The Consolidation Trend in the Luxury Watch Retail Industry

Taking the Bucherer Group as an Example

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Signed Declaration of Authorship

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Management Summary

2018 saw several large acquisitions in the luxury watch retail industry. For example, the Swiss family-owned Bucherer group acquired the American watch retail chain Tourneau and the Richemont group acquired the UK-based player Watchfinder. The question thus arises as to what prompted these recent large acquisitions in the luxury watch retail industry and what the underlying factors and reasons for such big international expansions are.

The main goal of this Master's thesis was to provide an answer to the yet uninvestigated question of why luxury watch retailers have increasingly begun to consolidate and what the drivers for this recent trend are. A further objective of this study was to shed light on the dynamics of the luxury watch retail industry and to identify critical success factors for companies actively operating as retailers of luxury watches. The very recent case of Bucherer's acquisition of Tourneau was taken as an example throughout this thesis.

Various academic sources were reviewed to obtain the required information. Thanks to the application of two models, the Five Forces model of Porter and the Transformation and Change Management (TCM) model of Bergamin, Braun and Glaus, is became clear that the luxury watch retail industry is highly saturated with a wide variety of different retail models competing against each other. Watch brands in particular exert an immense pressure on third-party retailers and crave control, which increasingly puts smaller third party retailers at risk. Additionally, the application of the TCM model showed that luxury watch retailers such as Bucherer want to step up their digital integration by acquiring a company that is already strong in digital offerings such as e-commerce solutions and online business with pre-owned watches. This is mainly so that they can cater for the new buying habits of modern watch consumers and remain competitive in the face of new digital entrants.

Apart from a well-founded literature review, 11 semi-structured interviews were held with experts from the luxury watch retail industry to complement and substantiate the literature review. By combining the information from the literature review with the findings from interviews, four main drivers of consolidation emerged: 1) the complexity of the luxury watch retail industry, 2) the power and pressure of watchmaking brands, 3) a desire to acquire digital skills and capabilities, 4) growth strategy.

With regards to the critical success factors for luxury watch retailers, this thesis presented seven main factors that are crucial for the success of a retailer of luxury watches: 1) reach or niche, 2) reputation and brand equity 3) bargaining power over brands, 4) digital skills, 5) delivering experiences, 6) correct personnel 7) consideration of a new approach to luxury.

I. Acknowledgements

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1. Abbreviations

AD	Authorized Dealer
CHF	Swiss Francs (Currency)
CPO	Certified Pre-Owned
IPO	Initial Public Offering
M&A	Merger and Acquisition
TCM	Transformation and Change Management
UK	United Kingdom

2. Glossary of Industry-Specific Terms

Certified Pre-Owned watch	Authentic, second-hand watch that is sold by an authorized dealer under warranty
Mono-brand store	Brand-store owned by a manufacturer (luxury watch brand such as IWC) to sell only their own watches in their own store atmosphere
Multi brand retailer	Wholesale retail partner for watch manufacturers. A multi brand retailer sells different brands in the same shop
Multi-channel retailing	Retail strategy where various retail methods are used but dealt with separately
Omni-channel retailing	Retail strategy where various retail methods such as online and offline interact seamlessly to offer unique buying possibilities for customers

3. Introduction

After large, recent mergers and acquisitions (M&A's) in the luxury watch retail industry, the question arises as to what the motives and reasons for this immense industry consolidation are. Examples of recent M&A's in the luxury watch industry are: the UK-based Aurum Holdings purchasing the American Mayors Jewelers (2017), the Richemont Group acquiring the British online watch retailer Watchfinder (2018) and the Bucherer Group acquiring the largest US watch retailer, Tourneau (2018) as well as Baron & Leeds (2018). These are just three recent examples, but the list goes on, especially when considering M&A's of watchmaker companies. According to von Radowitz, et al. (2017), suppliers acquiring other suppliers was one of the most important M&A activities in the watch industry in 2017. Luxury watch brands (watchmaker groups) already started to consolidate and acquire each other on a large scale in the 1990s. This was mainly to verticalize their production and to minimize their dependence on external component suppliers (Hoffmann & Lecamp, 2015). Within the last couple of years, however, luxury watch retailers also started to actively consolidate and large global acquisitions could be witnessed. Not only did large watch wholesalers acquire small, independent and local jewelers, but recently larger groups such as Richemont could also be seen acquiring the previously mentioned e-commerce-based, pre-owned luxury watch retailer Watchfinder. Weber, Bertschy and Walder (2018) point out that: "Within the watch retail sector, the large players continued to gain importance, while smaller companies vanished."

