most outspoken characters leads Audemars Piguet, the 145-year-old Swiss brand that recently joined the rarefied club of billion-dollar turnover watch companies. From the pre-owned market to China, chief executive François-Henry Bennahmias reveals what he thinks his competitors are doing wrong and why he plans on taking a different approach to some of the biggest opportunities in the decade ahead.

Over the past decade, Audemars Piguet has been one of the fastest-growing luxury Swiss watch brands. As a private, independent company, it doesn't publish financial figures, but claims that annual revenues have surged past CHF 1 billion (\$1.1 billion), despite limiting production in its Le Brassus factories to just 40,000 units a year. That puts it in an elite club of around half a dozen Swiss watch brands.

Yet, notwithstanding its upward trajectory, Audemars Piguet remains a paradox. Though it is building a direct-to-consumer business around a global private members' club concept called "AP House," it has no e-commerce business of its own. Moreover, the company's reputation as one of the most traditional Swiss watchmaking companies hasn't prevented its chief executive François-Henry Bennahmias from pursuing a partnership with the Marvel Universe superhero franchise, taking a surprising view on China, or insisting that his successor should be a woman.

These are turbulent times for Swiss watchmaking. What's shaping the watch market today?

Let's look at it like this: there are four brands doing really well. All of them are independent, meaning they can move their volumes up and down. I won't say who they are, but we're one of them. Nobody's going to come after us [with] no shareholders. And today, what the industry needs more than anything, more than innovation or creativity, is control over volumes.

Why do you say that?

Look, this industry still has a lot of potential for growth. But a few years ago, there was this never-ending story about how the watch industry would just keep growing, no matter what. "Asia's coming, China's coming, India's coming — so let's make more and more watches." But watch people focused on Asia and abandoned the US market and that was a huge mistake. You never let the US market go, never. That is stupidity. Look at successful brands, especially in fashion. They do a minimum 20 to 25 percent of their business in the Americas. The watch world has focused so much on Asia that some brands are now doing 80 percent of their business in Asia and have forgotten the Americas. The US takes time to build, but when it works, it works extremely

well. My point is that there's a fine line between revenue and volumes, and building the integrity and perceived value of the brand. When you're a public company you have to deliver volumes, because it shows growth.

Ok, but no matter whether you're focusing on volumes or brand, you've still got to sell watches, right?

Let me put it like this. You can plan all you like but sometimes the consumer will tell you something you didn't expect. Could be good. Could be bad.

What are consumers telling you now?

That they love watches. Watches aren't going anywhere. Even the younger generation love watches. They love the tradition, the craftsmanship, the sustainability. So for brands it's about creating, innovating and launching products in a different way. If you don't keep doing that, you get knocked back, like Rocky Balboa.

So what are you doing differently?

Inventory management. We monitor every single watch, every single day. I'm 99 percent sure we're the only brand doing that. It used to be that stock aged after three years. When I took the

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helm of the company in 2012, I reduced that to 18 months. Now it's 12. The market is moving so fast. One day after 12 months, we look at a watch and ask where we could move it to. We monitor our inventory like hot milk on a stove.

But you're making 40,000 watches a year – others are making six, seven-figure volumes, which must make it much harder to manage every watch like that.

No. I don't agree. It's a system thing. Whether you make 40,000 watches or 100,000 watches or a million, it's the same concept. There is a way to measure it, and many brands forget that. When I started in this industry in 1994, if you could turn your inventory more than once a year, you were doing well. More than twice, a dream. We turn our inventory almost eight times. That's huge. Our ageing is a lot better, and our retail partners are very happy about it.

Where do certified pre-owned watches fit into your ambitions?

We are looking at doing it ourselves because it's a fast-growing business, but it's not a business with a lot of margin. To sustain it, you have to be extremely careful. One wrong move, and you go into the red in two seconds. Again, it's about volumes. We could sell 2,500, maybe 3,000 of our Royal Oak "Jumbo" Extra-Thin model a year. But we only make 900. If we made 3,000 pieces tomorrow, no one would want it. That's just how it works. And it doesn't matter about the generation. Kids love playing this game, too.

Does that mean you're going to be making a lot of limited editions?

No. Back in the mid-2000s, we made a lot of limited editions, but it was a mistake. People started not to want the brand anymore. It becomes a joke. Back then, limited editions represented around 15 percent of our products. Today it's 1.5 percent.

Across luxury, there's more and more talk about sustainability. Is the watch industry moving fast enough to meet consumer expectations?

It's a long road. You can't just say, "I was bad, now I'm good." What I do know is that brands will be in trouble if they don't act. We have a department dedicated to working on sustainability, equality, our carbon footprint – everything.

Speaking of equality, the industry has been accused of lacking diversity. Do you consider the appointment of some female chief executives in the industry as progress?

It has to be so much deeper [than that]. We have total salary equality at Audemars Piguet, and if ever we find a discrepancy, we sort it out. We monitor every job. That's mandatory now. We have to believe in women. They're better than men. Much better. You want a better world? Let women run it.

So you'll be training up a female successor for when the time comes for you to move on?

Absolutely, yes.

Let's go back to China. How important is China to the future of the Audemars Piguet business?

China will be the biggest market in the world, no doubt. But we can't be as profitable there because of import duties and VAT. So I have to increase prices, making them 10 to 15 percent higher than in Hong Kong – but then Chinese customers buy outside China. Brands are working on aligning prices between China and Hong Kong, but then the margin isn't the same, so the more business you do there the less margin you make.

How have you been affected by the decline in sales of luxury watches to Chinese tourists during the pandemic?

It was a major wake-up call for us, as it was for the whole industry. Achieving sales through tourism was, even if it's not the ideal word, easy. We discovered we'd not been working hard enough on our local markets. We did a lot of work on this, which wasn't easy, and we did ok. We weathered the storm. The biggest risk when you're successful is thinking that it can never end.

Let's talk about your growing network of AP Houses. How is the model different from the boutique model?

First of all, they're bigger. As a minimum, AP Houses are 300 square metres. And they're not retail spaces. They're more like a club where you can come in and have breakfast with your friends. Sometimes you don't even see a watch. But you know what, on average people stay three to four



times longer in an AP House than they do in a retail store. It works.

Does this mean AP's future is in direct-to-consumer?

It's going to be very complicated. Retailers are going to have to be extremely good at what they do, because if not, the brands will take over. There is just not enough margin for them to survive with the cost of rents, people and so on. They have to be brilliant at clienteling, create beautiful stores, manage their inventories. Some of the independents are going to need to double their jewellery business where the margins are higher if they are to survive. Today, 70 percent of our business is direct-to-consumer; a decade ago it was 20 percent. We have eight AP Houses at the moment with more to come.

You've pulled out of the Geneva watch fair Watches and Wonders. Do you think watch fairs are in terminal decline?

The world is not Geneva. The future of the watch fair should be a mix of Art Basel, fashion weeks and the tech fairs. And they have to be in Asia, the Middle East, the US and Europe. Then, instead of trying to impress people with the size of your booth, make them dream. And instead of spending millions and millions on décor, spend millions and millions on experiences. You cannot have all your watches for the year in one place at one time. It doesn't make sense. It's about being more agile. Then there is a future for the fairs. If not, good luck.

This interview has been edited and condensed.

01.

DTC SHAKEUP



Watchmakers will rethink their go-to-market strategy as brands such as Zenith turn to DTC sales by focusing on seamless omnichannel experiences and engaging brand storytelling.

Offline retail has been the life source of the watch industry for decades, with multi-brand retailers owning the customer relationship. But as consumers demand better online shopping experiences and brands aim for higher margins, watchmakers will grow their direct-to-consumer channels and take control of the customer relationship through a dynamic, omnichannel approach, as \$2.4 billion in annual revenues are set to transfer from retailers to brands by 2025.

Key Insights

- Some \$2.4 billion in annual watch sales, spanning the premium to ultra-luxury segments, will shift from multi-brand retailers to brands by 2025.
- The shift will cause up to a third of multi-brand retailers to face closure or consolidation and enable brands to take over more of the customer relationship.
- Online will be the fastest-growing direct-to-consumer (DTC) channel, rapidly expanding from just 5 percent of DTC sales in 2019 to 15 to 20 percent by 2025.

The watch industry has historically been slow — and in some cases reluctant — to embrace change of any kind. The industry’s distribution model is no exception, which still relies heavily on offline channels and a network of retailers who are trusted to build the customer relationship. But consumers are beginning to demand more direct interactions with brands. In fact, globally, the majority of affluent consumers now prefer buying watches from mono-brand stores, according to a consumer survey by Agility.¹⁸ This shift in expectations is enabling brands to take over the reins of the customer relationship by expanding their DTC channels.

A parallel trend can be observed in consumer preferences for shopping online, where online sales of watches continue to gain traction. In China, 30 percent of consumers reported to have made a premium to ultra-luxury watch purchase online in the last 6 months, while a significant 53 percent of US consumers reported the same.¹⁹ Indeed, McKinsey research projects that by 2025, online sales of watches will more than double to \$6 billion, amounting to 10 to 15 percent of all watch sales spanning the premium to ultra-luxury segments and representing a steep increase from 5 percent today.

Another signal that the shift to DTC is here for the long haul is the changing face of established B2B watch fairs such as Baselworld, which were once an industry mainstay. “In 2018, we knew

a lot of things were not right and that we had to transform the show,” said Michel Loris-Melikoff, managing director of HourUniverse, which replaced the now-defunct 103-year-old Baselworld in 2021. Going forward, trade shows, such as HourUniverse, will be increasingly focused on engaging consumers directly, with other consumer-facing forums, such as the Dubai Watch Week and Geneva Watch Days, taking a prominent position on the annual calendar of both consumers and watchmakers.

Together, these factors will contribute to a fundamental shift in market dynamics as brands actively turn to DTC channels to increase margins and better connect with customers, to the extent that watchmakers in the premium to ultra-luxury segments could expand their share of DTC sales from 20 percent in 2019 to 27 to 30 percent by 2025.²⁰ While some brands such as Rolex and Patek Philippe remain outliers to the DTC wave and are not expected to change that position, the industry as a whole could still see \$2.4 billion in annual revenue transfer from retailers to watchmakers if the market is to follow the trajectory of adjacent industries like fashion.²¹

“We are seeing more and more that brands want to cut out their channel partners to gain more margin and get closer to the customer,” says Jennifer Obayuwana, executive director of Polo Luxury Group, which sells brands such as Rolex and Piaget through its network of Polo multi-brand

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and mono-brand boutiques across the Nigerian market. “[But] not every brand will be able to make the switch to direct-to-consumer successfully. They would lose the edge of a deepened market penetration where channel partners have proven that understanding of local nuances [and local market know-how] can give significant advantage.”²² Mid-market brands in particular will face challenges in implementing a DTC strategy, owing to their narrower product assortments and their limited brand differentiation to date (see “Mid-Market Squeeze”).

While the drive towards DTC will demand fundamental changes in the industry’s distribution model, the shift offers a wide range of advantages for both consumers and brands. For consumers, a direct relationship increases the sense of brand trust and enables direct interaction with service staff who have deep, rather than broad, product expertise. For brands, DTC sales enable greater control of the customer experience and brand image through consistent messaging, while generating higher margins by cutting out intermediaries.

Online will be the fastest-growing DTC channel, rapidly expanding from just 5 percent of DTC sales in 2019 to 15 to 20 percent by 2025.

At the same time, the model gives brands access to a wealth of data which can be used to create more personalised, time-sensitive and connected customer journeys across multiple channels — both online and off — with brands able to react speedily to changing preferences and needs. Zenith is one such company that has focused its strategy on creating an engaging online experience and seamless customer journey: through these efforts, the company made half of its sales through DTC channels in 2020.²³ But not all watchmakers are ready or willing to move away from multi-brand distribution channels.²⁴

“When we launch a product, I give all my [communications] assets to [UK-based multi-brand retailer] Watches of Switzerland too. Ultimately, I don’t care who sells the watch,” says Georges Kern, chief executive of Breitling. “Yes, direct e-commerce is great because the margin is much higher and it’s great for cash flow because you get the payments immediately and you also get the consumer data. But we are not at that stage yet. We can’t channel 100 percent of our custom through our own channels.”

Online will be the fastest-growing DTC channel, rapidly expanding from just 5 percent of DTC sales in 2019 to 15 to 20 percent by 2025.²⁵ However, the shift to DTC will be as much about physical retail as digital, where in-store brand experiences will continue to play a fundamental role in cementing the customer-brand relationship. Some 90 percent of Chinese consumers say that brands’ stores are one of the most important factors influencing their purchase, compared to 45 percent who cite e-commerce, according to a survey by McKinsey & Company.²⁶

However, the comparatively slow uptake of DTC sales by watchmakers to date has left the field open for new digital entrants. While brands hesitated, third-party platforms and those operating in the grey market have picked up the slack by offering consumers some of the elements they lack in the traditional retail model: online pure play platforms — which accounted for roughly 5 percent of the market for all value segments from premium to ultra-luxury in 2020 — offer an increasingly convenient and safe way to buy online, while grey market sites and retailers (accounting for around 4 percent) are able to offer greater price transparency.

The industry will witness several lasting impacts of these changing dynamics. Fundamentally, the switch to DTC will cause a shakeup of multi-brand independent retailers, with up to a third facing closure or consolidation as they struggle to offer brands a distinct value proposition

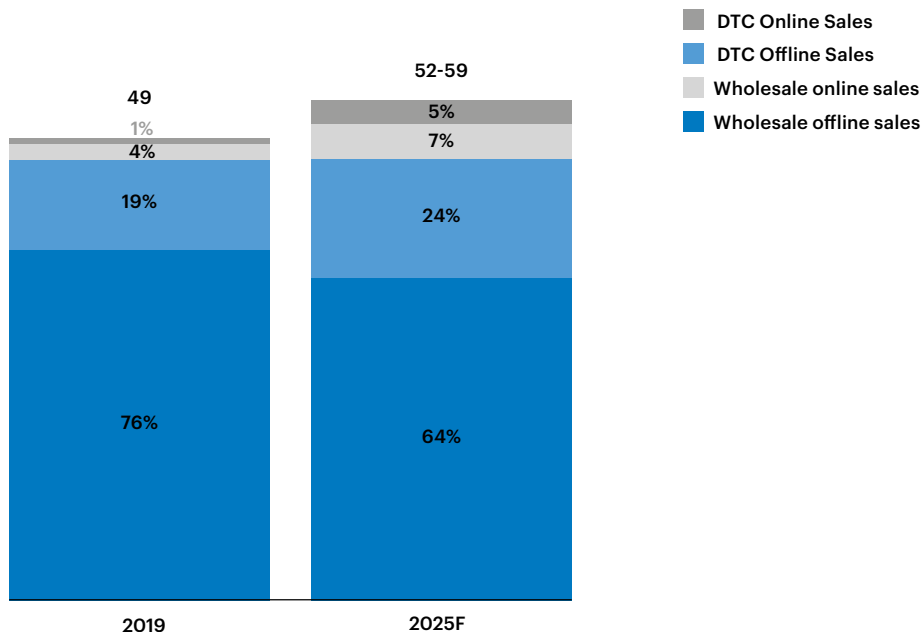
or make the investments required to set up powerful online platforms. Meanwhile, mid-market brands will face additional pressure to redefine themselves as lower foot traffic in some multi-brand retailers renders it increasingly difficult to retain customer visibility and engagement. They will also find it more challenging to set up their own DTC channels, owing to less-compelling store economics and lower brand recognition.

Lastly, DTC-native brands will win market share as lower barriers to entry will enable smaller brands to talk directly to consumers and establish a distinct point of view. “We are much closer to [our customers] than most of the watch brands in the world. We’re able to have a relationship from day one, even before the purchase,” says DTC watch brand Christopher Ward’s chief executive and co-founder Mike France. The British brand has

Exhibit 9:

The share of global direct-to-consumer watch sales is on track to hit nearly 30% of total sales by 2025, up from 20% in 2019¹

SHARE OF SALES BY CHANNEL (%); MARKET VALUE, USD BILLION



1. A key assumption here is that brands such as Rolex and Patek Philippe, who are very clear on their retail strategy, will not engage with DTC, but instead focus on mono-brand wholesale stores

Source: McKinsey analysis, expert interviews

01. DTC SHAKEUP

an online forum set up by Christopher Ward fans that the company leverages for research and to help make design decisions. “That’s one of the great advantages of being an online business,” he says.²⁷

Given these changes, how should brand decision-makers move forward? The bottom line is that they need to commit more firmly to developing DTC — leveraging both physical and digital to foster closer customer relationships. In making this happen, they also have an opportunity to take more control of the stories they tell, adjusting to individual customer preferences.

However, maximising the potential of DTC will not come easy for most brands, who will need to adopt radically new ways of working. “DTC will be a challenge for a lot of companies,” said Thomas Baillet, founder and chief executive of B2B watch database Watch Distributor Directory. “They are not store operators and, perhaps more importantly, they have not historically been consumer-facing, and so need a very different set of skills to manage those direct conversations.”

Maximising the potential of DTC will not come easy for most brands, who will need to adopt radically new ways of working.

Brands will need to overcome three challenges:

The first challenge is to find the right balance across channels. Winners will find the right mix of both DTC and wholesale channels and will create an engaging and coherent customer experience across them. However, building a seamless omnichannel DTC offering can demand high investment costs, with stores alone generating overheads of as much as \$3 to \$4 million a year in prime real estate locations. Additionally, it may be difficult for brands to develop a DTC offering addressing all geographies or customer segments, and they will therefore need to be clear-eyed in

strategically identifying areas where DTC will make the most economic sense.

It may be difficult for brands to develop a DTC offering addressing all geographies or customer segments, and they will therefore need to be clear-eyed in strategically identifying areas where DTC will make the most economic sense.

An omnichannel presence has inherent complexities, too, such as maintaining consistency in prices and product availability. Decision-makers should therefore establish a clear channel strategy and risk assessment. Where a DTC strategy for particular geographies or customer segments does not make sense for a brand to pursue on its own, there may be opportunities to share risk with retailers or online platforms, as can be seen in the growing number of mono-brand stores opened in partnership with independent retailers.

Secondly, watch brands will need to define engaging store concepts. Given the mono-product nature of watch stores, their low foot traffic and the technical nature of the product that demands highly trained staff, the experience can be underwhelming if brands do not give consumers a distinct reason to visit. Decision-makers must therefore develop stores as a space for a holistic brand experience using both creativity and technology. This may mean highlighting the brand’s heritage or creating experiences that capture vital brand characteristics. For example, Audemars Piguet has launched a series of global “AP Houses,” which are concept stores designed to look more like a five-star hotel lounge or a private salon than a retail space, which offer an immersive brand experience in which customers are engaged in cultural events such as musical performances

and masterclasses. In 2020, the company made 72 percent of its sales through DTC channels.

Lastly, translating the tactile experience of trying on a product in-store before buying, on which watch sales have depended for so many years, to the more sterile online environment will present challenges. Business leaders should focus on integrating human interactions at every stage of the customer journey – from considering a possible purchase, to buying and shipment. Online represents a unique opportunity for brands to connect with customers anytime, anywhere and expand their global audience. At the same time, they will need to develop the right technical and human capabilities to ensure the consumer journey remains seamless across channels. Deploying e-commerce infrastructure will entail executional challenges, including logistics, customer relationship management and data use, which itself will require significant investment in advanced analytics and artificial intelligence to get ahead.

