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FEATURES

USA Market Focus 2007 – The sun is still shining



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By Keith W. Strandberg

Things are not the greatest in the United States right now, however. The mortgage crisis has hurt the economy, gas though not high in relation to the rest of the world, are the highest they have been in a long time, and with the uncertainty regarding the upcoming Presidential election, it seems that consumers are loathe to spend any money, worried about and its impact on their personal financial situations. In fact, many people are finally saying the dreaded 'R' word - recession. Having set the stage for an economic slowdown, however, it has not really materialized at the watch retail level. Retail brands are still reporting strong sales and increasing interest in the entire middle to high-end watch sector.

Facts and figures

Swiss Watch Exports: 192.3 million CHF in exports to the United States in September 2007, the last month available from the Federation of the Swiss Watch Industry. The 192.3 million is exactly the same as September of 2006.

The United States of America accounted for 2,287.5 million CHF of imports of Swiss watches in 2006, which is up 6.2 percent from 2005 and represents 16.6 percent of the total Swiss exports (the largest importer of Swiss watches).

Median household income for all households in 2006 was US\$48,451, up from US\$46,326 in 2005 - source: U.S. Census Bureau, American Community Survey Reports, ACS-08, Income, Earnings, and Poverty Data From the 2006 American Community Survey, U.S. Government Printing Office, Washington, DC, 2007.

The number of households with US\$5 million or more in investable assets — excluding the family home — rose by 2 percent to a record 930,000, according to a study by Spectrem Group. That is the biggest jump since Spectrem began its survey in 2000. The number of millionaires rose by 11 percent, to a record 8.3 million — the second biggest jump in the decade since the survey began.

The overall affluent market — households with US\$500,000 or more — rose by 7 percent to a record 14 million. This is the worst in the wake of the stock market collapse, with their numbers falling sharply from 2000. Last year was the first time since 1999 that the total passed that of their peak in 1999 - source: National Jeweler



Denis and Karen Boule, DeBoule store, the Milus boutique and the MERA TRIRETROGRADE

How's business?

Retailers report good sales, with the best category being luxury timepieces, regardless of the storm clouds on the horizon. "Now, business is very good in all categories," says Denis Boule, President, deBoule (Texas). "We are very close to 100 percent in watches and jewellery, but watches are usually the stronger of the two. The luxury market is getting stronger and so is the jewelry market. Our customer base is growing with new generations 'discovering' fine timepieces and increasing their appreciation for fine craftsmanship. Additionally, we are seeing many of our customers becoming watch collectors."

Brands like Girard-Perregaux are experiencing strong growth. "Business is up double digits over last year and the new SIHH 2007 are now reaching the showcases of the North American distribution, well in time for the holidays," says Jackson, President, Girard-Perregaux and JeanRichard North America. "We have many people who can afford better watches than they have chosen to own. As more of these people understand the non utilitarian pleasure of owning a fine watch they will continue to grow."



Jeffery Roth, Cosmonaut glove and Fortis display, the WWTC and Ronald Jackson

Luxury has traditionally been relatively immune to economic changes. "There will always be the luxury customer who indulges in fine jewellery and time pieces," says Robin Levinson, Co-Owner, Levinson Jewelers (Florida). "I feel that there has been a bit of a lull but everything is cyclical, so I think things will turn upwards eventually."

Some retailers report that business has grown despite major economic downturns. "Business is fantastic," says Meli, Owner, Oster Jewelers. "We have only been in business for four and a half years and we are exceeding our expectations. The United States market is definitely still growing and is stronger than ever."

"We opened Oster Jewelers immediately following 9-11 and during a war and a bad economy," she continues. "Durin

one might say the future looked bleak but we knew it was the best time to open our store. Things could only look up business has exceeded our expectations. We feel passionately about our industry, our store, relationships with our customers and the service we offer and we believe that our business will continue to strengthen at a healthy pace optimistic about our future and the future of our industry."

Retailers are noticing a shift in consumer attitudes, however. "We are seeing particular retailers with strong comparative growth while there are some that are challenged to maintain last year," says Les Perry, Executive Vice President, Seiko America. "Many report traffic in the stores is down.

"There is no question in America we have a market for items of entitlement," he continues. "Whether this is cars, electronics or unique watches. This is a population where the desire is not limited by a budget. Look at the proliferation in the American market and look at its double-digit growth."