In January 2018, the Swiss family-owned Bucherer Group, Europe's leading watch retailer, acquired Tourneau, the largest US retailer for luxury watches, for an undisclosed sum. This acquisition was remarkably large and a big international step for Bucherer, whose history dates back to 1888. Tourneau, founded in 1930, has been owned by a private equity fund called Green Equity Partners since 2006 (Naas, 2018; Weber, Bertschy, & Walder, 2018). The retail chain Tourneau, with 23 stores in 9 different states across the United States of America, made USD 431 million in sales in 2017 according to estimates. The two players together, Bucherer and Tourneau, therefore form a new leading luxury watch retail giant (Weber, Bertschy, & Walder, 2018; Friedrich, 2018). Weber (2018) stated, "Consequently, Bucherer has become the leading watch retailer worldwide."

This thesis with the title: “The Consolidation Trend in the Luxury Watch Retail Industry” focuses on M&A’s in the luxury watch retail industry and their drivers and importance. Taking Bucherer’s acquisition of Tourneau specifically as an example, this thesis will unveil and highlight the motives and reasons for the recent trend of industry consolidation in luxury watch retailing.

3.1. Company Backgrounds

In this section, the two luxury watch retail companies Bucherer and Tourneau are presented in detail and their history as well as business area is outlined and explained. This should allow a proper understanding of the two companies and especially also to illustrate Bucherer’s history of growth through M&A’s.

3.1.1. Bucherer Group

Bucherer as a company was founded in 1888 by the entrepreneur Carl-Friedrich Bucherer and his wife Luise when they opened the very first watch and jewelry store that ever existed in Lucerne. In the 1920s, their two sons Ernst and Carl Eduard entered the family-owned business and contributed considerably to the company’s success. In 1924, Ernst Bucherer took a very important step for Bucherer as a company and started a solid partnership with Hans Wilsdorf, the founder of Rolex. At that time, Rolex, a Swiss watch brand, was a rather unknown and not very large watch manufacturer. Nevertheless, Ernst Bucherer decided to add Rolex to his brand portfolio and to sell it in his boutique. Nowadays, Rolex is one of the world’s most reputable and recognized watch brands and the brand is still Bucherer’s most important partner (Bucherer, 2018). The Bucherer family itself has also been involved in watchmaking since early on and this is still an important part of the Bucherer group. In the year 1919, the family established their own watches branded with the name Carl. F. Bucherer.

Bucherer is still headquartered in Lucerne today and a family-owned company that is managed by Jörg G. Bucherer (3rd generation) the Chairman of the Board of Directors. Today, the company sells fine watches and jewelry and is one of the world's largest and most renowned watch and jewelry retailers (Weber, Bertschy, & Walder, 2018). The Bucherer Group employees 1,850 employees on a global basis to date (Bucherer, 2018; Friedrich, 2018). The Bucherer brand has gained a lot of reputation and importance over the last 130 years. This growth, however, did not happen overnight. Despite economic crises and even world wars, the company kept growing organically and opened new boutiques in several Swiss cities. Later, under the current Chairman Jörg G. Bucherer, the company expanded abroad to various countries. First, in the 1980s they expanded their business to Austria and in the 1990s to Germany. In 2013, Bucherer expanded to France and opened up the world biggest watch and jewelry store as a celebration of their 125th jubilee. Three years later, in 2016, Bucherer took the next step and expanded to Scandinavia with the opening of their watch and jewelry store in Copenhagen, which represents the largest watch and jewelry store in the entire Scandinavian region (Bucherer, 2018). Apart from Bucherer's own stores, the company is also operating 27 brand stores. These are franchised mono-brand stores that are operated by Bucherer in close collaboration with the respective watch brand. The Bucherer-operated, mono-brand stores are: Rolex (7), Omega (4), IWC (5), Jaeger-LeCoultre (2), Tissot (2), Audemars Piguet (1), Carl F. Bucherer (1), Chopard (1), Longines (1), Panerai (1), Patek Philippe (1), and Piaget (1).