As brand strategies evolve, multi-brand retailers must also adapt, adjusting their gatekeeper mentality to one of participation in a broader ecosystem. Those that already have an established footprint and market recognition in a given region could opt to consolidate to benefit from economies of scale. Alternatively, they could double down on customer insights and specific brand expertise, offering their retail know-how to brands as a strong value proposition, for example by opening mono-brand stores in partnership with brands. Finally, they might specialise, deepening access to a niche consumer group or demographic. Regardless of which route they choose, multi-brand retailers will also need to develop digital capabilities in line with watchmakers' investments in order to provide a value-add across all channels and to stay relevant.

Over the next five years, the push for DTC will reshape the industry's distribution model and will force all players within it to rethink their role. While there will be winners and losers in the DTC shakeup, the outcome will be a better

understanding of customers for both brands and retailers and ultimately a more rewarding experience for consumers.



Breitling: Finding the Optimal Sales Channel Mix

by Robin Swithinbank



Georges Kern
Chief Executive, Breitling

Though direct-to-consumer channels are becoming much more important for watchmakers, brands like Breitling are spreading their investment across several channels, rebalancing their store networks and refusing to give up on their trusted third-party retailers. Getting the channel mix just right will take a lot of hard work and a bit of modesty, suggests the private equity-backed brand's chief executive Georges Kern.

Many Swiss watch brands were slow to adapt to the direct-to-consumer model, instead relying on traditional networks of third-party retailers to acquire customers. But in recent years they've been catching up, and an estimated 20 percent of all watches in the premium to ultra-luxury segments are now sold directly by brands to end consumers. The figure will only rise as watch companies adopt more aggressive omnichannel-powered e-commerce strategies and tease their customers with upscale digital communication platforms.

Georges Kern, who was appointed chief executive of Breitling four

years ago after a long stint at Richemont, has transformed his company's fortunes with a "loft-style" boutique rollout, a "see now, buy now" approach to product launches, and high-profile digital marketing campaigns, fronted by celebrity "squads." He has also abandoned the annual Swiss watch fairs. But is Breitling's flying-solo model really the future of the Swiss watch industry? According to Kern, who expects to double the size of his direct-to-consumer business over the next five years, ignoring it will cost some brands their future.

Do you think consumers want more direct interaction with brands?

Absolutely. Society has changed.

Brands have to be much more inclusive now. There's still some exclusive luxury out there where the customer is supposed to feel honoured to get a watch from a company. Are you kidding me? We should be honoured that the customer has trusted us. Some brands are too arrogant in the way they deal with customers. I'm sure this will backfire one day.

How is this shift affecting Breitling?

It's affecting us digitally, particularly. And when I say digitally, I don't just mean e-commerce. I'm talking about the digital interaction we have with the customer across platforms. We're now investing 70 percent of our media

marketing budget in digital and our e-commerce business is growing rapidly. But don't take this the wrong way, customers still want to come into store and put a watch on their arm. So our digital communications are all about driving the customer to us physically. We're expecting that soon e-commerce will be worth 15 percent of our sales, but that would mean 85 percent are still buying in stores.

Are they buying more in Breitling boutiques or through your retail partners?

For the consumer, Breitling is Breitling. The consumer doesn't know or doesn't want to see the difference between a Watches of Switzerland [multi-brand] store and the Breitling boutique. We have one communication channel, so when we launch a product, I give all my assets to Watches of Switzerland too. Ultimately, I don't care who sells the watch. Yes, direct e-commerce is great because the margin is much higher and it's great for cash flow because you get the payments immediately and you also get the consumer data. But we are not at that stage yet. We can't channel 100 percent of our custom through our own channels. We are not Amazon or Louis Vuitton. We want to give the same opportunities to all our retailers, even if means we're competing with them in search engine optimisation.

You didn't always have your own channels. The needle must be shifting towards direct-to-consumer sales?

Yes, but look, the first objective is to give the client a much better experience. And there's no escaping that a boutique is a different experience to an

over-the-counter retailer. So the fundamental objective is quality and image. And if you talk to any Millennial, they want the boutique experience, the 360-degree physical brand experience. Boutiques deliver on all this.

So why aren't you focusing solely on boutiques?

Because I have investors. And investing in boutiques means capex (capital expenditures), and opex means opex (operating expenses). And when you have lots of boutiques, you have lots of opex. The companies with lots of opex were totally screwed during the pandemic. So it's beautiful to have boutiques because you have huge exponential growth when it works. But it's a drama when it's going down. So as a brand, you have to think: "what's important, my image, or my margin?"

In five years' time, what percentage of Breitling's sales will be direct-to-consumer?

Probably 50 percent. Today, it's around 30 percent.

A rapid shift, then?

Yes. We're opening boutiques like crazy at the moment. Around 75 percent are external, operated by our [partners], and 25 percent are internal. We've opened nearly 20 boutiques this year, and we've got 40 more to come. That will take us up to almost 170 worldwide.

Does this mean the future is bleak for third-party retailers?

Not necessarily. All over the world, you have strong retailers that have been trusted for generations, like the family doctor. And in some cities, you will always have iconic retailers, often with a broader offering, like jewellery and so on. These guys will always be there. There's more to it than

that, though. For example, in the US, my e-commerce business is much bigger than in Switzerland because in the US customers have to travel much further to get to a Breitling retailer than they do here. That's just geography. So we push e-commerce in the US and in China, too. It also depends on how mature the market is. The UK is a very mature market so when we open a boutique in Cardiff or Glasgow, we know we're going to make turnover. Sometimes it's much better and more efficient to invest in strong countries than in developing countries. But ultimately, where there's no offer, there's no demand. They're the same thing.

You say Millennials love boutiques. So as the watch customer gets older, the direct-to-consumer shift will surely gather pace?

It could do, yes.

Which means there will be casualties?

Yes. The big independent retailers with Rolex and the big brands, they will be fine. But those with no e-commerce, no branded corners and no boutiques, these guys will disappear. That's for sure.

Do you think mainstream luxury watch brands need to adopt direct-to-consumer strategies?

Absolutely. The industry's big problem is that our products aren't modern. The technology is basically 250 years old. How do you keep our products relevant when there are newer digital tools out there? How do you make the younger generation buy these products? Digital communication, storytelling, cool boutiques and so on. If you don't have these, you die.

This interview has been edited and condensed.

02.

MID-MARKET SQUEEZE



Mid-market brands like Casio are pursuing exclusive collections among other business levers to guard against pressures from competitors at both ends of the market.

The traditional mid-market for watches is feeling pressure from both sides. At the entry level there is intense competition from digital natives, fashion brands and the fast-growing smartwatch category, and at the higher end many customers are trading up to luxury. Mid-market brands must revitalise their brand narratives to differentiate themselves, refine their product offerings and create more intimate connections with consumers, or risk foregoing revenues of up to \$2.5 billion by 2025.

Key Insights

- Mid-market watch brands are being squeezed by digital natives, smartwatches and fashion brands from below, and luxury competitors from above.
- Branding that goes beyond “Made in Switzerland” is essential to compete with new rivals.
- Customisation, exclusivity, investment in online channels and improved distribution strategies could boost the prospects of mid-market brands.

Historically a stronghold of Swiss brands that have established themselves as household names through decades of watchmaking, the mid-market for watches priced between \$180 and \$3,600 is facing existential threats from both ends of the spectrum. The most aggressive competition comes from luxury watch brands leveraging their brand power to entice the higher end of the mid-market, and smartwatches at the lower end convincing consumers to swap tradition for technical functionality.

The most aggressive competition comes from luxury watch brands leveraging their brand power to entice the higher end of the mid-market, and smartwatches at the lower end convincing consumers to swap tradition for technical functionality.

The squeeze from the lower end will be multi-faceted. Numerous mid-market brands are globally recognised as marks of reliability and quality, especially Swiss players who trade off their “made in Switzerland” origins. Primarily sold through third-party retailers, traditional mid-market watch brands accounted for around 18 percent of all watches in value segments spanning

premium to ultra-luxury in 2019, making over \$9 billion in annual sales according to McKinsey analyses. But while the overall watch market grew in recent years, established mid-market players saw their market share erode, with mid-market brands losing an estimated \$1 billion in market share between 2015 and 2019. By 2025, mid-market players could expect to cede a further \$2.5 billion compared to projected revenues²⁸ to new entrants that are better positioned to appeal to a new generation of consumers. These disruptors at the lower end fall into three categories — digital natives, fashion brands and smartwatches.

For digital natives with online-only propositions, such as Christopher Ward, Daniel Wellington and MVMT, the consumer shift to online shopping is a determining success factor in capturing the lower end of the market: “Lower barriers to entry due to a rise in online retailing and digital marketing are favouring the entry segment,” said Silas Walton, chief executive of pre-owned watch platform A Collected Man. As such, since 2015, McKinsey estimates that watch sales from digital natives have almost doubled to around \$300 million, with the majority of sales representing a switch from traditional watchmakers. Indeed, some online-only companies such as Daniel Wellington have seen their annual sales as much as double. By 2025, as investments in start-ups continue to climb, digital natives could account for 11 percent of revenue shift from the mid-market, equating to

02. MID-MARKET SQUEEZE

\$300 million.²⁹ These companies will leverage a low-cost base, a streamlined product portfolio and increased consumer appetite for online shopping to gain advantage.

At the same time, fashion brands such as Gucci, Hermès and Fendi are also taking a slice of the mid-market, leveraging their substantial brand equity to expand into watches. Gucci has produced fashion watches through its Gucci watch division in Switzerland for decades, but more recently introduced four high watchmaking lines, conceptualised by creative director Alessandro Michele and his eclectic style. Luxury streetwear brands will also look to leverage the trend toward

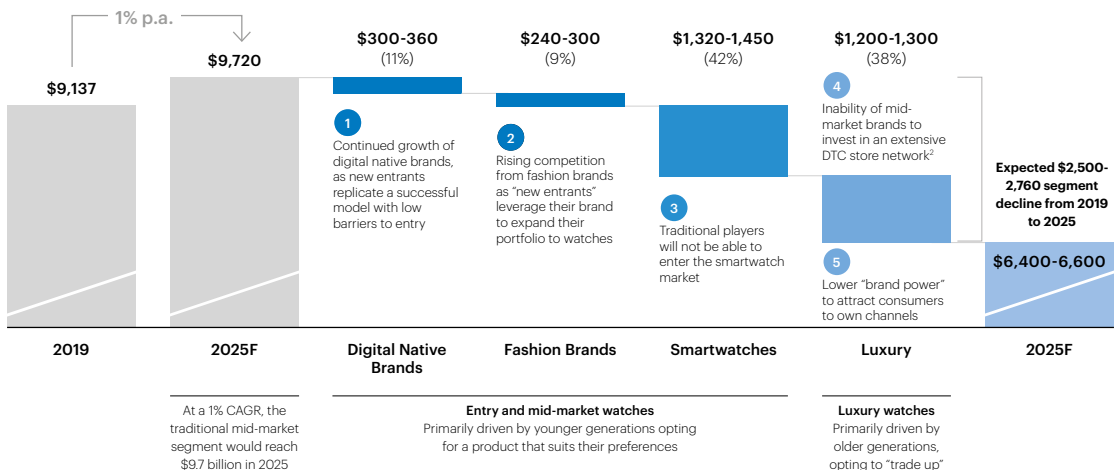
casualisation which can be realised through collaborations, such as that between Tag Heuer and Hiroshi Fujiwara's streetwear label Fragment. Sales of watches from fashion brands now represent an estimated \$1.6 billion, and some of these players will have the financial firepower and creative skill set to offer fierce competition. By 2025, around \$240 million could transfer from mid-market players to fashion brands according to McKinsey, as the latter continue to diversify their categories and take advantage of the rise of less formal aesthetics.

Finally, the most substantial dent in the lower end of the traditional mid-market comes from smartwatches, accounting for around 70 percent

Exhibit 10:

The traditional mid-market watch segment¹ could lose an additional \$2.5 billion in value from 2019-2025 if brands do not act

PROJECTED EVOLUTION OF TRADITIONAL MID-MARKET AND RESULTING CANNIBALISATION; 2019-2025
USD MILLION; SHARE OF TOTAL CANNIBALISATION (%)



1. Traditional mid-market watch segment excludes watches from digital native brands, fashion players with a watch offering and smartwatches

2. See DTC Shakeup for further details

Note: All market valuation figures are approximates

Source: McKinsey analysis, expert interviews

of its revenue decline since 2015 — equating to roughly \$780 million. The fast-growing segment is dominated by tech players such as Apple, Garmin and Samsung, who have added entirely new functionality to the equation which give consumers tangible benefits, such as health and sports tracking. On standalone terms, growth has been spectacular: Apple alone now sells more watches than the entire Swiss entry-luxury segment, outselling the segment by nearly 10 million units in 2019.³⁰ In the highly technical and specialised smartwatch market, traditional mid-market players are unlikely to be able to compete with tech companies' increasingly advanced wearable devices.

In the highly technical and specialised smartwatch market, traditional mid-market players are unlikely to be able to compete with tech companies' increasingly advanced wearable devices.

“Demographically, it’s difficult to see what the difference is [between those buying smartwatches and those buying similarly priced traditional watches] but it’s a different need, use case and frame of mind,” said Suparna Mitra, chief executive of Titan Company Limited’s watches and wearables division. The Indian jewellery and watch conglomerate’s portfolio includes traditional premium and entry-level watch brands Titan and Sonata and “a range at the lower end smart band space, as well as in the mid segment of smartwatches.”³¹

While smartwatches and traditional watches, over time, will no longer be an either/or purchase for consumers, younger buyers who have historically been the main consumers of mid-market brands are increasingly opting for smartwatches as their first buy instead of a

traditional watch. By 2025, smartwatches will capture another \$1.3 billion in revenue lost by the mid-market.³²

Meanwhile, the squeeze from the higher end is likely to be felt across the board but will impact some mid-market brands harder than others. Luxury watch brands are increasingly seeing traditional mid-market customers — particularly aspirational older consumers — trading up to luxury watches typically priced above \$3,600. Three factors are accelerating this shift and were apparent even before the pandemic: the rise of direct-to-consumer (DTC) retailing for luxury brands, reduced footfall in multi-brand retail (and subsequently the decline of exposure for mid-market brands which do not carry the same brand equity for shoppers) and the downward repositioning of some luxury brands.

Luxury players will benefit from consumer expectations of value and quality, which are rising, alongside willingness-to-pay — 60 percent of US consumers say they are willing to pay full price or a premium to get exactly what they want from a watch purchase.³³ Consequently, mid-market brands will struggle to match these expectations, given their limited differentiation across aesthetics and brand messaging to date. They may also find it more difficult to commit to a DTC strategy than their more upmarket competitors due to the high investments required to operate their own stores and challenges in attracting sufficient footfall. On top of this, many mid-market players do not have the breadth of product to justify the switch from multi-brand retail to operating their own stores, presenting challenges in creating a compelling in-store experience. As such, the traditional mid-market could continue to be eroded by luxury brands, which are poised to capture an incremental \$1.2 billion in revenue by 2025 according to McKinsey analysis.

However, some market territories will feel the squeeze more than others. “In the context of India, the mid-market is not shrinking, and it’s

02. MID-MARKET SQUEEZE

not likely to shrink. The aspiring class segment is just so big [that] no matter how many people are [trading] up, there are large numbers of people who are... coming into branded consumption [or] coming into higher and higher price points,” said Titan Company Limited’s Mitra. “If you leave aside the [global pandemic period] where, of course, it’s been hit, the long-term secular trend is of huge adoption of lifestyle goods, brands, discretionary products and categories, like watches.”³⁴

The greatest impact of these shifts will likely be felt in Switzerland, where the majority of mid-market brands are headquartered. Between 2015 and 2019, Swiss mid-market brands experienced nearly the entirety of the drop in overall watch exports from the country, which fell by more than 25 percent.³⁵ If this trend continues as projected, additional pressure will be placed on the Swiss industry’s cost structure, and the “made in Switzerland” label could risk losing its value in the mid-market.

Traditional mid-market watchmakers should consider five business levers to guard against these pressures from both the lower and higher ends of the market:

Differentiate Beyond ‘Made in Switzerland’

Mid-market brands have historically relied on a claim of “building quality Swiss watches” which, today, offers little in terms of differentiation and brand image given the similarity of claims across brands. Mid-market brands must therefore make bold decisions to develop distinct propositions. This may mean focusing initially on research and development to spearhead greater innovation and technological capabilities. To further differentiate, they should strengthen the brand proposition with cutting-edge designs and consider using alternative materials. Geneva-based Frederique Constant is among the companies to have invested in advanced computer-aided design software to help in the design and development of

new watches, while Swatch has focused on creating innovative, provocative and fun time pieces as a key differentiator.

Target Consumers Online

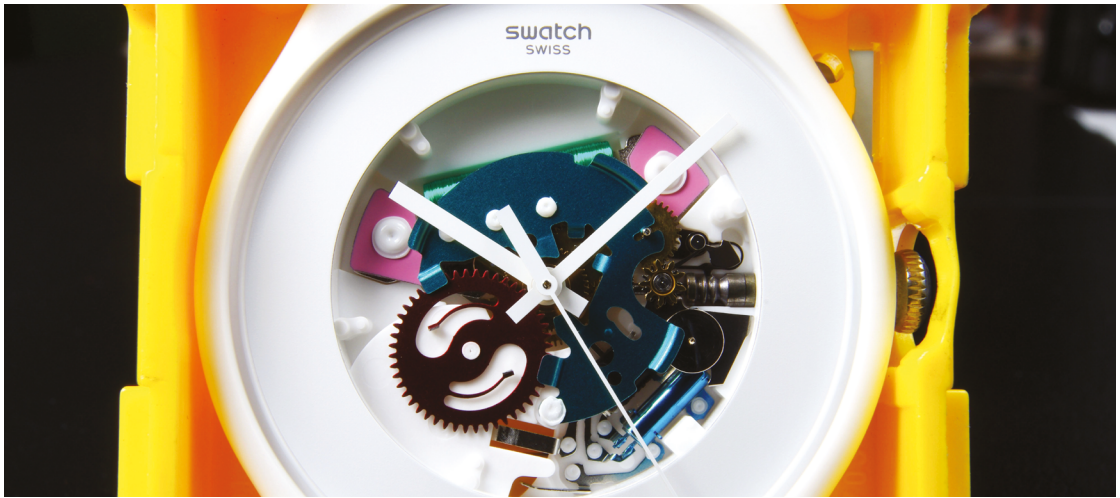
To engage with the shift to DTC, mid-market brands should invest in a targeted online offering. Where it may prove difficult for mid-market players to operate their own physical stores, a strong digital presence will enable them to target the right customer at the right time and respond quickly to shifting needs from both the business and consumer. Mid-market businesses may also consider launching e-commerce pop-up stores, which are marketed through social media. Brands should look to lessons from start-ups such as BA1110D, which has developed what it calls an “affluendor” strategy, within which it leverages its network of customers to create content for the brand and generate new sales in exchange for “tokens” to buy new watches.

Leverage Product Customisation

Across luxury categories, over 80 percent of customers want some form of product personalisation.³⁶ In luxury watches, this could mean personalisation of the watch dial colour, hands shape, clasp or bezel, and more. This reflects broader trends seen in the fashion industry, in which companies such as Adidas and Nike offer customers the ability to “build their own” products. If the economics work, mid-market brands could command a higher price for distinct, customised products and protect the higher end of the market from the risk of consumers trading up.

Aim for Exclusivity

The luxury segment has formerly taken the lead in producing special editions, such as celebrity-endorsed timepieces, in small production



runs that emphasise individuality and exclusivity. These watches tend to command higher prices and see higher levels of demand due to their rarity. This same opportunity exists in the mid-market, where brands such as Casio are having success with exclusive collections: Casio's rainbow G-Shock collaboration with retailer Kith, priced at \$400, sold out almost instantly at its launch in March 2021.