Watch customers are becoming more discerning and appreciate fine timepieces better, which bodes well for the future watch industry in the United States. "Consumers are mindful that a watch is no longer just a means to keep time but a mechanical wonder, a work of art, and a statement of culture and education," says Steven Holtzman, President, Luxury Watch Distribution. "Timepieces with value and historical significance have become more and more desirable. Watches have moved beyond the obvious status symbol and are increasingly communicating one's appreciation for the art of watchmaking. Customers are interested in trying new brands and concepts but the primary attention is in acquiring something special."



Steven Holtzman, Melissa and Jeremy Oster, VELATURA display and Les Perry

Buying trends

In the United States, whose tastes often drive the world watch market, big watches are still in, diamonds watches come out and customers, as they become more sophisticated, are looking for something unique.

"Buyers are moving towards individuality and less main stream branding; perhaps wanting to be different than the rest of the pack," says Chris Wardle, President, Bozeman Watch Company. Bozeman has been growing steadily, up 250 percent per year.

It's not easy serving American customers, who not only demand great product, good pricing, but want to enjoy the purchase as much as their purchase.

"For our customers, their shopping experience must exceed their expectations in order for them to feel good about it," says Denis Boule. "We offer our clients 'The deBoule Experience' and they appreciate the attention and service we provide every time they walk through the door. The service we provide is just as important to us as the product we sell. We want our customers as comfortable as possible be it through our in-house jewellery and watch service centre or something else, offering them a delicious cappuccino while they are walking the floor.

Robin Levinson sees a trend away from black tie events, so she is pushing wearing luxury watches and jewellery even more. "Customers have been looking for more casual watches and jewellery," she says. "I have been promoting a trend to wear a diamond necklace with jeans, and some fabulous accessories - a great watch, a great bag, great shoes, a cool jacket to wear the fabulous things every day. It is all in the attitude that a person projects."

Increasingly, people want things that other people cannot have. "A significant trend in the watch industry is toward limited editions," confirms Luxury Watch Distribution's Holtzman. "Manufacturers have recognized the magnitude of watch collecting and are releasing new models in limited numbers. Many young 'boutique brands' are making unique timepieces in limited numbers. Other companies produce limited numbers of certain models or collections in a series which add to the desirability of their products."



Benoît de Clerck, PILOT EDITION by IWC, Jean-Claude Biver and BIG BANG TOURBILLON by Hublot

Most brands and retailers know that the world is shrinking and it's rare to see a trend in only one country - the trends in the American watch market are those happening worldwide, and vice versa. "Today, Americans are more exposed to the environment and trends from abroad," says Benoit de Clerck, President IWC North America. "The world is getting smaller; therefore the buying trends are more universal and accessible to a greater audience. The watch industry has taken advantage of this increase in buying trends resulting in a huge growth spurt in the United States.

The Internet

The Internet is a huge issue for the American market and needs to be addressed. More than any other country, Americans embraced the web for buying just about anything - clothing, books, DVDs, electronics, cars and luxury watches.

According to a new survey by Burst Media, more than half of consumers (50.7 percent) expect to complete either some or all of their holiday shopping online this year, compared with 37.6 percent in 2006.

"The Internet has introduced fine timepieces to the masses, people who would not have access to them otherwise," says Jean-Claude Biver, President of Hublot. "It also gives a more complete index of a brand's line, something traditional retail stores cannot do. If brands do not clean it up, they should locate where the watches are being sourced and close those accounts. If they are not, there will be enough stores like deBouffe who will refuse to sell these brands and all those brands will have left is the street stores."



Chris Wardle, USS MONTANA by Bozmann, Robin Levinson and Robin Levinson's sitting area

For many brands and retailers, the Internet is a double-edged sword. "The Internet has had a positive impact on our business in regard to helping us communicate our activities and our products in more detail than we can achieve through our print advertising," acknowledges Girard-Perregaux/JeanRichard's Jackson. "However, the presence of branded watches on unauthorized channels creates confusion with the end consumer as to what if any discount from the manufacturer's suggested retail price should be expected. The Internet is the most difficult point that we as an industry face at the moment."

The consumers don't know who they are dealing with when they buy on the web. "These outlets have a wide variety of sales practices," says Larry Pettinelli, President, Patek Philippe North America. "In some cases watches sold through unauthorized dealers have travelled through many avenues before finally being delivered to the end-consumer. These timepieces often have missing paperwork required for service or have another owner's name listed on the certificate. Our biggest fear is that if we cannot assure the consumer of quality, then the image of Patek Philippe is, as a result, in jeopardy."