But Bucherer did not grow in simply a natural, organic way with expansions and openings of new boutiques. M&A's have always been an important means for Bucherer to grow and to increase their reach to new clients. In Switzerland, the company acquired the Kurz Group in 1989, a watch and jewelry retailer with 10 stores throughout Switzerland (Bucherer Group, 2018). In 2001, the Bucherer Group did their second acquisition. Swiss Lion AG with three watch stores in the region of Lucerne has been acquired. In the same year, Bucherer also founded a new independent company for their watch brand: Carl F. Bucherer. In 2017, the Bucherer Group committed itself to its first international M&A when it acquired the British watch retailer The Watch Gallery with four stores in London.

In January 2018, Bucherer did their largest acquisition with the US multi-brand retailer Tourneau. Acquiring Tourneau, the leading US retailer for luxury watches with a total of 23 physical stores in prime locations, was certainly a big success for the Swiss family-owned Bucherer Group (Bucherer, 2018). Just seven months later in August 2018, Bucherer announces their second acquisition with the takeover of the Hawaiian watch retailer Baron & Leeds. Baron & Leeds was founded in 2002 and operated 3 stores in the US state of Hawaii (Speiser, 2018). Today, Bucherer is one of the leading global watch and jewelry retailers with a superb reputation on a global basis (Bucherer Group, 2018). Apart from the fact that Bucherer is one of the biggest Rolex dealers in the world, Bucherer stores offer a wide range of luxury-quality timepieces from the best brands. Bucherer also sells jewelry and has its own jewelry brand. (Bucherer, 2018; Naas, 2018). Table 1 gives a good overview of all retail locations of Bucherer. Figure 1 illustrates Bucherer's European reach on a map. Figure 2 then shows a timeline with Bucherer's history of growth, including their M&A activities.

Table 1: Bucherer's countries of operation and their stores (own illustration based on Bucherer, 2018)

Country	Switzerland	USA	Germany	England	Austria	France	Denmark
Number of stores	16 Bucherer 10 Kurz 3 Swiss Lions AG + 27 brand boutiques	26 (Tourneau and Baron & Leeds)	10	8	1	1	1

Figure 1: Bucherer's European reach (Bucherer, 2018)