Get Distribution Right

While moving to DTC, especially online, mid-market brands should continue to leverage their retail partners as much as they can. As luxury brands go DTC, there is an opportunity for mid-market brands to take more space in retail stores, working with independent retailers to ensure they gain visibility in stores and lock out competing fashion brands trying to gain a foothold. In addition, watchmakers could leverage independent retailers' online platforms and third-party platforms to increase their visibility online and gain exposure to customers not specifically looking for their brand.

By acting decisively with these five levers, mid-market businesses may stem the flow of

demand towards competitors and find new ways to excite and engage new and existing customers. While incumbents are unlikely to be able to compete against the smartwatch segment, they can make real gains by improving their digital presence, finding the right partnerships to enhance their brand, competing more aggressively in the retail space and in leveraging creativity to take on luxury players.

"[Mid-market] brands should strive to develop a strong brand identity and house codes that are easily recognisable, while tapping into the cultural zeitgeist," said Jennifer Obayuwana, executive director of Polo Luxury Group, which sells watch brands through its network of multi-brand and mono-brand boutiques across the Nigerian market. "This will help them to stand out from the masses and make the consumer feel that they have captured a piece of 'accessible luxury.'"³⁷

If they are successful, mid-market players are likely to stem at least half of the potential \$2.5 billion in revenue loss and breathe life into a segment that remains a key driver of industry profit.

Seiko: Offering an Emotional Point of Difference

by Robin Swithinbank



Akio Naito
President, Seiko Watch
Corporation

As a company selling timepieces for over 140 years, Seiko has witnessed seismic changes in the watch industry but the current squeeze on the mid-market exacerbated by the pandemic is like no other. Offering customers special functionality and emotional intimacy is the only way to survive, says Akio Naito, a veteran with nearly four decades under his belt at the Japanese watchmaker.

Has there ever been a more challenging time to be a mid-market watch brand? Arguably not. Even before Covid-19, growth in the luxury watch sector was concentrated at the high end, where the impact of rising average price points masked a steep decline in export volumes further down the price ladder. For mid-market players, the combined threat of smartwatches, fashion brand watches and newly established digital native brands had left them battling for relevance — and sales. The pandemic only piled on the pressure for executives like Akio Naito.

Naito, who joined Seiko's legal department in 1984 and worked his way up the ladder to set up the Japanese firm's US entity for Grand Seiko in 2018, was appointed the new president of Seiko Watch Corporation in April 2021. As the executive in charge of mid-market brand Seiko and luxury watch brand Grand Seiko, Naito believes that, regardless of value segment, brands will only survive if they can offer an emotional point of difference while building stronger bonds with their clients.

What challenges will mid-market brands have to overcome in a post-pandemic marketplace?

It's going to be a long and bumpy road ahead. The pandemic has accelerated several trends that were evident before it arrived, most notably the prevalence of the smartwatch, the decline in the perceived value of the simple quartz watch and the growth of e-commerce in high-end watch retailing. These trends were unhelpful to mid-market brands before the pandemic and will be all the more so in years to come.

Market data proves that smartwatches are ravaging the sales of traditional watches. How are you responding to this threat?

There's still a strong market for electronic watches with a point of difference and added value. This is why, while there's a decline in our sales of inexpensive electronic watches and movements, our distinguished premium watches like Grand Seiko 9F quartz and Seiko Astron GPS Solar have been popular. We need to offer more at both the functional and emotional levels. A wristwatch is [more than] a functional time keeping tool; it's a statement of one's identity, one's status and one's style. There's no other consumer item offered today with such a wide price range, crafted with the durability to be handed down through the generations and represent one's lifetime events or memories. A traditional watch company such as ours should make watches with these values and communicate them to consumers.

Some watch companies are trying to distance themselves from the smartwatch segment



by raising price points. Is this wise?

If a company were to raise the price only to differentiate itself from a smartwatch, as a strategy, it would be suicidal. What is important is not a price increase but the perceived value of a product in the discerning consumers' minds.

Fashion houses entering the watch market are winning market share, particularly with Millennial and Gen-Z consumers. What can a traditional watch company learn from this?

A traditional watch company, which is proud of its technology, can learn from a fashion house how to create non-functional values for consumers and how to communicate them effectively. Branding backed by a signature story can be one such value. A unique design that appeals

to consumers who are not necessarily watch aficionados is another.

Looking at the challenging environment ahead, what will make your business successful?

We'll definitely seek out every opportunity to engage directly with consumers... such as through our GS 9 Club, a membership organisation for Grand Seiko owners. Today's consumers want a one-on-one conversation with their brands. We understand the importance of this development and are investing in the partnerships, events and systems that make this more and more possible.

This interview has been edited and condensed.

03.

PRE-OWNED PROFITS



Brands will need to decide how to participate in the rapidly growing pre-owned market as consumers seek value or elite models that command a premium such as the Audemars Piguet Royal Oak.

Once the preserve of private dealers and small-scale retailers, the pre-owned watch market has become increasingly attractive thanks to digitisation, which turned it into the industry's fastest-growing segment. The market is expected to reach \$29 to \$32 billion in sales by 2025, which will be more than half the size of the first-hand market at the time. Brands must work hard to capitalise on this shift, and digital platforms will need to sharpen their business models in an increasingly competitive environment.

Key Insights

- Pre-owned watch sales spanning the premium to ultra-luxury value segments are rising much faster than new watch sales, and are more likely to take place online.
- The pre-owned watch market is no longer seen as the exclusive domain of bargain hunters; collectors and other shoppers seeking early access to limited-supply models will continue to fuel demand.
- Though third-party online platforms dominate the pre-owned market, brands can capitalise on the opportunity by “double dipping” on integrated sales or gaining exposure through other investments.

The pre-owned watch market is coming of age, with a growing number of brands, retailers and digital platforms consolidating the offering into a more secure and professional service than ever before. However, online players have been the real game-changer. Compared with just 5 percent in the new product space, 30 percent of pre-owned watches spanning the premium to ultra-luxury value segments are now sold online,³⁸ as companies such as Watchfinder,³⁹ Chrono24⁴⁰ and Chronext saw double-digit growth over recent years.

At the same time, consumers are showing increasing willingness to pay for pre-owned, with pre-owned watches now routinely selling at auctions for hundreds of thousands of dollars. McKinsey’s forecast expects the pre-owned market to expand by as much as 8 to 10 percent per year between 2019 and 2025, reaching annual sales of \$29 to \$32 billion, up from \$18 billion in 2019. Comparatively, the new watch market for value segments from premium to ultra-luxury is predicted to grow just 1 to 3 percent annually during the same period.

One of the fastest-growing pre-owned markets is China, which has seen around 20 percent year-on-year expansion over the past four years,⁴¹ despite the underlying challenges that have traditionally plagued pre-owned in the country, owing to stigmas around resale and the value attributed to newness. This increase in demand is being driven by a golden combination of factors:

increasing numbers of luxury shoppers, a culture of gift-giving, an appetite for distinctive style choices, the availability of advanced marketplaces (such as luxury resale platform Plum) and the proliferation of cutting-edge services, including specialist authentication and livestream sessions with celebrity hosts.

Globally, rising demand for pre-owned watches has been driven by accelerating interest from younger consumers: some 30 percent of upper-income teens visited a pre-owned marketplace in late 2020, a rise of 5 percentage points from earlier in the year. This is on top of the changing perceptions of resale across other consumer categories, such as fashion, where the reframing of the second-hand narrative as “pre-loved” and a more sustainable buying choice has helped reduce the stigma of buying pre-owned items, particularly for younger consumers and those in territories where there is little vintage store culture.⁴²

While demand is rising, the intention behind pre-owned purchases is changing: pre-owned shoppers are no longer just looking for a good deal as a crop of new consumer types emerges. We now see three key customer types actively buying pre-owned: watch enthusiasts who are often looking for a particular model, year or edition; impatient shoppers who are turning to pre-owned to secure models that are limited in supply through traditional retail channels; and value seekers

03. PRE-OWNED PROFITS

who are looking to purchase items or brands they otherwise would not have bought at full price, but have come to realise that pre-owned watches can be bought in as-new conditions for significant savings.

Many mainstream brand have tended to sit on the sidelines. However, with the market growing at an unprecedented rate, brands' time for waiting is over.

Watch enthusiasts and impatient shoppers, which together account for about two thirds of total pre-owned sales spanning all segments from premium to ultra-luxury, are most likely to be willing to pay a premium for a pre-owned watch. These consumers are typically searching for highly sought-after models that tend to command significant mark-ups from the retail price when sold as pre-owned — the Rolex Daytona, Patek Philippe Nautilus and Audemars Piguet Royal Oak are among this elite group of models, recently selling in the pre-owned market at premiums of 140 percent, 146 percent and 85 percent above their retail prices respectively.⁴³ This class of watches sold at a premium has grown in importance in the pre-owned market, and while it makes up only 10 percent of pre-owned sales, it represents 40 percent of the revenue generated.

The remainder of pre-owned market sales are made up of watches sold at a discount, below first-hand retail value, which are often bought by value seekers who would otherwise not have access to them. As such, pre-owned offers an entry point into the brand.

Reflecting the broader consumer shift towards e-commerce and re-commerce specifically, the nexus of the current boom is digital marketplaces. From its headquarters in Germany Chrono24 has marched ahead of its rivals in recent years, listing some 186,000 watches on its

marketplace, compared with just a few thousand on rival platforms. The platform attracts between 9 and 10 million unique visitors every month, said Chrono24 founder and co-chief executive Tim Stracke. “Watches is one of the few categories where the pieces stay alive for a long, long time... the value of stability we think always plays a certain role [in attracting customers],” he said.⁴⁴

Other third-party players have been keen to jump on the opportunity, creating a flurry of activity in the space. Most recently, US-based editorial and e-commerce watch platform Hodinkee entered the pre-owned segment, receiving \$40 million in venture capital funding in December 2020, and later acquiring the online used luxury watch marketplace Crown & Caliber.⁴⁵ Many luxury multi-category retailers, such as Vestiaire Collective, The RealReal and Rebelle, have added pre-owned watches to their assortment as well. While platforms originating from the watch category typically have a largely male and older customer base, multi-category players entering from fashion or jewellery, or with products at lower price points, may be able to capture younger segments and female consumers.

Though consumers have flooded onto pre-owned platforms, many mainstream brands have tended to sit on the sidelines. However, with the market growing at an unprecedented rate, brands' time for waiting is over. With this significant opportunity comes significant risks in not engaging, in terms of the profit pool, relationships with customers, the ability to attract new consumers and market share. By actively participating in the pre-owned market, brands can open themselves up to the opportunity of “double dipping” on sales — once when sold first-hand, and again when taking a share of pre-owned sales. And while this model offers higher rewards for watches sold at higher price points, brands can benefit across the range of pre-owned offerings. Depending on the resale value, we estimate brands could

capture an incremental 5 to 30 percent profit per product.

Among the companies already active in the pre-owned segment is Richemont – parent company of brands including Cartier, Vacheron Constantin and IWC – which acquired the Watchfinder platform in 2018 in a bid to develop its pre-owned business. Meanwhile, Richard Mille has partnered with the retailer Ninety to open a mono-brand shop dedicated to certified pre-owned and previous brand collections, while Audemars Piguet and MB&F are developing their pre-owned offerings either by allowing customers to trade

in their old models in store, or by directly selling pre-owned watches within their own channels.⁴⁶

To capitalise on the growing pre-owned opportunity, we have identified three strategies that business leaders should consider:

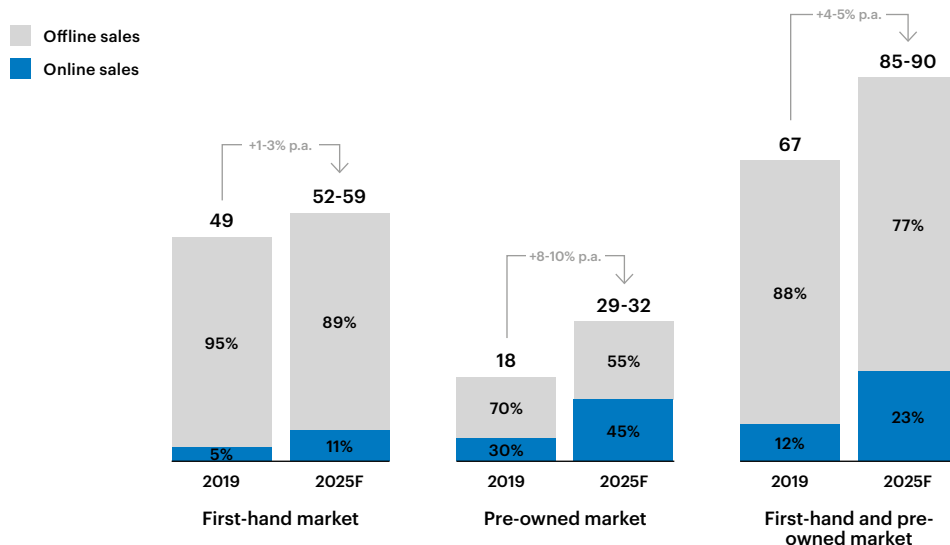
Integrate Pre-Owned Into the Brand Offering

Brand leaders could build an integrated pre-owned, mono-brand offering, leveraging both physical points of sale and direct online channels. To pursue this strategy, those who already have a DTC distribution strategy would need to believe

Exhibit 11:

Growth of the pre-owned watch market is expected to far outpace that of the first-hand market, with online sales leading the way

USD BILLION; SHARE OF SALES BY CHANNEL (%)



Note: All market valuation and channel share of sales figures are approximates

Source: McKinsey analysis, expert interviews

03. PRE-OWNED PROFITS

that pre-owned is a long-term investment, and that integration is a route to building brand equity (for example through a superior customer experience). They also need to believe the “double dip” effect on margins will outweigh any risk of cannibalisation of first-hand sales. Audemars Piguet has already shown its willingness to engage in this strategy by allowing customers to trade in old models when buying new watches directly in its stores.

Enable Pre-Owned Sales in Third Party Channels

A second option would be to collaborate with multi-brand platforms to develop offerings such as shop-in-shops, certification and trade-in arrangements. Again, the investment would be predicated on an assumption that pre-owned is a long-term trend, that the current crop of platforms will continue to dominate and that brands can maintain a level of control over their representation while collecting a worthwhile percentage of sales. Business leaders must also believe there is an opportunity to boost sales of new watches by building brand equity. Third-party channels give brands some protection against cannibalisation, by avoiding like-for-like price comparison with first-hand watches in their store, making it a more attractive option for brands whose watches are mostly sold at a discount second-hand. Richemont’s integration of its brands into its subsidiary resale platform Watchfinder may make it harder to manage the full customer journey as one integrated experience, but it will allow Richemont a much broader access to the pre-owned market opportunity.

Invest in the Pre-Owned Market Opportunities

Brands can also invest in pre-owned market opportunities with or without engaging their own products. Using this approach, brands would likely acquire a stake in a multi-brand platform to benefit from the trend without needing to engage with

their own products or brands. The underlying belief would be that second-hand is a transitory rather than a long-term trend, or that the pre-owned market is not a good fit for the brand, yet there may be a tactical opportunity to generate value.

Given the projected size of the market and rising consumer demand, the bottom line is that brands should now be proactively operating in the pre-owned market if they want to maintain control over their brand image and maximise customer touchpoints. Engaging more actively in pre-owned will also help brands extend their reach to new customer groups.

From the perspective of platforms and independent retailers, increased brand engagement in pre-owned will likely lead to some erosion of their share of the pre-owned market, from 85 percent at present to around 70 percent by 2025.⁴⁷ With this in mind, business leaders must think carefully about how they create a differentiated proposition.

While brands should choose engagement models that are aligned with their goals, those that participate directly will generate the biggest upside, with more control over brand representation and direct access to revenues. Many will also offer value-added services such as authentication and maintenance, helping to build trust, deepen engagement and encourage brand loyalty over time. Collectively, we expect brands to directly capture 25 percent of the pre-owned watch segment by 2025, representing \$7 billion in incremental revenue. “The market has great potential,” said Michele Sofisti, the former chief executive of Girard-Perregaux. “If brands with a rich history focus on leveraging pre-owned to showcase brand heritage, you can create an interesting market.”

Watchfinder: Building Trust to Formalise an Industry

by Robin Swithinbank



Zahra Kassim-Lakha
Director, Business
Development & Integration,
Watchfinder

When Richemont acquired Watchfinder in 2018, it marked a dramatic shift in the traditional watch industry's attitude to the second-hand, or 'certified pre-owned' market. What was once an unregulated sector is now increasingly brand-authenticated and growing fast, but it can still sometimes feel like operating in the Wild West, says one of Watchfinder's directors Zahra Kassim-Lakha.

The second-hand luxury watch market, also known as certified pre-owned, or CPO, is on fire. Barely a footnote in the business narrative a decade ago, today it represents 27 percent of all watch sales across the premium to ultra-luxury value segments. By 2025, it is expected global sales will total \$29 to \$32 billion, more than half the value of the primary market at the time.⁴⁸ At first, the pre-owned market presented consumers with few assurances, but many CPO players now offer brand accreditation and warranties that compare with the primary market. Secure, intelligent e-commerce platforms, together with user-friendly valuation and trade-in tools, have further boosted the sector's legitimacy.

According to Zahra Kassim-Lakha, director of business development and integration at the Richemont-owned specialist CPO retailer Watchfinder, the challenge is now not just to scale the CPO concept, but also to satisfy surging demand. To meet it, Watchfinder trains up watchmakers to service watches and ready them for resale and underwrites trade-ins for primary market players, such as the Richemont-owned IWC and Jaeger-LeCoultre boutiques, as well as multi-brand players like Mr Porter. But, as Kassim-Lakha suggests, fundamentally, pre-owned is still all about trust.

EXECUTIVE INTERVIEW

The pre-owned watch market was once the Wild West. Are those days over?

Yes and no. Nobody knows how big the market is [but] it's growing fast, and there are still grey areas. In the UK, the pre-owned market has become very professional, but there are markets where it's still the Wild West.

How do you define that professionalism?

There are two vectors. The first is trust and the second is choice and availability. Both are value-added for the customer. Those two vectors will frame market growth.

The CPO market will grow by 8 to 10 percent per year between 2019 and 2025, compared to 1 to 3 percent for the primary watch market.⁴⁹ Why is CPO growing so fast?

Until not that long ago, many customers didn't know you could buy pre-owned watches safely. And they didn't know they could sell and trade their watches. The market didn't exist. But now we have this circular economy, which we're seeing across luxury categories. This dimension is key to the growth of certified pre-owned.

Exports of new Swiss watches are tumbling. Is CPO responsible?

I don't have data to support that theory, but what I am seeing is a symbiotic relationship between pre-owned and new. We work with brands and retailers on trade-in programmes, underwriting customer trade-ins. This unlocks cash for a customer and is a growth-driver for new.

Is CPO being driven by the sustainability trend?

A watch is a sustainable product, for sure. It's not disposable. The long-term is built in to luxury purchases. But CPO purchases aren't driven by guilt. Instead, there's pleasure in knowing you can buy a watch for under retail [price], and perhaps even a watch no longer in circulation.

Prices for rare, premium pre-owned models are soaring. Will this continue?

Some of this is a bubble created by an international but small group of collectors and press. And there are cycles, just like in art collecting.

Some brands have created their own CPO platforms. Are we going to see more of this?

Brands have already been curating values through the auction market with very little consumer protection, and so some will dabble, yes. Others will want to be front-runners. Our belief is the greater the offer the better, because it brings greater understanding and trust [to the pre-owned market].