Brands have to do something about the Internet, or face the erosion of their authorized distribution. "The consumer utilizes the Internet to seek information prior to buying as well as establish a benchmark for prices that they are willing to pay in the brick and mortar environment," says Michael Pollock, CEO, Hyde Park (Colorado). "When the manufacturer realizes that the independent market has shrunk by 33 percent in the last few years and continues to do so, perhaps they will close their unauthorized channels of distribution."

Most brands keep things clean by having a zero tolerance policy regarding Internet selling. "At Carl F. Bucherer, we do not authorize or promote any sales of our timepieces on the Internet and our strong stand in this area has kept our brand clean and free of any challenges that luxury brands are facing when their products are marketed via the Internet," says R

President, Carl F. Bucherer North America.

Brands are experimenting with different ways of doing things on the Internet, rather than just a blanket 'No selling' "One of my personal goals is to really monitor the Internet in order to prepare to play a leading role when deemed appropriate," says IWC's de Clerck. "It is imperative that we continue to analyze its development and accept its important role in the market. When it comes to retail and marketing, the Internet is the fastest growing and most influential marketplace in the US and IWC needs to become a larger part of it. In today's market, the Internet is unavoidable and we are working to find ways to get involved."

Selling on the Internet is a challenge, because it doesn't match the established distribution model of protected territory serving the customer, face to face. "I think we need to figure out a way to embrace the Internet so that the consumer is protected," says Zenith's Ziff. "We don't want them buying grey market watches that may not be authentic. We also want to preserve the luxury experience that is so much a part of our value and message. So it's not an easy trick and I don't have the complete answer. But the Internet is so much a part of our lives that I think it's foolish to ignore it in our business models."

Some brands hope that embracing the Internet will lead to a change in the way watches are sold there. "We have seen more of our customers creating websites to promote their stores," says Jeffery Roth, President, LWR Time Ltd., distributor of Fortis in the United States. "I am comfortable with the Internet as a vehicle to do business. As Internet retailing continues to mature it will be much less about bargain hunting and discounting and more about the values we hold traditionally, such as service, product knowledge, trust, honesty."

The bottom line is that the Internet is largely responsible for the widespread interest in fine timepieces. Without the communication and information available, watches might still be in their infancy in the United States of America. "To be extremely rare for customers to not have done their homework before walking into one of our stores," admits Andre Tourneau Executive Vice President, Tourneau LLC. "The brands will somehow devise a way to allow the retailer to transact online—imagine that this can be done by having the retailer meet certain inventory and sell-through criteria before they are on-line. Obviously, the brand has to restrict pricing and also protect trading area boundaries."

Some brands, like Seiko and Citizen, have allowed Internet selling and are no worse for the experience. "We have a lot of experience working with the Internet and web based communication," explains Seiko USA's President Les Perry. "We have a policy that our authorized Internet partners have followed for more than a year. It has become a valuable tool. And our Internet retailers follow guidelines much like the brick and mortar."



CALATRAVA by Patek Philippe, PATRAVI by Carl-F. Bucherer, Jessica Alba and Paul Ziff and the DEFY XTREME by Zenith.

Service issues

Service is a huge problem for most brands in the United States and it will only get worse: the combination of more retail watch sales and the continued lack of quality watchmakers will mean more waiting for consumers to get their watch repaired. Americans are used to instant gratification and it's difficult for a retailer to tell a customer that it might take weeks to get their watch fixed.

Many watch brands are combating this by setting up their own service centres in the United States, to cut down the time to transport the watches. That doesn't solve the volume issue, but can help speed up the turnaround times.

"Service is the biggest problem," says Denis Boulle. "It does not matter how beautiful the watch is if the service behind it is poor. Almost without exception, factory service is either sloppy or several months long. The amount of resources put into the service department by a brand is very telling."

Brands have to fix the service issue or a day of reckoning will not be far off. "Any business can sell but successful businesses provide superior service," says Melissa Oster. "We are only as good as the service we provide and if the manufacturer fails in their service then we cannot deliver to our customers. Customers become very impatient if they have to wait more weeks for a repair and that can make or break a loyal customer and cause them to switch brands."



Jimmy Olmes, CRITICAL MASS by Reactor, Enrico Margaritelli and Isabelle Maujean and the MIAMI by Glamrock

Lead times and delivery

Another problem that brands and retailers alike talk about is the lack of available product.

"We, as an industry have, by good business, good timing, good fortune etc. created a large demand for high-end mechanical automatic watches and now we cannot easily satisfy it," says Zenith's Ziff. "Fortunately, the clients have been willing, we shouldn't run the risk of frustrating them or pushing them to purchase some other luxury item. Since Zenith makes its own movements in house, we have an edge here in controlling our own destiny to a greater degree. But we still get components from outside suppliers and this has caused stress in the market for the entire industry."