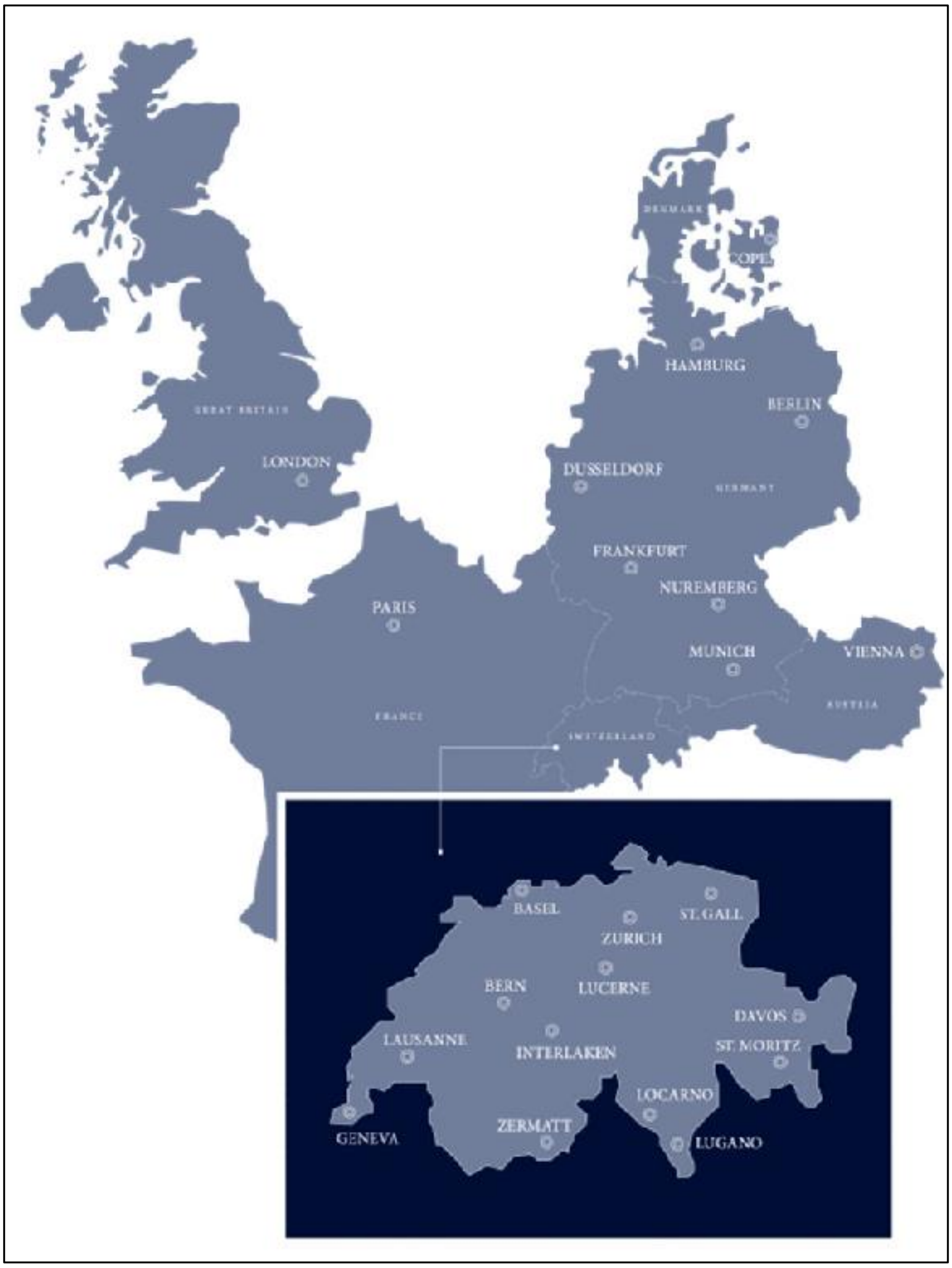
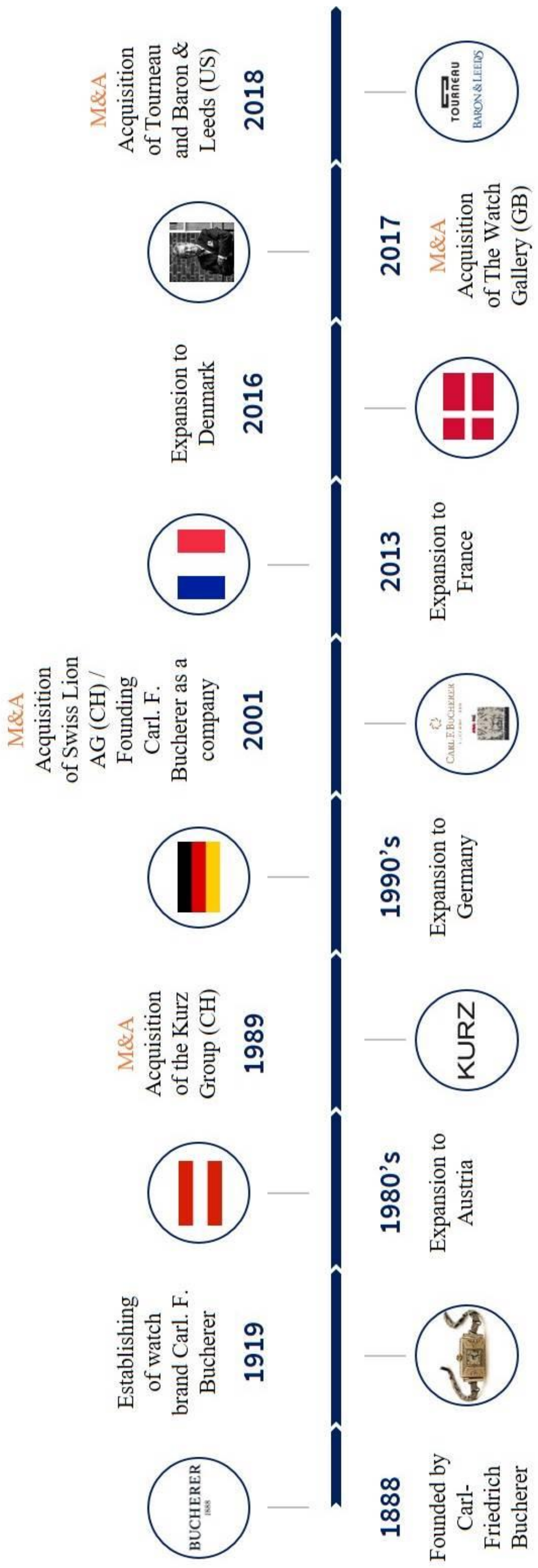