What challenges lie ahead for CPO?

The challenges are different for local, national and international players, but scale and scalability is number one. There's always a supply challenge, and then you have the issue of servicing. The industry needs more watchmakers, which is why we run a service centre and an apprenticeship scheme.

This interview has been edited and condensed.

WATCHES: UNFOLDING INDUSTRY SHIFTS

As the watch industry undergoes a period of transformational change over the next five years — anchored by the three seismic shifts in this report — the sector will also be influenced by other important changes in product offerings, consumer behaviour and operating models that promise to impact a cross-section of industry players. How these shifts will materialise in terms of timing, trajectories and magnitude will depend on several less predictable factors in the market as well as the actions of individual players. Industry leaders should therefore carefully monitor their progress and take decisive action where needed.

Casual Collaborations

Though luxury watch brands have traditionally been perceived as rather stiff, the broader casualisation trend hitting the luxury industry is having an impact on their conservative stance. We expect to see more casual players emerging and traditional brands selling more casual and sports watches compared to classic watches. There will also be an increasing number of collaborations between luxury watchmakers and familiar brands from fashion, entertainment and other industries.

China Repatriation

Chinese consumers who primarily purchased luxury watches abroad prior to the global pandemic have started buying in the mainland and at increasingly attractive local duty-free facilities such as those on the island Hainan⁵⁰ and will continue to do so amid sustained travel disruption. While international travel will gradually return, some watch sales will permanently shift to the domestic market as Chinese consumers become more accustomed to buying watches locally and new mainland shopping opportunities such as duty-free hubs emerge.

Demanding Diversity

A surge in social activism is prompting watchmakers to pay closer attention to diversity and inclusion. As a traditionally Eurocentric, male-led industry, representation of women and people of colour in senior management roles remains limited⁵¹ and marketing campaign imagery still targets only a small segment of the global population. Watch companies must step up their commitments to make their employment practices more equitable and enhance diversity and inclusion across all areas of business, from marketing to product development, to remain relevant.

Elevating After-Sales

Underwhelming watch after-sales services — which rarely seem aligned with the initial experience and sizeable investment required to purchase a watch — present a future opportunity for watchmakers and aftercare specialists. As the sector shifts away from the traditional wholesale model and watchmakers assume greater control over their distribution channels, including the pre-owned market, they will pay greater attention to developing a seamless, value-added after-sales experience.

Going Genderless

The traditional divide between men's and women's watches will fade as more consumers reject societal and style boundaries or become increasingly frustrated by outdated gender distinctions.⁵² In response to this more fluid market context and in a bid to attract a broader addressable market, some brands will focus less on designing watches that are categorised as men's or women's watches according to size, colour or use of gemstones.

Independents Rise

Tired of mass-produced Swiss watches from conglomerates and heritage brands, avid collectors and other consumers are turning to independent watch brands to find unique, high-quality timepieces. As the overall market shifts to the direct-to-consumer model, independents will increasingly leverage social media marketing and online distribution channels to share their brand story with global audiences and gain traction in a market traditionally dominated by a small group of well-known labels.

Personalisation Boom

The demand for customised watches is on the rise as consumers, most notably younger generations, look for products tailored to their unique tastes. Compared to the fashion and jewellery industries, watchmakers have offered little in the way of personalisation to date beyond engravings and added gemstones, or personalisation only at the very highest price points, resulting in a largely untapped opportunity. The challenge will be for watchmakers across value segments to offer cost-effective personalisation of numerous features at scale.

Christopher Ward: Probing Data to Remain Distinctive

by Chantal Fernandez



Mike France
Co-Founder & Chief
Executive, Christopher Ward

The founders of Christopher Ward like to recount an origin story of a dynamic start-up emerging from a lightbulb moment on a River Thames boat cruise. As competitors proliferate sixteen years later, the UK-based company with its own in-house Swiss-made movement remains committed to the digital direct-to-consumer model it helped pioneer, but chief executive Mike France says innovation will set the brand apart for its next chapter.

Mike France launched Christopher Ward with two partners in 2005, predating not only the arrival of Instagram but also the mainstream watch industry's embrace of the digital direct-to-consumer business model. The company vertically integrated with its Swiss manufacturing partner Synergies Horlogères after a 2014 merger, and by 2021 Christopher Ward was one of the largest UK-based watch brands, counting around 25,000 orders a year. Crucially, it remains an entirely online business — save for one showroom just outside London.

The DTC strategy that France pursued for years proved

especially fruitful in 2020, when sales increased 30 percent year-over-year thanks to consumers migrating to e-commerce during the pandemic and a big marketing push that paid off. Though Christopher Ward's first-mover advantage is no longer as strong as it once was when the DTC market was less crowded, France says he knows what he needs to focus on for the brand to remain distinctive. "Just because you're in an industry that isn't as obviously sexily technological as others, that doesn't mean innovation isn't as important. In some ways, [it's even] more important," he says.

As the online market for watches becomes more competitive, how does that impact your customer acquisition strategy?

It's not about paid advertising as much as it is about content in the right places. It can take six months from first discovering a Christopher Ward watch to buying one. And during that journey, customers will do research in all sorts of different places, including our own website, our own social channels, but also the websites of other outlets and other media channels. Making sure that you're in that conversation is important, and that wasn't something that people were thinking about 15 years ago [when] advertising was a much simpler thing.

What kind of data do you have on your customers and how does that play into personalisation and other strategies?

People talk about personalisation. It's one of those buzzwords that we bandy around, but, if you just reflect on the relationships you find interesting in your own life... then think about it from a commercial plan perspective, often the two things run pretty closely in parallel. [So] we have this rich database that we communicate with on a regular basis, sending out very detailed questionnaires asking for quite intimate details about their lives. Incredibly, we have thousands upon thousands of responses and that helps us then construct the sort of articles that we will put into [our in-house] magazine [called *Loupe*]. It also helps us determine the sort of watches that they might be interested in



as well as where they are, where else they're going, what forums they visit, what sort of [media they consume]. But these days it's much more about where they're going online. All of this information they readily give to us which is really valuable.

The casualisation trend is gaining traction in watches. How do you see this impacting the industry?

The smartwatch is going to be with us forever, but I think there's room for both. The younger generations have rediscovered their wrists, and when they become [wealthier], they get better jobs, they look to separate themselves from everybody else

in some way. And for many, that's not very easy because we all dress the same these days and all of our cars look pretty much the same. Watches are one of the few places that we have left to say what sort of person we might be. I think this is why men, in particular, are becoming more and more interested in collecting mechanical watches.

This interview has been edited and condensed.

Hodinkee: Cultivating the Next Generation of Watch Fans

by Chantal Fernandez



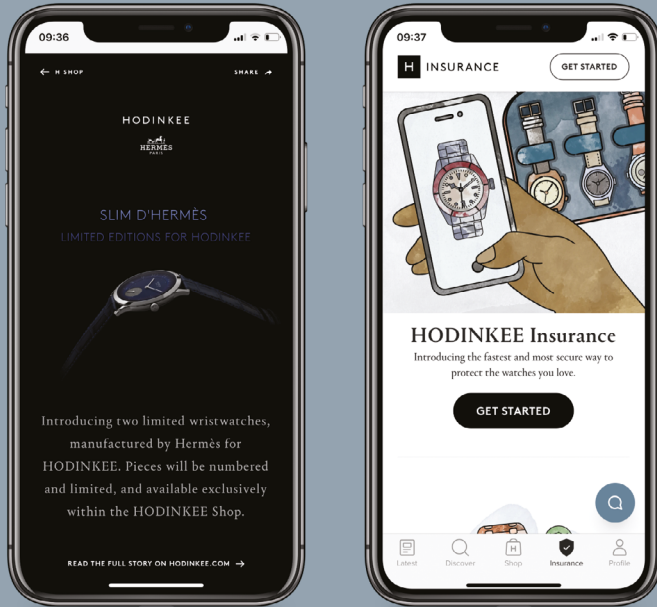
Toby Bateman
Chief Executive, Hodinkee

Hodinkee is expanding to follow its ambitions to become a robust content-and-commerce universe for its digitally native audience of new, pre-owned and vintage watch enthusiasts. Chief executive Toby Bateman explains how the growth of e-commerce and community-based retail is primed to shift the business of watches in the years to come.

Hodinkee has stood apart in a largely analogue industry since its start as a personal blog founded by Benjamin Clymer in 2008, tapping into the passion of a dedicated community of watch enthusiasts. Today it is a diversified content-and-commerce business, known for its growing e-commerce arm, product collaborations and biannual print magazines serving a loyal, passionate audience. The business was valued over \$100 million following a \$40 million Series B funding round led by TCG in December 2020.

Hodinkee's ambitions are escalating. After close to a decade

at Yoox Net-a-Porter's Mr Porter, Toby Bateman joined as chief executive at the end of 2020 to capitalise on the growth the business experienced during the pandemic — driven in part by younger shoppers turning their attention from collectables like sneakers to watches. His strategy features an editorial revamp, expanding the assortment of new and vintage watches for sale, as well as layering in services to keep Hodinkee's customer base engaged as competitors fine tune their own digital strategies.



In February 2021, you acquired the online, pre-owned luxury watch retailer Crown & Caliber. What opportunity do you see there beyond increasing market share?

Whilst [the online pre-owned sector has] become more and more popular, it's still very much the Wild West in terms of customer experience. It's difficult [for] customers who go online to understand, "Who am I buying from here? And what exactly am I buying?" [That's] our opportunity with the acquisition of Crown & Caliber, who are already probably the most well-trusted source

of pre-owned watches among everyone working in this space, at least in the American market. And that's because we own the stock we sell. Equally important for consumers — particularly younger consumers who have a strong sense of sustainability but are probably looking for value as well — is that this is an important part of the watch sector's circular economy.

Hodinkee launched its own insurance policy for watches in 2020. What other opportunities do you see in the after-sales experience?

The vision that we have for Hodinkee is... a universe of watches. It's 360 degrees. You can come into the world through the Hodinkee content, maybe as someone that owns a watch but hasn't really got into the category as a passion project. You can then purchase a watch through the pre-owned section... For the more seasoned watch buyer then, of course, we've got the vintage selection. [But] it's not just about commerce, and it's not just about content; it's also about the community. And I think in the next five or 10 years, we'll see more and more platforms focus on the importance of that community, which effectively is an important part of that after-sales experience.

Is the industry's approach to selling to women outdated? Will those gendered category divides become less important?

I think some brands are doing better than others [to change the stereotypical gendered approach they traditionally pursued], but for the most part, the recent approach to marketing to women has been outdated. Almost every major brand [at Watches and Wonders 2021] that launched a new watch, launched one that's a smaller version of something that they've had before. I think that maybe reflects a little bit of the unisex effect nature of the watch. A lot of women wear what would traditionally be referred to as men's watches now anyway, and conversely a lot of men prefer to wear watches that are of a size that would, historically, have been referred to as a female watch. They just prefer it.

This interview has been edited and condensed.

JEWELLERY

In the fine jewellery market, the next five years will present opportunities for players to rewrite the rulebook across products, distribution channels and engagement strategies. Branded jewellery players will convince more consumers to turn away from unbranded jewellery, while purchases of fine jewellery influenced by sustainability considerations will more than triple and digital transformation will fundamentally reset expectations for consumers and companies alike.

01.

Buying Into Brands

Despite the prominence of some of fine jewellery's biggest players, with their iconic brand identities and global reach, sales of branded fine jewellery still account for just 20 percent of the market. But by 2025, brands are set to take a bigger slice from the unbranded segment, growing to represent between 25 and 30 percent of the market. Those able to convert consumers to branded jewellery will share in the spoils of the collective \$80 to \$100 billion up for grabs.

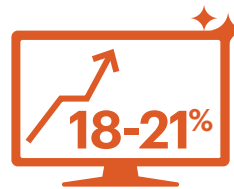


Branded fine jewellery is expected to grow at **8-12% CAGR from 2019 to 2025**, outpacing the overall fine jewellery market.

02.

Online Magic

Fine jewellery sales are traditionally associated with a bespoke service and magical in-store experiences that do not easily translate online. With online jewellery purchases surging since the pandemic, the onus is now on brands and retailers to better understand the relationship between physical and digital channels to develop experiences that capture more of the online fine jewellery market. With online sales expected to grow from 13 percent to 18 to 21 percent of the overall market between 2019 and 2025, \$60 to \$80 billion are at stake.



Online fine jewellery sales are expected to grow to **18-21% of total sales by 2025**, up from **13% in 2019**.

03.

Sustainability Surge

Fine jewellery purchases influenced by sustainability considerations are poised for dramatic growth. By 2025, an estimated 20 to 30 percent of global fine jewellery sales will be influenced by sustainability considerations from environmental impact to ethical sourcing practices. But leaders in a previously slow-to-act industry must look beyond sustainability as a factor in risk mitigation and embrace it as an opportunity to build brand equity by pursuing responsible business practices.



20-30% of fine jewellery purchases in 2025 will be influenced by sustainability considerations.

EXECUTIVE INTERVIEW

Cartier: Selling Timelessness in a Fickle World

by Ming Liu



Cyril Vigneron
President & Chief Executive, Cartier

Cartier transcends generations, geographies and gender but staying relevant, suggests the brand's chief executive Cyrille Vigneron, is about iconic, pure designs that hold true in an ever-changing world. To navigate a classic heritage brand through the choppy waters of the post-pandemic jewellery market, however, will take more than a clear vision and steady hand.

Jewellery has been a bright spot for Cartier's parent company Richemont, which for the nine months ending December 31, 2020 saw a 14 percent annual sales increase⁵³ at the group's jewellery maisons unit which comprises Cartier, Buccellati and Van Cleef & Arpels. Over the same period, the luxury conglomerate posted a double-digit increase in its overall online retail sales, but Cartier's chief executive Cyrille Vigneron is continuing to revamp its physical flagships, which he says must become "less about browsing and more about inspiration."

A Cartier veteran who first joined the jewellery house in the late 1980s, Vigneron rose through the ranks to become president of Richemont Japan, then managing director of Cartier Europe, and following a brief stint at LVMH, returned to take the top job at Cartier in 2016. Given his intimate understanding of the brand, it's no surprise that he sees Cartier's house icons as its greatest assets. Though the years ahead will bring profound changes to the jewellery market, Vigneron maintains that the brand's values will not waver — especially its timeless, enduring designs.

The pandemic was a game-changer in terms of accelerating e-commerce. But how will you continue to recreate the magic of the Cartier in-store experience for digital, which can be quite a sterile environment?

It's not that the store is only magical while digital is sterile. Digital has practicality and functionality, so the question is, "What do customers expect on screen and how do we make that experience as pleasant as possible?" You have to deliver the best possible experience. But there are things in-store that you cannot replace online. There is touching a product and trying it on, to see and feel it on yourself. In-store, you're also [shopping] together with others, like your partner or family; there are certain things you can share in a much better way. So, we shouldn't think about how to exactly replace what only happens physically, but how to make the best possible digital experience for the purpose it's meant to serve.

What future technologies do you envisage will enhance the online experience? How does this tie in with the offline experience?

Online can also be inside a

store. In our IFC [Mall] store in Pudong, China, we have installed interactive screens for bridal customers where they can insert their hand and it records their pulse on a screen, which can be engraved on a ring, capturing a specific feeling at that moment of time. We also work on augmented reality, where you can see exactly how a ring looks on your hand — how the gold changes colour with the specific diffraction of light. And in our retail labs in Brooklyn and Shanghai, we are looking at special 3D scanning technology of a customer's head and neck to make a bust for special custom orders. We will then have the client's real shape to make adjustments without needing them to travel back and forth.

By 2025, nearly all fine jewellery purchases will be digitally influenced — whether pre-purchase or at the point of sale. Will in-platform social media commerce become an increasingly important sales channel for jewellery as it seems to be for fashion?

Social media platforms are evolving very differently, such as WeChat in China or Line in Japan or Korea, compared to other platforms like Facebook or Instagram. Mini programmes

EXECUTIVE INTERVIEW

are developing and changing how we interact in-platform. Also, livestreaming sessions or videos that are not possible on YouTube or the equivalent offer new ways to promote, explore and share. On our Luxury Pavilion store on Tmall, specific moments of livestreaming can see strong customer engagement. Not all the time, but it plays a role and China is ahead of the curve on that. Whether this can go to the point of actual purchases [for fine jewellery] I don't know, as I think there's still something missing in the experience. But as technology is evolving so fast, probably hybrid forms will come.

It is estimated that the branded jewellery market will grow rapidly, representing 25 to 30 percent of the market by 2025, up from 20 percent today. How does Cartier plan to capture this segment of consumers shifting from unbranded to branded jewellery?

Yes, the share of branded jewellery has been increasing, but the share of international branded jewellery is also increasing. We are confident this will continue to develop in the future, as the interest for international recognition grows among customers. Self-expression is getting stronger. Watches and jewellery are increasingly used to express who you are. It's not something as standardised as a row of pearls, where basically everyone has something similar. If you want to look somewhat distinctive and express your singularity or be a part of the global world, what can you wear that will work in either Hong Kong, London or New York? That's where international luxury

jewellery brands increasingly play an important role.

How are the jewellery collections from luxury fashion brands changing the landscape, and how will established jewellery brands, like Cartier, compete with them in the future?

Compared to jewellery, fashion brands renew their product cycles very quickly. They must constantly show something different and new, while for jewellery brands it's more about establishing stable designs. In our case, our designs are timeless. You cannot date them; they're still contemporary and still true today. But it's a good challenge to have fashion brands making items which are not fashionable by nature. Fashion brands push us towards the purity of our designs, and to be even more durable and timeless.

With all this competition, how can smaller jewellery brands compete?

Being a small brand is not too difficult as long as it has its own characteristics, specific design and attitude towards aesthetics. The brand JAR, for example, has been totally in its own space for a long time and will continue to be. There's room for both big and small brands. I think the question may be more for mid-sized brands, or brands which are known regionally and want to expand globally. The investment needed to reach a global standard might be too big before they acquire the knowledge.

Disruptions to the jewellery industry are not limited to the digital arena or business models; they've been happening in materials too.

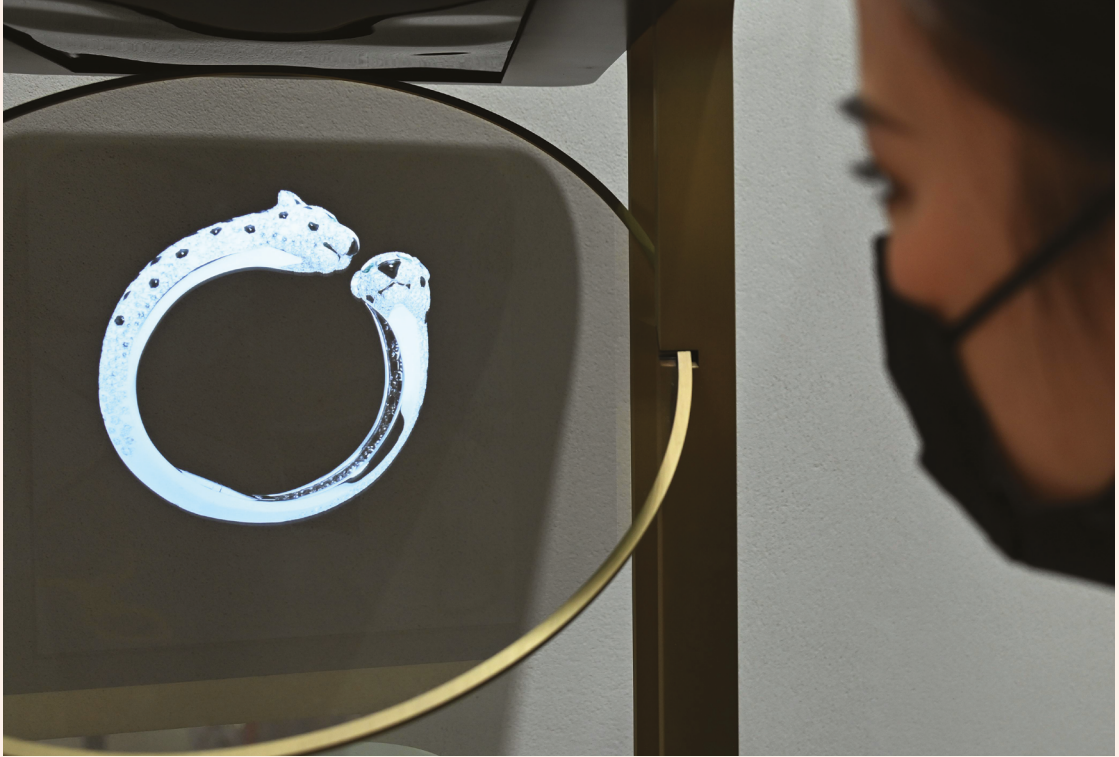
What are your thoughts on lab-grown diamonds? Will they ever be part of Cartier jewellery? If so, how?