It's vital to be able to strike when the iron is hot, and many retailers are frustrated by a lack of product. "The new ones have always been slow on delivery but it seems that even the basic pieces are slowing down and we can't sell what we have," says Denis Boule.

Tourneau is one of the United States' biggest retailers and they are well aware of the challenges if there isn't enough supply. "We see difficulties with the brands' ability to deliver sufficient product to meet current demands," says Tourneau's Block. "The Asian market has diverted product from the United States. We are also concerned about the value of the dollar in Euro and Swiss Franc. I'm not sure whether the market can sustain continued price increases."

The future

Without a crystal ball and a fortune-teller, it's hard to really say what is going to happen in the North American market next year. Most brands and retailers are cautiously optimistic, aware of how large and relatively untapped the market is. The United States market is still going strong. Certainly, this strong market cannot last forever, as these things tend to cycle, but brands and retailers are committed to 'making hay while the sun shines'.

What is your best selling watch?

Paul Ziff, President, Zenith North America: *DEFY; both Classic and Xtreme. Active lifestyle and 'adventure' type watches are very appealing to people.*

Jimmy Olmes, President, Reactor: *In the sport line Critical mass and Photon are leading the pack, but to be honest Heavy Water, Melt Down, are all close behind, In the Elite collection, our FLUX and Neutron are white hot.*

Larry Pettinelli, President, Patek Philippe North America: *The Twenty~4 for ladies and the Calatrava Collection.*

Frédéric de Narp, President and CEO, Cartier North America: *The Cartier Tank Watches and The Roadster Watches are two of our best selling watch lines.*

Robin Levinson, Co-Owner, Levinson Jewelers: *Bulgari and Franck Muller*

Michael Pollock, Hyde Park: *Rolex outsells all the other brands. There is great strength amongst Breitling, Patek, Cartier who all seem to be manoeuvring for the second position.*

Ron Stahl, President, Carl F. Bucherer North America: *The Patravi Family – all products and the Alacria Family*

J.C. Biver, Hublot: *Big Bang and in that line the Gold Ceramic followed by the Black Magic (full ceramic).*

Melissa Oster, Oster Jewelers: *We carry over 20 watch lines and our best selling watch line is the watch that fits the consumer and it doesn't matter which brand it is.*

Ron Jackson, Girard-Perregaux: *the ww.tc*

Chris Wardle, President, Bozeman Watch Company: *It is somewhat even between, the Smokejumper, USS Missouri and the new Cutthroat.*

Jeffery Hess, President, Ball Watches: *Engineer Hydrocarbon series*

Denis Boule, Owner, deBoule: *Patek Philippe and Rolex have always been an anchor in the store. Our customer fine timepieces and service and these two brands excel at both.*

Benoit de Clerck, President, IWC North America: *All of the lines are doing ex-tremely well, but Americans are drawn to the Portuguese and the Pilots line.*

Jan Edöcs, CEO and President Milus International SA: *Herios Triretrograde and Merea Triretrograde.*

Dennis Philips, President, Hamilton United States of America: *Actually there are two. The Jazzmaster collecti style with a contemporary look, and primarily a dress watch. Then there is the Khaki X-Wind, which is a functional p edgy design elements.*

How do you feel about the future of the watch industry in the USA?

Larry Pettinelli, President, Patek Philippe US: *Individuals in the United States are amassing wealth at a brisk p searching out goods with lasting value. There continues to be a great deal of potential for growth as media coverage watches are becoming more of a part of our culture. This is all very encouraging for the future of Patek Philippe.*

J.C. Biver, Hublot: *American customers are becoming more and more 'watch-conscious' and therefore the market especially the upper market.*

Denis Boule, Owner, deBoule: *I feel that the industry and deBoule have very bright futures. I keep waiting to f and so far I can't tell that it will arrive anytime soon. One weakness is the dollar against the Swiss franc; if it contin I would fear that many people might be priced out of the market of fine timepieces.*

Robin Levinson, Co-Owner, Levinson Jewelers: *People are always going to want to tell time, so that is positive. becoming more difficult for the watch industry to come up with different things, with the abundance of competition. wants to be in the watch business. I think the key for our store is relationship with the vendor. With so many choice something has to be more special than just the product.*

Jeffery Hess, President, Ball Watches: *Our sales tripled last year and have more than doubled this year. The An of the brand, coupled with the quality and the lumin-osity and our excellent customer service will propel us into the strong manner.*