Figure 2: Timeline of Bucherer's history of growth and acquisitions (own illustration based on Bucherer, 2018)



3.1.2. Tourneau LLC

Tourneau originates from the Wexler family who operated a watch store in Eastern Europe in 1900. Sometime between 1924 and 1925, the Wexler family then opened a store named M. Wexler Watchmakers & Jewelers in Manhattan, USA. Around this time, the Tourneau family, that has its origins in Paris, also emigrated to New York City. They opened up a watch counter in the Berkshire Place Hotel (Tourneau, 2018). The Tourneau family was very successful and business grew a lot. In 1975, the Wexler family acquired Tourneau and expanded the business outside New York City (Graff, 2018). In 1997, Tourneau opened their flagship store, the world's largest watch store at that time. This store, which is located at 57th and Madison Avenue, is also called "The Time Machine". In 2005, Tourneau set another Guinness World Record with the opening of the largest watch store in the world, the Tourneau Time Dome, in Las Vegas (Tourneau, 2018). Tourneau was family-owned until 2006, when the company was sold to Leonard Green & Partners, a private equity fund, for $355 million (Naas, 2018). Today, Tourneau is the largest retailer of luxury watches in the United States. The company is operating 23 watch retail stores spread across 10 different states (Friedrich, 2018). In addition to the traditional brick and mortar stores, Tourneau has a strong e-commerce website in place and is very active in selling certified pre-owned timepieces all over the United States. In January 2018, Tourneau was fully acquired by the Swiss Bucherer group for an undisclosed amount (Bucherer, 2018). Table 2 on the following page illustrates Tourneau's stores per US state that come together to a total number of 23 stores.

Table 2: Tourneau store count (own illustration based on Bucherer Group, 2018)

US State	City	Store Name
California	San Francisco	Tourneau Westfield San Francisco Centre
	San Francisco	Rolex Boutique Tourneau Westfield San Francisco Centre
	Costa Mesa	Tourneau South Coast Plaza
	San Diego	Tourneau Fashion Valley
Florida	Bal Harbour	Tourneau Bal Harbour Shops
	Bal Harbour	Rolex Boutique Tourneau Bal Harbour Shops
	Sunrise	Tourneau Sawgrass Mills
	Palm Beach	Tourneau 175 Worth Ave
	Naples	Tourneau Waterside Shops
Georgia	Atlanta	Tourneau Lenox Square Mall Atlanta
Hawaii	Honolulu	Tourneau The Royal Hawaiian Center
Illinois	Chicago	Rolex Boutique Tourneau
Massachusetts	Boston	Tourneau Copley Place
	Burlinton	Tourneau Burlington Mall
Nevada	Las Vegas	Time Dome
New York	New York City	The Time Machine
	New York City	510 Madison Ave
	New York City	Bryant Park
	Garden City	Tourneau Roosevelt Field
	White Plains	Tourneau The Westchester
	Huntington Station	Tourneau Walt Whitman Mall
Pennsylvania	King of Prussia	Tourneau The Plaza at King of Prussia
Virgina	Arlington	Tourneau Fashion Centre At Pentagon City
Total Store Count		**23**