For the time being, no. We make a promise of naturality and traceability to our clients. If at some point customers feel lab-grown diamonds are perfectly fine to have for, say, the melee diamonds (i.e., small stones for a pavé setting), then we'll see if maybe we can make special collections. But separation will be imperative so there's full transparency.

The problem with lab-grown diamonds is that, despite having the same molecular structure as those found in the earth, lab-grown diamonds don't have any [history]. They were made two days before. At some point, some customers will probably hesitate to [buy] natural diamonds but, on the other hand, many customers will still reject lab-grown diamonds as they've lost their singularity and lost the fact that they were made by the Earth millions of years ago. In the end, this might put into question the value given to diamonds compared to other stones or compared to figurative jewellery designs [which feature depictions of animals and nature, such as the Cartier panther motif]. Given that Cartier is known more for its design than purely stones, it won't be difficult to adjust to customers' preferences.

Sustainability is top of mind for some consumers right now. How do you see the dialogue on sustainability between brands and consumers evolving next?

In the past, people assumed big brands did the right thing. That was enough, unless revealed it



wasn't the case. What's changing now is that you're required to do things, to share what you're doing, and to prove it. That's changing in a very, very rapid way. Also, when it comes to the environment, you must express your intentions and show that you "walk the talk."

This is the same for social commitments, human rights and gender equality. That's why we have signed the Women's Empowerment Principles and why, for instance, we now have an equal pay certification with PricewaterhouseCoopers. In this case, it's a third party certifying that you are "walking the talk." In the past, we'd just make sure our processes were fine. The new thing is that everyone is becoming really committed but asking you to be clear and transparent. And

those who aren't will face more and more serious resistance from their customers. They want to be sure that you do the right thing.

The pandemic has seen a repatriation of Chinese luxury spending. How soon do you anticipate the return of Chinese tourists to Western shopping destinations? How are you planning to pivot more to rebalance to domestic spend in China that's likely to happen in the coming years?

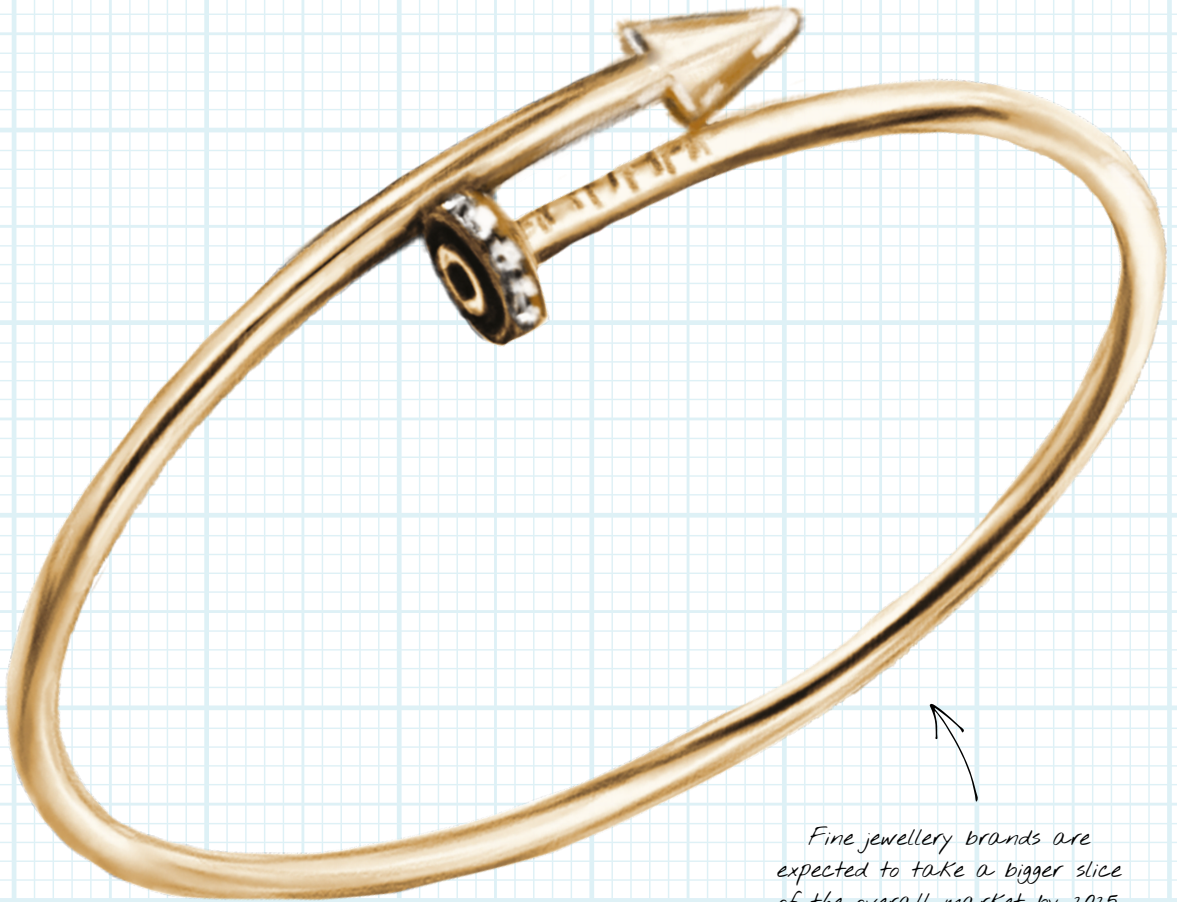
The pandemic and subsequent lockdowns have dramatically accelerated the shift to local consumption, either physically towards shopping malls or online within China. And many Chinese consumers have not even [started travelling] abroad yet... That probably means that

travel retail purchases — whether in Korea, Hong Kong, Hainan, Dubai or Europe — will return in substantial numbers. That being said, I think the shift of the majority of sales happening domestically will not reverse. The market will grow by itself anyway, and faster domestically than overseas or in travel retail.

This interview has been edited and condensed.

01.

BUYING INTO BRANDS



Fine jewellery brands are expected to take a bigger slice of the overall market by 2025, as branded players like Cartier compete with one another and unbranded jewellers alike.

Despite the prominence of some of fine jewellery's biggest players, with their iconic brand identities and global reach, sales of branded fine jewellery still account for just 20 percent of the market. But by 2025, brands are set to take a bigger slice from the unbranded segment, growing to represent between 25 and 30 percent of the market. Those able to convert consumers to branded jewellery will share in the spoils of the collective \$80 to \$100 billion up for grabs.

Key Insights

- The branded fine jewellery market is poised to grow at a compound annual growth rate (CAGR) of 8 to 12 percent from 2019 to 2025, which is more than double the rate of the overall jewellery market; Asia will account for the largest growth.
- Three types of players are expected to convert customers from unbranded to branded jewellery: established fine jewellery brands, new and growing direct-to-consumer (DTC) brands and luxury fashion brands.
- To succeed in seizing market share from rival brands and from unbranded jewellers, players will need to make daring investments in digital and direct-to-consumer channels, utilise technology to get closer to their consumer and build a diverse and representative advisory board.

To many, “fine jewellery” is synonymous with images of Tiffany blue or Cartier red. To others, it conjures up De Beers’ historic “A Diamond Is Forever” marketing campaign. Despite the prominence of their names and logos, branded jewellery players — defined as brands that are known regionally or internationally and priced with a brand premium — make up just 20 percent of the fine jewellery market today. By contrast, premium to ultra-luxury watches see brand penetration extend to as much 90 percent according to McKinsey analysis. The unbranded fine jewellery segment still dominates the global market, but as consumer preferences shift, it represents a significant opportunity for brands to convert new buyers.

With consumers gravitating towards brands that represent their values and flocking to online shopping where larger brands have the scale and resources to fiercely compete, the branded fine jewellery market is poised to drive industry-leading growth at a compound annual growth rate (CAGR) of 8 to 12 percent from 2019 to 2025 — which is more than double the rate of the overall jewellery market.⁵⁴ We expect the largest growth to come from Asia, with 10 to 14 percent CAGR, or roughly three to four times the overall market.⁵⁵ Based on that trajectory, branded fine jewellery will account

for approximately 25 to 30 percent of the market by 2025, equating to \$80 to \$100 billion in annual sales.

“Because of this unbranded market, [jewellery] brands have a big capacity to grow... compared to watchmaking. Because when you grow in watches, you have to grab market share from other brands but, when you grow in jewellery, you don’t have to kill your neighbour or your competition,” said H el ene Poulit-Duquesne, chief executive of Boucheron.⁵⁶

Equivalent pieces of branded fine jewellery can command prices up to six times higher than that of unbranded fine jewellery, so competition for the expanding value pool will be fierce. Three types of players are poised to jump on the opportunity to convert consumers from unbranded to branded jewellery with a premium price tag.

In the lead will be established fine jewellery brands already operating in the segment. Bulgari, for example, is increasing production, launching two to three collections per year — a significant increase in cadence from its former launches — and is investing more in marketing. Similarly, other brands such as Cartier are expanding their store footprint in a bid to increase visibility. We expect these large fine jewellery brands to account for the lion’s share of the segment’s expansion over

01. BUYING INTO BRANDS

the coming period, capturing up to 70 percent of growth in the branded market by 2025.⁵⁷ However, while incumbent brands have the advantage of size, investment power and brand equity, they will need to move fast to keep ahead of other players that enter the market.

One key to retention will lie in meeting the ever-rising customer expectations of brands. Today, consumers increasingly look to brands to fulfil a desire for affiliation, purpose and deeper meaning.

One such challenger will be new and growing direct-to-consumer (DTC) brands, often targeting a specific value proposition like sustainability or a point of view on design. These brands could account for 20 percent of growth in the branded market by 2025. More nimble by virtue of their often digital-first presence and close connection to consumers, these players will aggressively acquire customers through social media and paid marketing, testing and iterating on messages and techniques to most efficiently capture the target consumer.

“Being direct-to-consumer, we know more about our client [than some larger, traditional jewellers], because we don’t have a third party or an intermediary... [so] I know my customer. I can service them directly. I know what their desires are,” said Danielle Sherman, founder of LA-based DTC fine jewellery brand Sherman Field which specialises in heirloom and personalised pieces such as chain necklaces and lockets.⁵⁸

Finally, luxury fashion brands are expected to make up 10 percent of growth in the branded market by 2025.⁵⁹ Fine jewellery has the potential to become fashion’s next big growth engine, taking over the role from leather goods, which has generated twice the growth of apparel and jewellery

in recent years. There is significant opportunity for expansion for larger fashion houses whose fine jewellery segments today make up a relatively small proportion of their revenues (less than 8 percent for LVMH— prior to the acquisition of Tiffany & Co⁶⁰ — and less than 6 percent for Kering,⁶¹ for example).

“It’s the biggest potential we have right now,” said Michael Burke, chairman and chief executive of Louis Vuitton. “Fine jewellery is one of the highest-growth categories we have, if not the highest.”⁶² A number of fashion brands, such as Chanel and Giorgio Armani, have recently launched or reinvigorated their fine jewellery lines. However, despite the attractiveness of the opportunity in branded fine jewellery, the slower product cycles and higher price points compared to many fashion categories mean luxury fashion brands will need to earn legitimacy and find the right consumer niches. High-end players can be expected to target the highest price points first to create a brand halo effect that provides a foundation to quickly descend the price ladder. These players will carry over their brand heritage and ensure their channels, including brick-and-mortar stores, are set up to operationalise the nuances of the fine jewellery category.

While the opportunity to convert consumers to brands is large, the challenge is not just in capturing value, but also in retaining it. In what can be long purchase cycles between one piece of fine jewellery to the next, pressure will be placed on retaining valuable brand-conscious consumers over their lifetime.

One key to retention will lie in meeting the ever-rising customer expectations of brands. Today, consumers increasingly look to brands to fulfil a desire for affiliation, purpose and deeper meaning. With this, there is an opportunity to convert customers who previously bought commoditised, unbranded fine jewellery by drawing them into the brand story. To capture the unbranded market, “it’s about creating an emotional connection,” said Jacques Roizen, Pandora’s senior vice president and



general manager of China. “If brands like ours want to grow their share, we need to give our consumers a reason to feel that affinity.”⁶³

For companies looking to expand their branded fine jewellery offering, they will find the strongest tailwinds in Asia, where branded fine jewellery is expected to grow at a CAGR of 10 to 14 percent between 2019 and 2025, making it the fastest-growing region.⁶⁴ In China, only 15 percent of the fine jewellery market is currently branded, but local heritage brands like Chow Tai Fook and Chow Sang Sang already have loyal followings and niche brands such as Hefang, Yvmin and Oak

are beginning to gain traction — particularly from Millennials⁶⁵ — and are taking share from affordable global brands and unbranded jewellers.

“This trend is particularly obvious in mainland China and the rest of Asia, where there is a mushrooming of micro brands from both groundbreaking new names — small and big — and spin-offs of well-known brands,” said Louis Chan, assistant principal economist of the global research team at HKTDC,⁶⁶ which operates the Hong Kong International Jewellery Show, among other industry shows.⁶⁷

Still, strong demand for international

01. BUYING INTO BRANDS

brands remains, and these are likely to continue to outperform their local rivals over the next five years.

To succeed in seizing global market share both from rival brands and from unbranded jewellers, brands should invest without delay, use technology to get closer to the consumer and bring in diverse voices:

Make Daring Investments Now

Branded jewellery is emerging from the pandemic period as one of the hottest product categories for luxury players. Likewise, luxury consumers are expected to recover much faster from the economic impact of Covid-19 than their lower income counterparts. McKinsey research shows that in the US in particular, high-income earners will see notably faster spending recovery speeds than middle- and low-income cohorts, particularly among young and middle-aged consumers. In Europe, high-income consumers will also emerge fastest, but with less of a differentiation from middle-income consumers.⁶⁸

Brands must invest in product innovation, digital, direct-to-consumer channels and marketing, before the market fully recovers, to get ahead of competitors who do not move with the same urgency or who do not have the capital to do so. Furthermore, brands who dare to surprise the consumer stand to benefit. Tiffany & Co's decision to use bright yellow instead of its signature blue in a pop-up store design in 2021 is one example. We expect the fastest movers to win market share.

Nurture Tech-enabled Agility

2020 marked a year of abrupt change in consumer preferences, shifting away from previous priorities to focusing on health and safety. Consumer preferences and sentiment will continue to rapidly evolve in the coming years, requiring brands to be closer to the consumer than ever before. Gone are

the days when the pace of change can be driven by a brand's long-life product cycle as the consumer is now in the driver's seat, demanding better engagement on their terms and at their preferred pace. This means technology will increasingly be the enabler for customer engagement.

Gone are the days when the pace of change can be driven by a brand's long-life product cycle as the consumer is now in the driver's seat.

Brands should activate real-time listening posts to get rapid consumer feedback by leveraging technology that is fast to deliver. For example, some retailers have begun using AI-driven chat over SMS to get customer feedback immediately after leaving the store. The AI engine picks up on consumer responses and adjusts questions accordingly to quickly gather actionable feedback, which leading companies will follow-up on personally with customer service agents and embed into decision making.

Build a Diverse and Representative Advisory Board

A typical board of directors often prioritises longstanding industry experience and deep knowledge about a company. However, in the jewellery sector, it too often lacks young and diverse leadership talent. To better reflect a brand's current and future consumers and create a greater sense of intimacy with them, brands should, at a minimum, create internal forums to engage in increasingly relevant dialogue about issues that are important to a wider range of consumers.

Those who wish to be more ambitious will consider creating an advisory board of young, diverse talent to advise the leadership team in a

more formal capacity. Brands should look within and outside of the fine jewellery industry to find creative, young minds to challenge the executive leadership team and bring insights from new, out-of-the-box perspectives. More diverse thought leadership, especially when representative of the target consumer, can unlock new ideas and provide invaluable feedback.

As the share of the branded fine jewellery market is set to grow, brands must be careful to not get distracted by the sheer scale of the opportunity

or the apparent familiarity of the undertaking. “There is potentially a huge opportunity, both in terms of market share and in terms of improved revenue,” said Gaetano Cavalieri, president of the World Jewellery Confederation CIBJO.⁶⁹ “But it will require a leap of faith on the part of jewellery consumers.” Indeed, for brands to win over consumers in this highly competitive space will require a combination of speed, bold thinking and impeccable execution.

Exhibit 12:

Established brands could capture approximately 70% of branded fine jewellery growth if they lean on their scale and brand heritage

COMPETITOR TYPE	POTENTIAL STRATEGY	SHARE OF BRANDED FINE JEWELLERY GROWTH ⁷⁰
<p>Established luxury jewellery brands</p> <p><i>Cartier</i> BVLGARI</p>	<p>Leverage scale and jewellery heritage to win against smaller, agile emerging DTC fine jewellery brands</p> <p>Invest in marketing, points of presence and customer experience (e.g., Bulgari increased store count by 5% p.a. from 2015 to 2019 to get closer to the customer and promote brand experience)</p>	<p>Base case of approximately 70% if players move quickly; greatest risk of losing share to emerging brands</p> <p>70%</p>
<p>New and growing DTC fine jewellery brands</p> <p>VASHI MEJURI</p>	<p>Build the brand with a clear value proposition to justify any price premiums and clearly situate the brand in the market</p> <p>Utilise digital brand building tools (e.g., influencers) to win market share with smaller marketing budgets</p>	<p>Base case of approximately 20% with opportunity to capitalise on slow movement from established luxury jewellery brands</p> <p>20%</p>
<p>Luxury fashion brands</p> <p>HERMÈS PARIS GIORGIO ARMANI</p>	<p>Leverage high investment power to enter the jewellery market through owned collections or acquisitions</p> <p>Move with intention to carry over the brand heritage and adapt retail operations to support</p>	<p>Base case of approximately 10% as large luxury brands slowly move into the branded jewellery space</p> <p>10%</p>

Source: McKinsey analysis, expert interviews

Chow Tai Fook: Persuading Clients to Pay a Premium

by Ming Liu



At one of the biggest jewellers in the world, Kent Wong Siu-Kee is focused on mainland China and other dynamic Asian markets to persuade buyers to choose Chow Tai Fook instead of unbranded jewellery. The Hong Kong-based group, with roots tracing back to a gold jewellery shop founded in 1929, is investing big in the opportunity but faces competition from all sides.