Paul Ziff, President, Zenith North America: *I am very optimistic for the industry. I feel that there are many unt- underdeveloped markets with very strong potential growth. A Swiss watch will always have an emotional appeal anc advance more and more into a high tech world, I believe that people will continue to be attracted to the "old world" auto/mechanical watch. It's a beautiful link to a simpler time and a link to a wonderful piece of art, will always have world for those who can afford it. As for Zenith, the future is as bright as our symbol; the star. We have re-inventec brand with a collection that blends tradition with modernity. As a true manufacturer, we have a history and heritage documented and movements that are known to be of exceptional quality. We have the El Primero, the industry stan chronograph movements. We have the marketing know-how to get our message out and with the backing of LVMH, do so. So yes, I'm bullish on both the industry as a whole and of course on my Zenith brand.*

Enrico Margaritelli, CEO, Glam Rock: *I am confident of the future of this industry with reference to the middle hi end product and distribution. I am less confident for the business focused on volume and fashion. Our brand was we have a lot of work in front of us, but we also have enough experience to read the positive signal and try to make ev possible to drive this brand on a multi product business.*

Benoit de Clerck, President, IWC North America: *The North American market is expanding at a rapid pace and much more then some expected, even excelling ahead of some other brands. As for IWC, all of our watches are ma Switzerland and repaired by highly qualified watchmakers. All of them have been trained in Schaffhausen, Switzerla watchmakers are offered regular training courses educating them about the new technology and equipment availabl industry; therefore I am highly confident about the future of the brand.*

Are customers more or less loyal today as compared to ten years ago?

Jimmy Olmes, President, Reactor: *I would suppose if they continue to have a good experience with their favouri would remain loyal. I also think that fashion plays a great deal into this. If their 'favourite' brand does not offer a fa want, the customer will search out a brand that does, and if this new brand 'over delivers' they will keep them as a customer.*

Ron Jackson, President, Girard-Perregaux/JeanRichard North America: I believe customers are loyal to brands that provide products which capture the emotional desire of the consumer they focus on reaching. For sure when you focus on affluent consumer as we do they are able to collect more than one brand of watch without affecting their day-to-day important if you wish to have multiple sales to the same consumer that you have GREAT customer service, and complementary additional products which express different character traits.

Denis Boule, Owner, deBoule: Our customers are very loyal. We are fortunate to be in a great location and we have had customers that have been shopping with us since we opened 25 years ago.

J.C. Biver, Hublot: There are more temptations for customers, there is more choice. Customer's behaviour is influenced by the way of living.

Robin Levinson, Co-Owner, Levinson Jewelers: Our customers that have been loyal have stayed loyal. The loyal customer is NOT loyal at all and the sad part of that is they think they know everything but they really don't. I don't think an experienced salesperson can be replaced by information that is read on the Internet.

Chris Wardle, President, Bozeman Watch Company: Our experience is that customers are less brand loyal because they have quickly become more excited by more exciting than owning name brands.

Jeffery Hess, President, Ball Watches: Ball customers are loyal to the point of fanaticism.

Melissa Oster, Oster Jewelers: Both. I believe that customers of yesteryear were loyal to particularly one jeweller's 'hometown'. Now that we are in a global economy, people do shop around more; however customers are loyal to those who provide honesty, trust and luxury service. We are very fortunate to have a loyal customer base and those customers are proud to show their friends and family to us.

Benoit de Clerck, President, IWC North America: I would say they are more loyal because they have grown with us and appreciate our continuous emphasis on quality and technical innovation. Some statistics are saying that most IWC owners own three to four watches from IWC.

Paul Ziff, President, Zenith North America: I don't know if I would use the phrase 'less loyal' but I would say they are more apt to try other brands. I think they are more willing to take risks in that they don't have to wear the same brand as their father did nor the one that everyone has at work. They may have more self-confidence in that they are happy to be the one in the company that has that particular type of watch. I think it's a good thing that people think for themselves and are willing to take some 'risks' on something that all the other guys don't have.

Jan Edöcs, CEO and President Milus International SA: Brand loyalty through the availability of education from which has created loyal educated consumers. However the vast choices have splintered the market into many groups. So there are many loyal customers to many brands available.

Dennis Philips, President, Hamilton United States America: Consumers are looking for brands and let's be honest there are a lot of good ones out there.

Ron Stahl, President, Carl F. Bucherer North America: Customers are not as loyal today to a particular brand - they are more loyal to design, the look and the price and the serviceability of the product today.

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