3.2. Relevance of Research

This thesis is highly significant for the global luxury watch industry, especially for retailers of luxury watches. This includes large watch wholesalers who operate with a multi brand store concept, small and local jeweler boutiques as well as watchmaking brands that sell their watches based on a mono-brand retail concept. Apart from physical retailers, operators of e-commerce platforms in the luxury segment may also find this study of high value for their future business strategy. This research touches on a very recent topic as several large M&A's could recently be witnessed in the luxury watch retail business on a global basis. Due to this increasing number of M&A's, luxury watch retail players want to know what the future brings with regards to the development of new retail models that are driven by consolidation. The study also builds on the current trend of digitalization, mainly in terms of e-commerce, which provides new ways of retailing luxury watches and is a major driver in the luxury watch industry, which has so far been rather slow-moving. This thesis will therefore mainly benefit the luxury watch retail industry. Existing sellers of luxury watches in particular, but also possible new entrants into the industry, will gain important insights into new, condensed results on industry consolidation in the luxury watch retail field. It will mainly help the management of luxury watchmaking companies and luxury watch retailers to strategically align their business development with regard to industry consolidation. More specifically, this thesis can provide a basis for the management or steering committee of luxury watch retailers to better reorientate their current business model with the help of M&A's. Furthermore, startups in the watchmaking and watch retailing industry also benefit from this research as they gain valuable information about the industry dynamics and the underlying reasons for consolidation in the world of luxury watch retailing.

3.3. Research Objective and Research Questions

Although various business scholars have looked into the reasons and motives of companies for doing M&A's in general business, their findings may not be fully applicable to the dynamic and immensely specific, luxury watch retail industry.

The major objective of this Master's thesis is therefore to understand and investigate the motives and reasons for the recent trend of consolidation in the luxury watch retail industry. Taking the example of the specific case of Bucherer's acquisition of Tourneau, this research aims to shed light on this uninvestigated but very topical subject. Another intent of this thesis is also to understand the dynamics of the luxury watch retail industry with regard to the differences between large consolidated retailers and small, local niche players.

The question arises as to why and how luxury watch retailers re-orientate themselves strategically through M&A's and how luxury watch retailers will be able to maintain a successful business in the future. The three following research questions in particular will be discussed and answered, with a focus on at the overall objective of this thesis:

1. What are the main drivers of industry consolidation in the luxury watch retail business?

2. What are the advantages and disadvantages of large, consolidated and international players in the luxury watch retail industry compared to small niche players?

3. What are the main, critical success factors in the luxury watch retail industry?

3.4. Domain and Scope Definition

The domain of this thesis lies in the field of luxury watch retailing with regard to official and unauthorized retailers, excluding the black market. Specifically, this thesis focuses on the strategic business aspect of M&A's in the luxury watch retail industry. This study thus does not investigate the detailed business aspects of watchmaking brands. The domain of this thesis clearly lies on the luxury watch retail side, sellers of luxury timepieces who sell luxury watches to end-consumers, and not on the watchmaker's side, who produce watches. Watchmakers, however, can also be considered as watch retailers if they operate their own mono-brand store themselves without franchising it to a specialized retailer. Apart from that, watchmakers are of course important stakeholders in the luxury watch retail industry and, even though the focus clearly does not lie on them, will in a way be part of this thesis. To further define the domain of this study, it is important to emphasize that only the retail business of luxury watches will be looked at. This means that entry-level watches or fast-moving fashion wristwatches are not considered to be the area of study for this thesis. Luxury watches, alternatively labeled fine watches, are mostly expensive and exquisite timepieces that run with a mechanical, hand-assembled, watch movement. The price range for luxury watches varies greatly. Prices can range from thousands of dollars to millions of dollars for very rare and complicated timepieces. (Mo, 2016). These kinds of luxury watches are mostly fitted with an automatic or self-winding caliber, as opposed to quartz movements that make a watch run on electricity from a battery. Manufacturers of luxury watches either engineer and build their own movements or purchase them pre-built and unassembled from external movement suppliers. Of course, some watchmaking brands also do both. This means that some of their lines are fitted with self-made, also called in-house movements, and other lines are fitted with purchased components from external suppliers (Wixon Jewelers, 2018). According to Swithinbank (2015), in order for a watchmaking brand to call their movements "in-house" they have to be manufactured and assembled in a production facility that has the same name above the door as that on the dial of the watch.

There are several large external suppliers of watch movements and components who deliver their products to renowned luxury watch manufacturers. The biggest and also the oldest movement manufacturer in the world is the Grenchen-based (Switzerland) ETA SA Manufacture Horlogère Suisse, short ETA (Crown, 2017). ETA is owned by the Swatch Group and delivers their movements to brands such as Breitling, TAG Heuer, IWC, Omega and many more. (Hoffmann & Lecamp, 2015; Unwound, 2017).