Kent Wong Siu-Kee

Managing Director, Corporate and Hong Kong, Macau & Overseas, Chow Tai Fook Jewellery Group

The Chow Tai Fook Jewellery Group is among the world's largest jewellers, with a market capitalisation of around HKD 151.2 billion (\$19.5 billion), a valuation that puts it in the same league as Tiffany & Co at the time of the LVMH acquisition. Amid lacklustre performance in its home market of Hong Kong, Chow Tai Fook continues its expansion into mainland China, which has experienced a rapid recovery from the pandemic and provided the jeweller with the lion's share of its core operating profit.

China is attractive to fine jewellers not only for its scale and resilience, but because it represents a bigger opportunity

than other markets when converting consumers of unbranded jewellery to buy branded jewellery instead. Only 15 percent of the Chinese market is currently branded jewellery compared to 20 percent globally, a fact that has not gone unnoticed by Chow Tai Fook's managing director Kent Wong Siu-Kee who has been ploughing money into third- and fourth-tier Chinese cities while upgrading top-tier mainland locations and expanding retail networks across Southeast and Northeast Asia.

Chow Tai Fook has had a stronghold in Asia for over 90 years, with a front row seat to the recent consolidation of the jewellery market. In the early

years, how were you able to evolve from selling unbranded jewellery to selling your own brands?

I think we [were successful at transitioning from unbranded to branded jewellery] because we've leveraged our history. We have sophisticated brand values and pricing is also important, which [means] value for money. We've always stayed true to industry trade patterns too, like in 1956, when we were the first to use 999.9 gold purity in the Hong Kong market. Or in 1990, when we were the first company to apply a fixed price policy for jewellery sales, which changed market patterns. And in 2016, we launched our T Mark diamond

that guarantees and assures that the diamond is natural, ethical, from a traceable source and from reputable mining companies. So, all these different kinds of instructive measures, as a whole, show [buyers of unbranded jewellery] that we're a very reputable, reliable jeweller.

Consumer behaviour in mainland China, where the bulk of your business is located, is notably fragmented. Unlike some consumers in higher-tier cities, those in third- and fourth-tier cities where you've been aggressively opening boutiques are still keen to show their affluence through branded jewellery. But what's your plan to capture those used to buying unbranded jewellery for less?

To penetrate lower-tier cities [and capture consumers of unbranded jewellery in those markets], we have to work with a good partner — one who understands local knowledge, local economic situations and local relationships. Ninety percent of our franchise partners are actually local jewellery operators who have [operated] their store in a lower-tier city for more than a decade. They already know their customers' needs and have a very strong customer relationship with local people. We bring in our brand — our operation model and our management system, including the IT system — and they can also share in our CRM ecosystem.

Traditionally, Chow Tai Fook's competitors have been local jewellery giants, big western jewellery and fashion brands and unbranded jewellery. But niche jewellery brands are now becoming more popular with

some of your customers too. How are you fending off this new category of competitor?

Niche brands fulfil some needs for customers who are looking for something unusual, something to show their personal character. They provide another option, but to only a small group of customers. For the mass market, you still need to have a mass production or a mass operation kind of model. Because of changing customer behaviours, like digitalisation and mobilisation, you have to re-invest and upgrade your operative processes. That needs not only huge sums of money but talent too.

Globally, our research suggests that an increased focus on value for money will put pressure on the premium segment and luxury's entry price point offer. Do you agree? How will you address this?

In the mass market, value for money is always the customer's right and their biggest interest. But we must identify what is actually the meaning of "value for money." It's not the material's value; we're not focused on commodity value. But if we can provide more emotional and experiential value, I think that's important. When a customer feels that your product is amazing, a one-of-a-kind, I think they believe it is still "value for money" and they're willing to pay. That intangible value is also important. So, we have to not only give the right product, authenticity and top quality, but also give something that the customer believes fulfils that emotional need.

In 2018, you enhanced your T Mark diamond

authentication service with blockchain technology to provide digital diamond grading reports. Why was this important to offer and what other technologies do you envision changing the market?

By using blockchain to guarantee the product was traceable and ethical, we built customer confidence. AI is another area which we can use on, say, a mobile purchase app, to analyse a customer's behaviour and preferences, and counter-suggest other suitable products. But there are also AI tools that act like smart assistants for sales. The salesperson provides an emotional kind of service, while an AI assistant provides a smart, automated kind of product offering. Cloud computing and big data will also help us more precisely understand customers, so we can be more agile in adjusting our product offering to different clients. We've also just launched a partnership with a Hong Kong start-up called Goldway Technology to provide AI diamond grading. So rather than a trained gemologist grading colour and clarity, we will be able to use machine learning to grade colour and clarity in a much more scientific way.

This interview has been edited and condensed.

02.

ONLINE MAGIC



Fine jewellery sales are traditionally associated with a bespoke service and magical in-store experiences that do not easily translate online. With online jewellery purchases surging since the pandemic, the onus is now on brands and retailers to better understand the relationship between physical and digital channels to develop enchanting experiences that capture more of the online fine jewellery market. With online sales expected to grow from 13 percent to 18 to 21 percent of the overall market between 2019 and 2025, \$60 to \$80 billion are at stake.

Key Insights

- The fine jewellery industry generated just 13 percent of its revenue online in 2019, but since the Covid-19 pandemic fundamentally reset the comfort baseline for online shopping, that share will increase to between 18 to 21 percent by 2025.
- From 2019 to 2025, online sales of fine jewellery are expected to grow at a compound annual growth rate (CAGR) of 9 to 12 percent, which is up to three times that of the overall fine jewellery market.
- To succeed online, companies will need to find the right blend of technology and the human touch while anchoring online “magic” into use cases and making store networks part of the digital solution.

Fine jewellery and e-commerce are not the most natural pairing. The enduring appeal of face-to-face interactions in the digital era can be explained by several factors. Not only is the buying experience inherently emotional and the price significant, but fine jewellery purchases also often involve consultation, with fitting and confidence in the purchase frequently requiring professional, hands-on assistance. Fine jewellery has therefore been slow to move to digital, with the industry generating just 13 percent of its revenue online in 2019.

To make a break for digital, fine jewellery needed a catalyst, which materialised in 2020 with the global pandemic. As physical stores closed, fine jewellery consumers were forced to switch to online channels — and brands and retailers around the world had to quickly adapt, even in markets where security concerns are a high priority among luxury consumers. “People in Brazil, contrary to some in the United States, were very reluctant to buy jewellery through e-commerce [at first, but] they are not afraid anymore,” said Roberto Stern, president of Rio de Janeiro-based jeweller HStern. “Having clients learn to trust online sales was a big game-changer.”⁷¹

As a sign of growing comfort with digital purchases, the US and European (including UK) markets saw a 57 percent rise in the number of fine

jewellery pieces ordered online in 2020 compared to 2019, in addition to a 35 percent increase in the average unit value, according to exclusive Adobe Analytics data.⁷² To be sure, customer behaviours will settle post-pandemic, but the comfort baseline for online shopping for fine jewellery has been fundamentally reset. Over the next five years, online sales of fine jewellery are expected to grow at a compound annual growth rate (CAGR) of 9 to 12 percent, which is three times that of the overall fine jewellery industry.

In response, brands, retailers and marketplaces are bulking up their online inventories, many with items and price points previously reserved for physical stores. Tiffany & Co customers, for example, can buy jewellery worth more than half a million dollars directly on its website. Online luxury marketplaces are following suit: 1stDibs lists jewellery priced at seven figures, of which one of the most expensive items is a 23-carat flawless emerald cut diamond ring by Harry Winston, selling for \$4.45 million.⁷³ As brands extend their online assortments, some are complementing high-resolution photos with augmented reality try-on and virtual appointments that enhance the online experience and serve practical customer needs.

With the increased comfort of purchasing big-ticket jewellery items online come opportunities to leverage social media and other digital

02. ONLINE MAGIC

platforms such as livestreaming. Though the verdict remains out for the channel's efficacy for fine jewellery sales across many territories, it is gaining traction in China and other Asian markets. Cartier hosted its first jewellery livestreaming show on Taobao Live during Alibaba's 11.11 shopping festival last year, featuring more than 400 watches and jewellery items and including a necklace valued at \$28.3 million.⁷⁴ The opportunity also spans beyond established jewellery brands. Social media has dramatically levelled the playing field, allowing younger challenger brands to disrupt the marketplace with their fluency in speaking to younger generations on social channels.

Social media has dramatically levelled the playing field, allowing younger challenger brands to disrupt the marketplace with their fluency in speaking to younger generations on social channels.

In light of these shifting dynamics, the future for fine jewellery online looks bright. McKinsey's analysis expects the market to double between 2019 and 2025, with online reaching 18 to 21 percent of global fine jewellery sales and amounting to \$60 to \$80 billion in annual turnover. We see the growth impacting branded and unbranded players differently. For instance, brands selling directly online will be the clear winners, in large part driven by consumers' preferences for buying directly from brands, with data from Agility showing that upwards of 60 percent of affluent consumers will turn to a brand's own website for their purchase.⁷⁵ Online platforms distributing branded fine jewellery, including both multi-brand e-tailors like Net-a-Porter and marketplaces like The RealReal, will benefit from the tailwinds, too.

Whatever their position in the market, time is of the essence if players are to claim a share of

online sales growth. While larger players have the benefit of size and resources, it is likely that they will be overtaken by more nimble players with lower barriers to entry if they do not act fast.

The economics can be attractive for brands and retailers that decisively take action to boost their direct online sales. The direct-to-consumer (DTC) model can offer advantages such as a higher gross margin (sometimes even double),⁷⁶ the ability to offer a lower price point to consumers, increased opportunities for cross-selling and up-selling, and the ability to own the customer relationship and drive repeat purchases.

However, if not properly managed, DTC costs can balloon, with increases felt in shipping, logistics and returns. Not all brands have found a sustainable equilibrium — for instance, in its 2020 annual report, Pandora highlighted a higher share of online sales as one of the elements impacting its margins.⁷⁷

The model also comes with increased expectations around transparency from online consumers. Unlike brick-and-mortar retail, online offers the ability to easily compare prices for similar items across sites. This is especially true for diamonds, where attributes of the 4Cs — colour, cut, clarity and carat — used to assess quality and therefore value, can be compared well enough for each gem. It will therefore be imperative for jewellers to compete on the basis of design and brand equity. As such, companies that have let creativity take a back seat will see their margin come under pressure. Others will embrace digital transparency and use it as an essential component of their value proposition. Online jewellery retailer Blue Nile, for instance, has made sharing information about the 4Cs — and being transparent about how this influences price — central to its brand, providing a transparent lens on a previously hard-to-quantify purchase.

While fine jewellery's opportunity online is clear, what is less certain is how business leaders will create digital experiences that live up to the

enchancing experiences for which physical fine jewellery stores are known. “It’s about the magic,” said Shaun Leane, founder of the UK-based jewellery brand of the same name, renowned for collaborations with the likes of Boucheron and Alexander McQueen. “That’s the world of jewellery and that’s what the consumer wants to see, feel [and] experience. They want to be buying a part of that.”⁷⁸

Executives should consider the following actions when developing their own “magic” online:

Anchor ‘Magic’ in Use Cases

To start, companies will need to define the role of each digital channel and clearly articulate the use cases, or needs, that the channel should address for both the consumer and the business. With clearly defined use cases, jewellers can then better determine what type of “magic” is needed to deliver, or over-deliver, for the customer. Winners will master capturing the emotional dimension of the purchase and will elevate the experience beyond that of buying everyday items online. Some companies are using virtual reality apps and videos, alongside live events, to boost the sense of connection. For instance, Bulgari has developed a special app for key customers that enables them to discover the brand’s new collection and try the pieces on through augmented reality. Players should, however, be sure that the “magical” touches are linked to clear use cases and be wary of investing in gimmicks.

Leverage Store Networks

The rise of digital does not diminish the importance of physical store footprints. Among many roles, stores have historically acted as the crown jewel of brand experience, and they will continue to do so in the future. Jewellers with an existing store network should draw on their brick-and-mortar sales expertise to inform the online

experience and leverage their resources across both channels. This could mean making their in-store sales force available for advice to shoppers both online and off, with staff available to try on jewellery and share via video with clients. Courbet’s virtual shopping experience, for example, leverages personal appointments with sales reps, including product recommendations and staff try-ons, which blends technology with the type of bespoke service expected in physical stores. Meanwhile fine jewellery DTC brand Mejuri leverages digital styling appointments: “We’ve unlocked the barriers; it’s actually really successful for us, so we’re looking to expand it even further,” said co-founder and chief executive Noura Sakkijha.⁷⁹ To be sure, having clarity on the role of each channel and the ways in which they interact will be key to leveraging existing strengths to bolster digital.

Humanise Digital

Digital does not mean the absence of human interaction between a jeweller and the customer. Rather, digital is yet another touchpoint to reach consumers and meet them where they are, whether that is through video on a digital screen or a chat conversation through SMS. “In China, e-commerce in the jewellery industry [has traditionally been] very, very transactional [but] there’s a lot more storytelling happening on Tmall today because, at the end of the day, it’s the biggest store window in the world,” said Jacques Roizen, Pandora’s senior vice president and general manager of China.⁸⁰ “To treat it just purely as a transaction is a huge missed opportunity and that’s why we’ve made a lot of changes in upgrading our homepage [there].”

Incorporating human elements is not only key during the purchase, but also throughout post-purchase when customers need to have a means to celebrate and feel that they are treasured by the brand. As such, some brands and retailers, such as JD.com in China, are offering value-adds

02. ONLINE MAGIC

such as white glove delivery after a digital purchase, dedicated social media posts and personalised follow-ups. Closing the loop of one purchase with a personalised human touch lays positive groundwork for the next one.

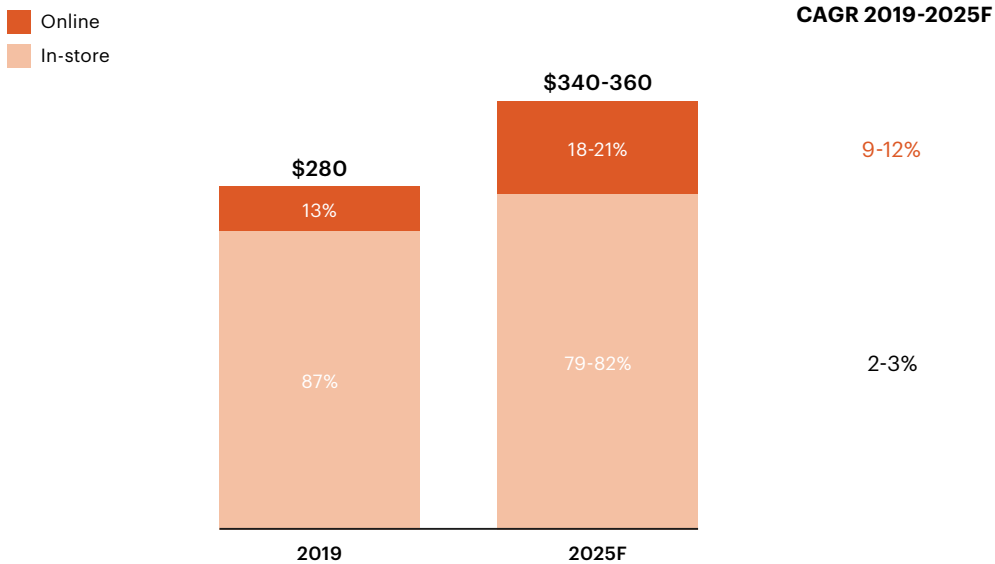
Given that nearly all fine jewellery purchases in the next five years will be influenced in some part by digital channels, sharpening and expanding omnichannel propositions will be key. As for digitally native players without a store network, we will increasingly see them complement their online offering with a small physical footprint, following in the footsteps of early digital natives like Blue Nile, Mejuri and Brilliant Earth, who have done so.

Mastering these elements will be a prerequisite of building any compelling online offering. As a baseline, it will require a strategic assessment of channel roles and the use cases each channel should deliver. To be sure, commitment to e-commerce requires investment of time and resources in support of these use cases, but also a healthy dose of creativity to augment the digital environment with bold initiatives that authentically reflect the spirit of the brand. Digital offers significant potential to fine jewellery brands, but only if they engage with imagination, commitment and an open mind.

Exhibit 13:

Global online fine jewellery sales are expected to grow to 18–21% of total sales in 2025, up from 13% in 2019

USD BILLION; SHARE OF SALES BY CHANNEL (%)



Source: McKinsey analysis, expert interviews

Christie's: Harnessing Digital for a Heritage House

by Ming Liu



Aline Sylla-Walbaum
Global Managing
Director of Luxury, Christie's

As the leader of Christie's luxury division, which includes the jewellery and watch categories, Aline Sylla-Walbaum has been at the forefront of a digital transformation which has resulted in a sharp rise in online sales featuring big-ticket items and new social media-driven customer acquisition strategies at the 254-year-old auction house.

When Christie's launched its first online jewellery sale in 2011 with a collection of Elizabeth Taylor's costume jewellery, online was meant to be a secondary channel to live sales. Less than a decade later, the pandemic has shifted the auction house's priorities considerably. In 2020, the number of online jewellery auctions increased 143 percent year-on-year for the British firm and the overall value of online sales in the category has more than doubled.

According to Christie's global managing director of luxury, Aline Sylla-Walbaum, who oversees the jewellery, watch, handbag and wine categories, 75 percent of Christie's luxury auctions will be held online by

2022. Having kept a close eye on the development of digital technologies, from virtual try-ons and blockchain to the possibility of selling on China's social platforms like WeChat and Xiaohongshu, Sylla-Walbaum now believes that digital channels will be responsible for attracting even more jewellery buyers to auction. If a centuries-old auction house like Christie's can deploy the digital transformation needed for the future, she suggests, so too can reluctant jewellery brands.

EXECUTIVE INTERVIEW

Large price tags no longer represent the same barrier to selling fine jewellery online as they once did, but customers still expect a high-end experience. How have you managed shifting big-ticket item sales to the online environment?

Auctions have been working well since 1744 when Sotheby's started them, and since 1766 when Christie's started theirs. But if you take that competing historical [offline] sales channel out of the equation and ask yourself if there's a rational reason why higher value lots shouldn't be performing well [online] today — and you find out that there's not — well then you try it. In purely online sales last year [in 2020], 28 jewellery lots sold for over £100,000 (\$140,000). We just need to be bolder and the greater success we see online, the more comfortable consigners will be.

Over the next five years, how will the online jewellery space be affected by the evolution of marketplaces like 1stDibs and Farfetch?

I think platforms like 1stDibs and Farfetch will grow, and the key element for those platforms — as it is for us, to be fair — is the expertise. You must be on top of it and that's not easy because the moment anything is worth anything, there's a counterfeit. So having expertise and credibility in the market is key.

If big jewellery brands move into selling second-hand jewellery online alongside their new collections, how might that impact Christie's?

If brands wanted to start developing their own secondary market,

offering clients to buy back their previous pieces, that would be a different space [from us] but I don't see them going there except for some exceptional pieces.

Their business and margin are selling what they produce today and they also have a legacy duty to project the brand into the future.

Smaller brands appear to be at a disadvantage to larger players that create a lot of noise online. What strategies could smaller brands adopt to stand out?

If smaller brands play it right in terms of SEO, search, influencers etc., then awareness will be amazing. But they will need endorsement. People will still want to know if somebody famous is wearing it and what the key market leaders are saying. Online is a huge boost and accelerator for smaller brands because it saves them investment in the physical footprint — though at some point, they will still need [physical] interaction with their client base.

This interview has been edited and condensed.



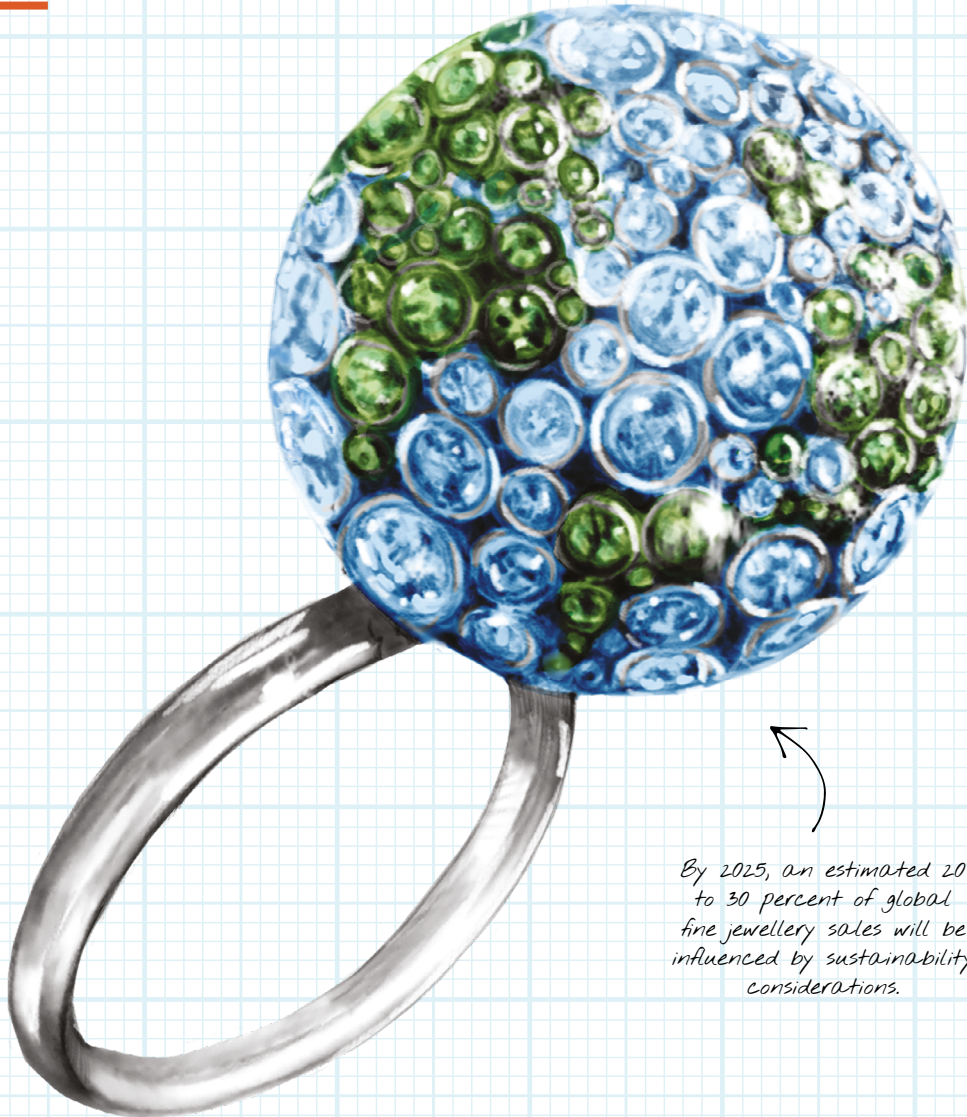
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03.

SUSTAINABILITY SURGE



By 2025, an estimated 20 to 30 percent of global fine jewellery sales will be influenced by sustainability considerations.

Fine jewellery purchases influenced by sustainability considerations are poised for dramatic growth. By 2025, an estimated 20 to 30 percent of global fine jewellery sales will be influenced by sustainability considerations from environmental impact to ethical sourcing practices. But leaders in a previously slow-to-act industry must look beyond sustainability as a factor in risk mitigation and embrace it as an opportunity to build brand equity by pursuing responsible business practices.

Key Insights

- Calls for the fine jewellery industry to act more responsibly in terms of environmental and social impact are growing louder, but most companies are not making enough progress to achieve the transformational change needed across the value chain.
- Committing to improving sustainability practices will add pressure on both pricing and margins, but credible players can command premium price points, if they set baselines and targets that lead to meaningful upgrades.
- Capitalising on the sustainability opportunity will require companies to focus their efforts on three key strategic areas: improving research and design processes, creating end-to-end transparency and defining priority areas whilst making sustainability a top leadership priority.

The fine jewellery industry's dubious track record on sustainability was put under public scrutiny during the 1990s "blood diamond" scandal, which exposed the dark underbelly of the diamond and jewellery industries awash with conflict gemstones. It also served to spotlight the industry's negative impact on the communities and countries that power the supply chain, as well as its limited traceability and accountability. Although this catalyst led to some positive reshaping of the diamond market in the form of the Kimberley Process, diamond sales from conflict areas forged ahead.

While the fine jewellery industry as a whole has been slow to implement market-wide changes in terms of sustainability — and where change has occurred, it has been driven primarily by mitigation of scandals — changing consumer tides are influencing a shift in executives' mindsets. Executives are now viewing ethically and environmentally sound practices as a business opportunity. By 2025, we expect sustainability-influenced purchases⁸¹ will account for 20 to 30 percent of all fine jewellery sales (equivalent to \$70 to \$110 billion). This would be a remarkable three- to four-times increase from 2019.

Given the timing of the opportunity,

operating in a more sustainable manner should be seen as "a source of competitive advantage in the post-crisis future as the world's economy bounces back," said Louis Chan, assistant principal economist of the global research team at HKTDC,⁸² which operates the Hong Kong International Jewellery Show and the Hong Kong International Diamond, Gem and Pearl trade shows.⁸³

To be sure, the fine jewellery industry's negative impact on the environment and its numerous workers upstream in the value chain persists today.⁸⁴ At the source, an estimated 250 tonnes of earth are shifted for every carat of diamond extracted — which will equate to 1.5 times the weight of Mount Everest over the next five years⁸⁵ — by miners who make as little as \$3 per day in some regions.⁸⁶ Meanwhile, further downstream, diamond polishing emits 160 kilograms of CO₂ per carat.⁸⁷ Unmitigated, this would translate to 160 to 170 megatonnes of CO₂ emissions in the next five years — the equivalent of the yearly emissions from the entire country of Singapore. This activity is fundamental to both the fine jewellery and watch industries that source precious materials. And the impact is not limited to diamonds alone.

"Gold is definitely an issue," said Damian Oettli, head of markets at the independent

03. SUSTAINABILITY SURGE

conservation organisation WWF.⁸⁸ “In the Amazon and in African regions, really large stretches of ecological systems are being destroyed through... gold mining activities, both industrial and artisanal.” Indeed, gold mining generates 20 tonnes of waste for every 9 grams of gold mined, with mining companies dumping 180 million tonnes of hazardous waste into water streams every year, which is more than 1.5 times the waste US cities send to landfill on a yearly basis.⁸⁹ Meanwhile, fine jewellery and watch supply chains for silver, farmed pearls and other gemstones are tarnished with their own harmful activities.

But the groundswell is building. Topics like polluted waterways and worrying miner mortality rates that threaten the glossy, romantic image the fine jewellery industry has fought for so long to preserve and present to consumers cannot be ignored.

Topics like polluted waterways and worrying miner mortality rates that threaten the glossy, romantic image the fine jewellery industry has fought for so long to preserve and present to consumers cannot be ignored.

Industry executives are beginning to notice a palpable change in the intensity of calls from consumers for greater sustainability, both environmental and social, especially among the coveted young luxury consumer. While just 12 percent of Baby Boomers are willing to pay more for products deemed to be sustainable, this number nearly triples to 31 percent for Gen-Z consumers.⁹⁰ Moreover, the opportunity in the luxury sector is ripe — 58 percent of younger consumers who bought luxury goods in 2019 say that sustainability is an important consideration in their purchase.⁹¹

Yet fine jewellery companies have a way

to go to convince consumers that they are serious about sustainability. Brands’ abilities to get away with paying lip service to sustainability and disguising marketing as substantive progress — be it through environmental greenwashing or performative social justice — will diminish as consumers increasingly call out empty marketing claims. Indeed, McKinsey research indicates that 9 in 10 Gen-Z consumers believe companies have a responsibility to address environmental and social issues.⁹² This will demand a step change in brands’ engagement with these issues over the next five years, calling for ambitious commitments and substantiated, certified evidence of progress.

“If a brand claims to be sustainable, it will need to show that this indeed is true in the court of public opinion,” said Gaetano Cavalieri, president of CIBJO, the World Jewellery Confederation.⁹³ “Those brands that are able to convince their consumers that they are honest, above-board and ready to change, will be the ones that win consumer confidence and loyalty.”

If history from other sectors such as food and the automotive industry is indicative of fine jewellery’s future in sustainability, shifts in consumer sentiment are often indicators of regulatory change to come (see Exhibit 14). Regulatory standards in the fine jewellery industry, even if not yet widely enforced or adopted, are starting to emerge to help structure sustainability best practices, such as the Conflict Minerals Regulation that came into force in the EU in January 2021 to ensure responsible sourcing of minerals such as gold.

Recent regulation builds upon a series of industry-led initiatives. In 2005, the Responsible Jewellery Council (RJC) was established with the goal of determining a set of standards for social and environmentally sustainable practices in jewellery supply chains. In 2013, the Better Gold Initiative was developed by the Swiss government in tandem with the industry-led Swiss Better Gold Association to build transparency and



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responsibility in the gold supply chain,⁹⁴ with measures aimed at preventing conflict gold and minimising mercury emissions from mining. Most recently in 2021, the Certification Standard for Sustainable Diamonds was released by official standards development body SCS Standards to provide a unified transparency framework for assessing and certifying mined, lab-grown and recycled diamonds.

The fine jewellery industry, however, has yet to collectively agree on a single standard or set of standards, and critics suggest that existing certifications do not hold the industry to a high enough account. The certification space will likely mature over the next few years to foster further transparency.

“If you really want to talk about a responsible supply chain, you need everyone along that chain to join hands [instead of] a lot of isolated efforts,” says Responsible Jewellery Council executive director Iris Van der Veken.⁹⁵ “[Going forward, the] movement needs to accelerate [which is why] we call this the decade of action.” Companies will need to take a 360-degree, holistic view of all facets of sustainability, including but not limited to workers’ rights, diversity and inclusion, mining impact, waste, emissions output and energy use.

Companies will need to take a 360-degree, holistic view of all facets of sustainability, including but not limited to workers’ rights, diversity and inclusion, mining impact, waste, emissions output and energy use.

Swarovski says it obtains 35 percent of its energy for its integrated manufacturing and production sites from renewable sources, up from 33 percent in 2015-2016,⁹⁶ which is a small but

noteworthy step towards UN 2030 Sustainable Development Goals which indicate that companies should be substantially increasing their share of renewable energy. Meanwhile, companies are becoming more vocal about sustainability as part of their marketing strategies. Pandora announced in May 2021 that it will stop using mined diamonds and will use only lab-grown diamonds as a “testament to our ongoing and ambitious sustainability agenda,” said Pandora chief executive Alexander Lacik in a statement.⁹⁷ However, some industry leaders like CIBJO’s Cavalieri have suggested that such moves are a blunt instrument that “inadvertently [jeopardises] the livelihoods of countless African miners through no fault of their own.”⁹⁸ On top of this, lab-grown diamonds have faced criticism for their intensive use of energy, and how sustainable they are compared to mined diamonds is hotly debated.

At the higher end of the market, Tiffany & Co has launched a new product range made from recycled gold, indicating a step change away from the company’s traditions. The company has also established its own chain-of-custody controls,⁹⁹ becoming the first global luxury jeweller to disclose the countries of origin of its newly sourced, individual diamonds of 0.18 carats or larger, and since February 2021 has established science-based emissions reduction targets.

Just as there is a business opportunity in sustainable transformation, there is also a risk in companies not acting, with a clear danger of inflicting harm on both the environment and communities throughout the value chain. A failure to reflect shifting consumer attitudes may also lead to negative reputational consequences: In an emotion-driven retail category such as fine jewellery, the costs of such lapses can be significant, tarnishing high-lifetime-value relationships. At the same time, mounting investor pressure will make access to capital more difficult and expensive for businesses that do not show a real desire to act.

Unlike some industry shifts, calls for more

responsible business practices are expected to impact companies of all sizes and geographies. Companies that buy diamonds and gemstones wholesale will come under the same degree of scrutiny as vertically integrated players that operate their own mines. A sustainability-minded consumer cares about impact, and whether a company takes a visible stand. Bulgari's head of sales and retail, Lelio Gavazza, said that demonstrating jewellery's sustainability credentials with traceability is especially important to younger consumers. "We [aim] to trace as much as possible; when we do not do that, we are out of business," he said. Bulgari sources gold certified against the RJC's Chain of Custody Standard and, in 2019, the company exclusively sourced recycled gold.¹⁰⁰

Fully committing to improving sustainability practices will undoubtedly impact companies' bottom lines. On materials alone, there is up to a 20 to 25 percent cost increase when switching to fair-trade gold to ensure it is mined in ethical conditions.¹⁰¹ The effect is the same with responsibly mined gemstones, which have an average cost increase of 10 to 15 percent.¹⁰² The question remains as to how much of these costs customers will be willing to absorb, but it is unlikely that it will be the totality.

Pressure will therefore build on both pricing and margins. Brands known for distinctive and recognisable designs will likely have the upper hand with their ability to command premium price points. Similarly, small brands that embed sustainability into their brand identity will have a head start in capturing younger consumers who are willing to pay a premium for credible, sustainable pieces. This could prove a valuable strategy for younger brands to move rapidly in an industry where highly resourced, large brands dominate. For instance, the made-to-order fine jewellery brand Vashi has seen its profile grow rapidly thanks in part to its ethical positioning where it uses Kimberly Process mined diamonds and 100 percent

recycled gold and platinum.

For larger companies that cannot overhaul the supply chain overnight, there are still steps that can help jumpstart the journey. For instance, they can begin by critically evaluating the current state of their supply chain to understand current baselines and set goals for the future. Others might consider launching new collections that are sustainably sourced to capture the sustainability-minded consumer and learn best practices to incorporate into the remainder of their collections.

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While a quantum leap is required to bridge the fine jewellery industry's current sustainability gap, companies must act fast to achieve the transformation needed. To be sure, capitalising on this opportunity will require sizeable investments, but companies should focus their sustainability efforts on three key strategic areas:

Make Sustainability a Top Leadership Priority

If change is to stick, companies must set a clear sustainability agenda and embed priorities throughout the entire organisation – from front-line sales associates to the CEO and across teams from the marketing department to supply chain management. Doing so requires sustainability to be a top item on the executive agenda, and given the magnitude of change required, any less will ensure failure. This means investing time in building the necessary know-how and putting appropriate capital expenditure behind sustainability goals to turn rhetoric into action. Partnerships to drive innovation or ensure compliance with the highest of standards

03. SUSTAINABILITY SURGE

can certainly help, but should not replace full ownership within the company.

Create End-to-end Transparency and Define Priority Areas

In the short term, actively tracking and reporting on environmental and social impact and corporate governance structures should be seen as the baseline. However, the wave of consumers demanding more than the baseline is already underway. Over a longer timeframe, operating to the highest standards across the supply chain will become table stakes in many markets, making it imperative to reduce environmental impact and ensure ethical working conditions are upheld. New technologies, such as blockchain, can help improve

materials' traceability, and other innovations in mining can help make jewellery less damaging to ecosystems, more supportive of local communities and less resource-intensive.

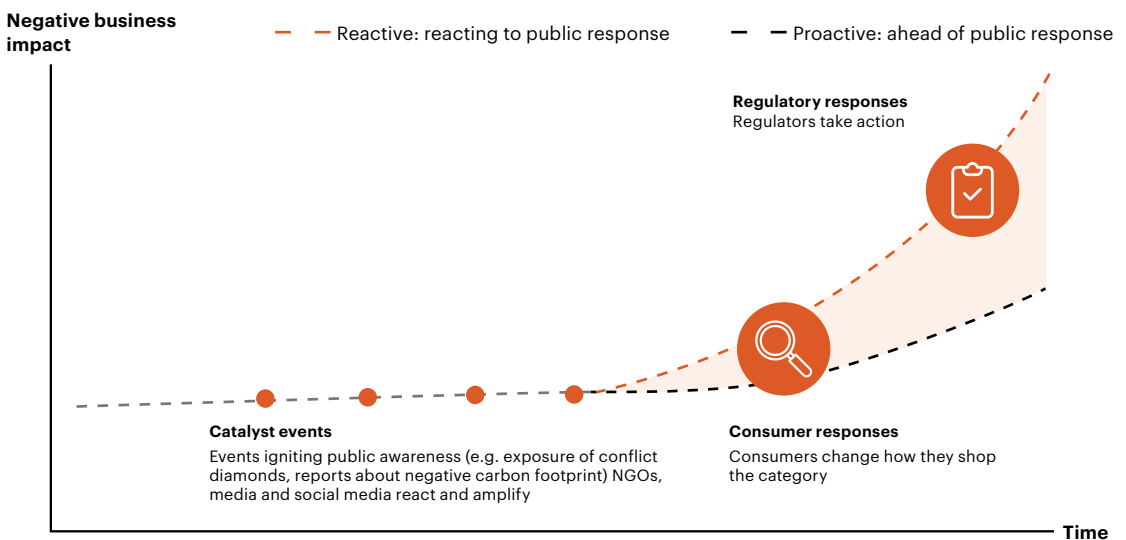
Improve Research and Design Processes

Companies should re-evaluate their use of materials. Using more recycled materials is a good first step, and fine jewellery players can consider pushing this further by embedding circularity principles into their model, allowing customers to trade in or redesign old jewellery. There are also opportunities in product innovation, where smaller brands and young designers are already finding success with alternative materials like found objects.

Exhibit 14:

Proactively monitoring catalyst events and taking measures can reduce negative business impact

TYPICAL SERIES OF EVENTS LEADING TO PUBLIC RESPONSES



Source: McKinsey analysis, expert interviews

Mejuri: Drafting a New Sustainability Roadmap

by Hannah Crump



Noura Sakkijha
Co-Founder & Chief Executive,
Mejuri

With the spotlight on sustainability more than ever before, upstart jewellery brands have an opportunity to redefine the narrative of an industry that has faced scrutiny for its impact on both the environment and the welfare of the workers that make it tick. While meaningful change will take time, Mejuri co-founder Noura Sakkijha explains why jewellery brands should look beyond existing frameworks to build a more sustainable future.

Direct-to-consumer fine jewellery label Mejuri had sustainability and innovation built into its brand DNA from the beginning, says co-founder and former engineer Noura Sakkijha. At the time of its Series B funding, Net-a-Porter founder and investor Natalie Massenet, whose fund Imaginary participated in the round, said the brand's affordable prices and socially responsible sourcing model were "set to disrupt the industry." To date, Sakkijha has attracted over \$48 million in venture capital funding for the brand.

Known for its female-centric designs — of which around 75 percent are bought by women as self-purchases or gifts for friends — and innovative

product drop model, Mejuri sources exclusively from either Responsible Jewellery Council (RJC)-certified suppliers or family-owned businesses near the brand's headquarters of Toronto, Canada. As she looks ahead to the next five years, Sakkijha says that while existing infrastructures can facilitate initial steps towards improving the industry's impact, the next generation of jewellery brands have an opportunity to grow if they look beyond existing sustainability frameworks, dig deeper into their supply chain and draft their own roadmaps for change.