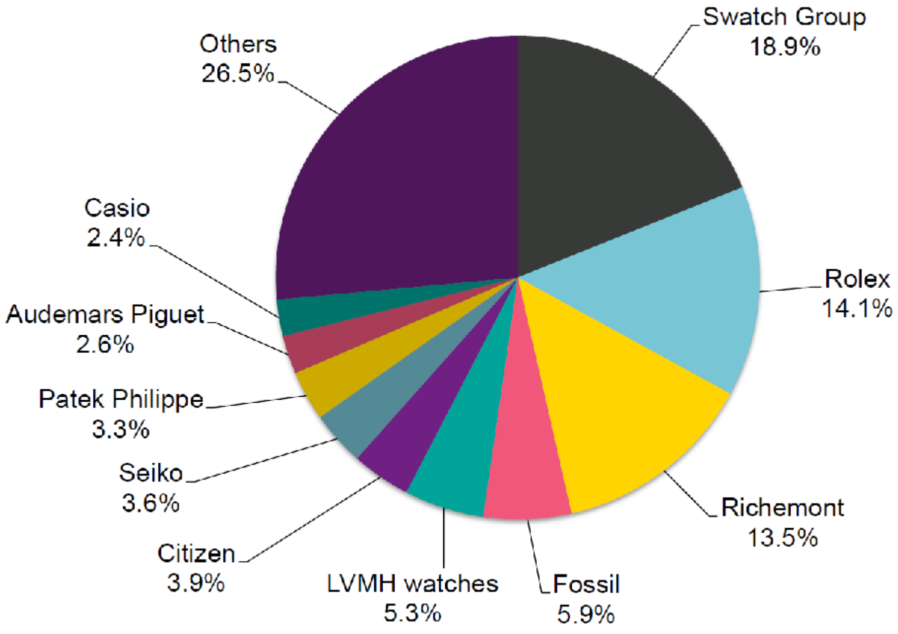
When talking of some brand names of luxury watch manufacturers, it may be beneficial to provide a brief overview of some luxury watch brands in order to further clarify the domain of this thesis, namely the luxury watch retailing business. This will give the reader an insight into the basis of the most important luxury watch manufacturers, before diving into the topic of retailing these luxury watches. At first, it is crucial to state that luxury watches are strongly associated and connected with Switzerland. The reason for this is that 95% of all watches that are sold for more than CHF 1,000 are made in Switzerland. In 2016, the Swiss watchmaking industry comprised around 600 companies that had a total of 58,000 employees on their payrolls (Weber, Bertschy, & Walder, 2018).

The watch manufacturer's side is greatly consolidated. This means that there are a handful of large groups who dominate the market but alongside these, there are of course some independent, standalone players mixing up the industry too. According to Weber, Bertschy & Walder (2018), the Swatch Group is the biggest watch manufacturer worldwide in 2017 with an estimated market share of 18.9%. The Swatch Group consists of over 10 watch brands. Omega is the group's best-selling brand that accounts for an estimated 26% of sales followed by Longines that accounts for 18% (estimated) of the overall Swatch Group sales. In 2017, Rolex is the second biggest watch manufacturer worldwide with an estimated market share of 14.1 %, after the Swatch Group, which is impressive considering that Rolex is an independent, standalone watch manufacturer. The third biggest watch manufacturer in the world in 2017 is the Richemont Group. Directly after Rolex, the Richemont Group takes an estimated 13.5% share of the global market in the watch manufacturing industry. According to Weber (2018), it is estimated that around 40% of Richemont's sales originate from watches. Of this 40%, Cartier watches account for 1/3 of the Group's watch sales, followed by IWC and Jaeger Le Coultre. After the Richemont Group, the sales value of the following watch manufacturers are significantly smaller.

The world's fourth biggest watch manufacturer in 2017 in the luxury segment after Fossil, which is not considered luxury, is the French LVMH Group with an estimated worldwide market share of 5.3% with their Swiss-made luxury watches. TAG Heuer is LVMH's most important brand with estimated 44% of the Group's sale, followed by Hublot, which takes a share of 28% (estimated) and Bulgari watches that account for 21% (estimated) (Weber, Bertschy, & Walder, 2018).