EXECUTIVE INTERVIEW

Concerns for the environment and workers across the industry's value chains have been put even further under the spotlight by the pandemic, yet the jewellery sector has been criticised as one of the slowest to implement change. How do you see this tension point around sustainability becoming an opportunity for jewellery brands?

I think it's a silver lining to the pandemic, because we all have to push for better practices across all industries. One of the challenges is that existing infrastructures mask how deep companies go in their due diligence... From far away, they make it look like if you check the box, you're doing the right thing but when you start to [scrutinise] more, you see there are limitations.

The majority of our sales are for products made from gold, so we decided we would have the [biggest] impact if we started with our gold supply chain. We've set ourselves up with RJC-certified suppliers, but we also went back to our suppliers and asked more. We are upping our targets for the amount of certified recycled gold we use. Next, we're turning to silver. Our ultimate goal is for all our materials to have visibility from mine to market, but with the current infrastructures in the industry, it's not easy for us to immediately figure that out... You have to ask the right questions... and having the right expertise on the team [to do so] is really, really important.

How important do you think circularity is going to be for jewellery brands over the next five years?

Figuring out circular models is very important because you will have excess inventory at some point... We're never going to be able to 100 percent [accurately] predict demand. But what is unique about the jewellery industry is anything excess in inventory that doesn't sell can be refined back into the supply chain. There are opportunities to figure out how to recycle gemstones, though we're still early in the research... so it's not [yet] mainstream.

Becoming smarter in how much you actually produce from the get-go is not just a financial tool, but it also has a responsibility aspect to it. The more compressed your supply chain, the less risk you have. That's why a lot of big brands are moving closer to their manufacturing facilities.

Younger consumers say that brands are not always honest enough when it comes to their environmental or social impact. How can brands avoid being called out for greenwashing or acts of performative social justice?

The consumer is not [always] aware of the industry's complexities, so how can we influence positive change and also show the friction points? I think it's all about transparency — not just about what we're doing, but transparency about the challenges too. Our role is to set the roadmap, to ask the right questions and push for change, but it cannot happen overnight.

This interview has been edited and condensed.

JEWELLERY: UNFOLDING INDUSTRY SHIFTS

As the fine jewellery industry undergoes a period of transformational change over the next five years — anchored by the three seismic shifts in this report — the sector will also be influenced by other important changes in product offerings, consumer behaviour and operating models that promise to impact a cross-section of industry players. How these shifts will materialise in terms of timing, trajectories and magnitude will depend on several less predictable factors in the market as well as the actions of individual players. Industry leaders should therefore carefully monitor their progress and take decisive action where needed.

Bridal Redefined

The path to purchasing wedding rings will change for many couples as marriage culture evolves around them. As women have and will continue to play a more active role in engagement ring selection and more men begin wearing them,¹⁰³ brands must adjust their marketing strategies accordingly to focus more of their efforts on the recipient of the jewellery rather than the traditional male gift-giver. There is also an opportunity for jewellers to capture new demographic and geographic cohorts. For example, adapting to rapidly changing nuances in consumer behaviour and romantic customs across global markets, notably from China, will become increasingly important and will dictate new styles and stone popularity. The same could be true as more countries are expected to legalise same-sex marriages or unions in the years ahead.

Demanding Diversity

Consumers and employees participating in a growing wave of activism are prompting fine jewellery players to take action on overdue initiatives for greater diversity and inclusion. The sector's diversity problem is laid bare as representation of women and people of colour in senior management roles remains limited. In fact, analysis indicates that among top fine jewellery players, women make up less than 30 percent of senior executives despite the fact that women wear 90 to 95 percent of fine jewellery purchased.¹⁰⁴ Actions to make companies' employment practices more equitable, products more representative and marketing more inclusive has become critical to the consumer, and diversity in executive leadership can help lead the way for change.

Everyday Luxuries

Though special occasions, life milestones and gift-giving will remain important, consumer journeys have the potential to shift from being wholly marked by such occasions to focus on self-indulgences of everyday jewels. As product development adapts accordingly, some players will be inclined to increase the cadence of their product and collection releases; others will launch dedicated collections focused on capturing spending on "micro-splurges". Offering products with accessible, "wear-now" designs at more affordable prices will increase and be leveraged alongside the traditional, more expensive milestone pieces, allowing customers to grow in price and style with a brand.

Male Moment

Though men's fine jewellery sales account for only 5 to 10 percent of the global market and wedding bands continue to comprise the majority of sales,¹⁰⁵ male consumers represent an opportunity for brands to capture share in a relatively uncrowded market driven by increasingly genderless aesthetics and high-profile celebrity influencers, particularly in Asia. Leading brands are already showing early momentum by launching male engagement rings and expanding their men's collections to include a range of designs from delicate pieces to more adventurous and fashion-forward styles.

New Materials

While traditional materials like gold, platinum and diamonds will continue to anchor the jewellery market, other materials are primed to have a moment in the coming years. This could prompt accelerated experimentation with metals like titanium as well as the increased prominence of coloured stones, and potentially lab-grown diamonds. Though use of the latter will remain contentious among jewellery players and customers will give the ultimate verdict, players experimenting with lab-grown stones will most likely carve out a clear value proposition, such as focusing on coloured lab-grown diamonds as an alternative to often unattainable price points for mined coloured diamonds.

Next-Gen Tech

The next wave of technological innovation in the sector will be accelerated and shaped by consumers turning to personalisation and demanding further transparency on the provenance of materials. Emerging technologies could hit the mainstream as 3D printing enables enhanced product customisation and provides jewellers with the agility needed to conduct quick experiments with new techniques and materials. Meanwhile, technologies like blockchain and radio-frequency identification (RFID) are poised to become more mainstream to cater to rising consumer demand for traceability and proof of authenticity. Jewellery players that partner with tech providers to customise and scale up these and other innovations will be ahead of the curve.

De Beers: Taking Ownership of Legacy

by Ming Liu



Céline Assimon
Chief Executive, De Beers
Jewellers

It has been a whirlwind since Céline Assimon was appointed to the top spot at De Beers Jewellers in 2020, joining a vast group with business units across exploration, mining, sorting, grading and sales of diamonds. The chief executive of the conglomerate's flagship jewellery brand now finds herself navigating a 10-year responsible business plan while getting to grips with the group's complicated relationship with lab-grown diamonds and other forces impacting the industry.

Since ending its joint venture with LVMH in 2017 and returning to full ownership under De Beers Group, De Beers Jewellers has been undergoing a company-wide transformation, investing in a number of digital and sustainability priorities. Going forward, a key focus is building on the company's omnichannel integration to enhance the "phygital" experience, says chief executive Céline Assimon, who adds that "every touchpoint needs to bring value."

The messaging around sustainability has also changed, driven by the group's 2030 framework of 12 commitments relating to ethical business practices, biodiversity impact, and the acceleration of equal

opportunities among other pillars. "It's about taking ownership of legacy," she says. "You can't change the past, but you can certainly make a positive impact starting from today." Whether that refers to the jewellery industry's diversity problem or its sustainability gap, Assimon seems ready to make meaningful commitments.

After years of opposition, De Beers Group surprised the industry in 2018 when it announced its Lightbox subsidiary that sells lab-grown diamonds. What are your views on lab-grown diamonds and their place in the industry over the next five years?

There's room for both lab-grown and natural diamonds [but] they serve different purposes in terms of customer needs. I don't think it's really possible to compare both product categories against each other, either in terms of value or sustainability. As long as lab-grown diamonds are correctly labelled and properly differentiated — and this is where more education is needed by all brands — then they provide a choice for consumers in the fashion and accessories category, which is really why Lightbox was launched.

Will they ever feature in De Beers branded jewellery?

No. De Beers Jewellers really stands for magnifying natural diamonds and the rarest and most beautiful diamonds. We select them very carefully. That's what we stand for.

How will you target the growing category of men's jewellery?

Borders around femininity and masculinity are very fluid right now. We've especially noticed this in Asia, where men have a very different relationship to jewellery, and precious jewellery. In March we announced our first male brand ambassador, the Chinese singer and actor Cai Xukun. He chose to wear very delicate pieces, and we noticed a spike in purchases by our male clients emulating his aesthetic.

Consumers are increasingly concerned about the jewellery industry's lack of transparency, its negative impact on the environment and the human cost of its value chain. What are you doing to move your

sustainability credentials forward?

We've made a commitment to ensure that every diamond we discover creates a lasting, positive impact for the people and places where they're found — a commitment that we call "Building Forever" where we've announced 12 goals to be reached by 2030, covering a wide range of areas including provenance and transparency, responsible sourcing, protecting the natural world, diversity and inclusion.

Diversity and inclusion are top of mind for a growing number of consumers, but the jewellery sector appears to be one of the least diverse industries. Do you think there

is a diversity problem in the sector? If so, how will De Beers be part of the solution?

For sure, the jewellery industry is not diverse. And it's not just racial and ethnic diversity, generational diversity also needs to be addressed. [As part of our] commitment to increase the diversity of creative talent within the diamond sector, we've launched a few programmes with De Beers Group, including one started last year with BIPOC (Black, indigenous and people of colour) communities to speak to designers in the UK and US to understand the barriers to accessing the diamond jewellery sector [as a first step].

This interview has been edited and condensed.



De Beers' first male brand ambassador, Chinese singer and actor Cai Xukun. © Cai Xukun.

Shaun Leane: Designing for a Market in Flux

by Robert Williams



Shaun Leane
Founder & Designer,
Shaun Leane Jewellery

From changes in wedding customs and the way we celebrate life milestones to a shift in preferences for precious stones and heightened scrutiny on sourcing practices, jewellery designers like Shaun Leane face a future full of ambiguity. But the edgy founder of his namesake brand sees the decade ahead as one that will upgrade an industry in need of a shake-up.

After rising to prominence as a close collaborator of fashion designer Alexander McQueen, Shaun Leane built a thriving jewellery business around his namesake brand in 1999 which launched with an accessible silver line from a workshop in London's Hatton Garden jewellery quarter. The brand soon expanded to offer fine jewellery as well as bespoke creations that marry traditional craftsmanship with edgy aesthetics, attracting the attention of collaborators as diverse as Boucheron and the artist Damien Hirst.

Though his spikey, organic designs are sought after by fashion insiders and high jewellery collectors alike, the market is now changing fast

around him. From clients' expectations for ethically sourced materials and growing interest in hard-to-find gemstones to changes in the wedding jewellery market, Leane explains how complex industry shifts will transform the way designers, artisans and goldsmiths create and market their products.

How has your online business evolved since the pandemic hit? Which of those changes do you think will stick?

I've had e-commerce up for years because a big part of my early collections was silver. It seemed like a perfect platform for that price point. We had a lot of work geared towards the fashionista client who was used to buying online. [Since the pandemic],

what I found really interesting about technology and online is how it allowed my bespoke business to flourish. I've attracted new clients whom I'd work with through Skype, then email them the design or FedEx them 3D printed models.

How are you planning to expand the bespoke business when your brand is still known for selling more accessible silver jewellery?

The entry point for silver is still around £70 (\$99). Then there's our fine jewellery, starting from £1,000 (\$1,410) whereas high jewellery starts above £50,000 (\$70,500) and then for bespoke, it's endless what we can do. But we're opening up that bespoke experience to a wider audience. I'll use materials such as silver and aluminium, sometimes even mixing aluminium with precious stones. That allows me to have a starting point for bespoke around £10,000 (\$14,100), whereas for the big jewellery houses it's much higher.

Diamonds are so symbolically charged. Are changes in the market for wedding jewellery linked to the rise of coloured gemstones?

The diamond is still the go-to stone for an engagement ring. But it used to be 70 percent of that market was about someone, usually the gentleman, surprising their partner. Now, around half of the time, maybe a bit more it's a shared experience.

This includes a lot of same-sex marriages as well. The journey can be really lovely because the couple comes in and we're designing together. That's when the question of the stone



comes up because customers are becoming more aware of the value of gemstones. A lady might question it, and say, "I'm not sure I want a diamond, maybe I should have an emerald or a ruby." For a pigeon blood-red ruby, finding a beautiful clean stone of a certain carat is near impossible nowadays. As [coloured] gemstones become rarer, I think there'll be more demand.

You've been incorporating more non-virgin materials in light of growing concerns around sustainability and ethics. Does the jewellery industry need to challenge the assumption that new, mined materials are the default?

There's a lot we can do with recycling and remodelling. A lot of my gemstones come from a dealer who uses antique stones that come out of vintage pieces so I know where they're coming from, and what's beautiful about it is they can be Burma rubies, Colombian emeralds. They are the best of the best, because they were mined so long ago. We also use recycled gold sourced from bullion dealers in London.

This interview has been edited and condensed.

GLOSSARY

Advanced analytics

The autonomous or semi-autonomous analysis of data to discover deeper insights, make predictions, or generate recommendations, using sophisticated techniques and tools, e.g. data/text mining, machine learning, multivariate statistics, network and cluster analysis, neural networks pattern matching, semantic analysis, sentiment analysis, simulations. This goes typically beyond traditional business intelligence (BI) tools.

APAC

American Samoa, Australia, Bangladesh, Bhutan, Brunei, Cambodia, China (including the mainland, Hong Kong SAR, Macau SAR), Fiji, French Polynesia, Guam, India, Indonesia, Japan, Kiribati, Laos, Malaysia, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, North Korea, New Zealand, Papua New Guinea, Philippines, Samoa, Solomon Islands, South Korea, Sri Lanka, Taiwan, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam.

Artificial Intelligence (AI)

The theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making and translation between languages.

Augmented Reality (AR)

A technology using images produced by a computer combined with a view of the real world.

B2B (business-to-business)

A term describing business arrangements or trade between different businesses, rather than between businesses and individuals of the public.

Baby Boomers

Demographic cohort born circa 1946-1964, following the "Silent Generation."

Blockchain

A system used to make a (growing) list of digital records (called blocks) linked together. Each block contains a cryptographic hash. Blockchain technology is used for cryptocurrencies (digital currencies such as Bitcoin, Ethereum, etc.).

Branded fine jewellery

Jewellery that is known regionally or internationally, featuring non-commoditised items that are viewed as a store of wealth or heritage and/or are purchased

because of the brand, which generates a price premium. It does not include celebrity lines for large retailers, brands sold mainly by local stores, or custom pieces from local stores.

Cannibalisation

Incremental revenue capture and calculated as the difference between the theoretical size and the actual size.

Circularity

An economic system aimed at eliminating waste and promoting the continual use of resources, minimising resource inputs and the creation of waste, pollution and carbon emissions. Often referring to the six Rs: reducing the materials needed and waste created when making products; recycling the materials used to produce new products; refurbishing deadstock and used products into new products – without re-processing the "raw" materials; reselling second-hand or used products with no refurbishment; renting products through one-off rental or subscription models, and; repairing products, by professional or amateur means during the product's use-phase – without changing ownership.

Consumer sentiment

An indicator that measures how optimistic consumers feel about their finances, the state of the economy and purchasing behaviour.

Covid-19

Coronavirus (Covid-19) is an infectious disease caused by severe acute respiratory syndrome and was classified a pandemic by the World Health Organisation on March 11, 2020.

Digital natives

A person who was born or has grown up since the use of digital technology became common and so is familiar and comfortable with computers and the internet.

Direct-to-consumer (DTC)

A process referring to selling products directly to customers, bypassing any third-party wholesalers, retailers, or any other middlemen.

Entry level watches

Watches in the price segment <\$180.

Europe

Albania, Andorra, Armenia, Austria, Azerbaijan, Belarus, Belgium, Bosnia Herzegovina, Bulgaria,

Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Gibraltar Greece, Iceland, Ireland, Italy Hungary, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg Macedonia, Malta, Moldova, Monaco, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, Ukraine.

Generation-Z (or Gen-Z)

Jewellery cohort born circa 1996-2012, following the "Millennial generation."

Fashion jewellery

Jewellery not made entirely of gold, silver, platinum or precious metals and genuine gemstones.

Fine jewellery

Jewellery which contains precious metals, such as gold and silver, and precious gems and is priced over \$360.

Grey market

The sale of "authentic" products through unofficial retail channels.

Kimberley Process Certification Scheme (KPCS)

The process established in 2003 by the United Nations General Assembly Resolution 55/56, to prevent "conflict diamonds" from entering the mainstream diamond market. The process was set up "to ensure that diamond purchases were not financing violence by rebel movements and their allies seeking to undermine legitimate governments."

LatAm

Anguilla, Antigua, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Curacao, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Nicaragua, Panama, Paraguay, Peru, Sint Maarten, Suriname, St Kitts, St Lucia, St Vincent and the Grenadines, Trinidad and Tobago, Uruguay, Venezuela.

Livestream

The broadcast of an event or product offering (e.g., watch show livestream).

Luxury jewellery

Fine jewellery in the price segment \$1,800-36,000.

Luxury watches

Watches in the price segment \$3,600-30,000.

Marketplace

The arena of commercial dealings and transactions.

MEA

Afghanistan, Algeria, Angola, Bahrain, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Democratic Republic of Congo, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Iran, Iraq, Israel, Ivory Coast, Jordan, Kazakhstan, Kenya, Kuwait, Kyrgyzstan, Lebanon, Lesotho, Liberia, Libya, Madagascar, Malawi, Maldives, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Oman, Pakistan, Qatar, Réunion, Rwanda, Sao Tomé e Príncipe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Syria, Tajikistan, Tanzania, Togo, Tunisia, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan, Yemen, Zambia, Zimbabwe.

Mid-market (watches)

Premium watches and affordable luxury watches (priced between \$180-3,600).

Millennials (or Generation-Y)

Demographic cohort born circa 1982-1995. Also commonly referred to as Generation-Y (this name is based on Generation-X, the generation that preceded them).

Multi-brand retailer

A retailer selling multiple brands through a store, portal or any other form of outlet.

North America

Canada, Puerto Rico, United States of America.

Online pure play platform

A platform, which only sells products and services through online channels.

Premium jewellery

Fine jewellery in the price segment \$360-1,800.

Premium watches

Watches in the price segment \$180-3,600.

Pre-owned market (or second-hand market)

All the worn or previously owned pieces that are sold on all platforms (auction houses, online and physical marketplaces).

Responsible Jewellery Council (RJC)

Global standard-setting organisation for the jewellery and watch industry, founded in 2005. The 2030 Agenda demands effective collaborations between members and partners to achieve the 17 UN Sustainable Development Goals (SDGs).

RRP

Recommended retail price.

SCS Standards

Founded in 1984, an organisation active in the field of sustainability standard setting and third-party certification.

Smartwatches

A small computing device in the form of a watch, having functionalities closer to smartphones.

Sustainability

Within a business context, sustainability encourages businesses to frame decisions in terms of environmental, social and human impact for the long-term and relates to how a company's products and services contribute to sustainable development.

Traditional mid-market

Premium watches priced between \$180 and \$360, excluding smartwatches and watches from digital native brands and fashion brands.

Ultra-luxury jewellery

Fine jewellery in the price segment >\$36,000.

Ultra-luxury watches

Watches in the price segment >\$30,000.

Unbranded jewellery

Pieces sold by independent jewellers with local recognition, or custom/one-of-a-kind pieces from local jewellers, or celebrity lines for large retailers.

Value segment

The company segmentation based on a Sales Price Index, which provides a range of prices for a standard basket of products within each segment and company's home market.

END NOTES

- 1 As defined for this report unless otherwise noted, the in-scope fine jewellery industry consists of the branded and unbranded fine jewellery market segments, but out-of-scope are the entry-level fine jewellery and costume jewellery segments. The in-scope watch industry consists of all value segments spanning from premium to ultra-luxury, but out-of-scope is the entry-level watch segment.
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