There are two independent, standalone luxury watch manufacturers worth mentioning with a significant importance and a comparably large share of sales in the global watchmaking industry. On one hand, this is Patek Philippe with a 3.3% and on the other, Audemars Piquet with a 2.6% share of global watch sales in 2017 (Weber, Bertschy, & Walder, 2018). A summarized pie chart of the global market share distribution in the watch manufacturing industry in 2017 by Weber (2018) can be seen in Figure 3 below.

Figure 3: Worldwide watch market: estimated market shares 2017 (value) (Weber, Bertschy & Walder, 2018)



In 2017, high-end watches (luxury watches) made up nearly 66% of the overall value of Swiss watch exports (von Radowitz, et al., 2017). Specifically, Swiss watch manufacturers exported 24.3 million finalized watches, which represents a decline of -4.3% compared to 2016. Nevertheless, the total value of exported Swiss watches corresponded to CHF 18.8 billion in 2017, which is 2.9% higher than the year before. (Weber, Bertschy, & Walder, 2018). This shows the increasing value of individual timepieces. Luxury watches contributed most to the export numbers of the Swiss watch industry, compared to the low-end Swiss watches segment (≤ CHF 200), whose value declined by 11% in 2017 (von Radowitz, et al., 2017). This clearly shows the enduring importance of the Swiss luxury watch industry.

This thesis will not go any further into the technical specifications and historical aspects of watchmaking. Neither will this thesis investigate the industry dynamics on the watch producers' side. Rather, this Master's thesis focuses on the luxury watch retail side, as already mentioned.

3.4.1. Geographical Scope

Lastly, it is important to define the geographical scope of this thesis. The luxury watch retail industry is highly globalized with its universal trends and intercontinental M&A's that have happened lately. The focus therefore lies on the global luxury watch retail industry with regard to the industry dynamics. However, there is a slight focus on the two markets of Switzerland and the United States of America (USA), wherever this makes sense. These are the home markets of Bucherer and Tourneau. As stated in Chapter 3.3 (Research Objective and Research Questions), Bucherer's acquisition of the American luxury watch retailer Tourneau will serve as a case example and will also be further investigated in order to uncover interesting happenings that lead to the recent trend of consolidation in the luxury watch retail industry.

3.5. Structure of the Thesis

The remaining part of this Master’s Thesis is structured into a literature review, a methodology, the findings from interviews, a discussion and a final conclusion. At the very end of this thesis there will of course be a reference list, with literature that has been used for this research, and an appendix with all relevant documentation such as the transcripts of the qualitative interviews with industry experts. The literature review aims at unveiling facts about the dynamics and complexity of the luxury watch retail industry with the help of existing academic literature as well as online -and magazine sources. Two academic models (analysis tools) will be presented and applied in the literature review that help to structure relevant information into comprehensive parts. In the section on methodology, the method that will be used to fill the research gap is explained and outlined. In particular, the gap in existing literature is aimed to be filled so as in order to be able to answer the research questions that have been defined in Chapter 3.3 (Research Objective and Research Questions). The research method to fill the gap is a qualitative, primary research design. Specific details of the primary research approach can be found in Chapter 5 (Methodology). In the findings part of this thesis, the findings from the qualitative research are presented. Due to the large amount of information gathered with the help of 11 interview partners, this chapter is rather heavy and important. The discussion aims at melting together the relevant information from the literature review and from the findings that originate from qualitative primary research. Another goal of the discussion chapter is to relate the findings from primary research to the information from the literature review. The discussion highlights which information is overlapping, supportive or contradicted and which information is totally new and helpful to fill the research gap. The last chapter of this thesis before the reference list and appendix is the conclusion. The main objective of the conclusion is to recapitulate the study and to state limitations as well as the need for further research.

4. Literature Review

In this chapter, currently available knowledge from existing literature that is relevant for this study is reviewed in depth and presented in a structured way. The main goal of this chapter is to establish a proper understanding of the subject matter of this thesis, the consolidation trend (M&A's) in the luxury watch retail industry. Another aim of this literature review is to uncover relevant information that helps to lay a basis for answering the research questions that are stated in Chapter 3.3 Research Objective and Research Questions). Relevant and qualified academic sources in the form of books, peer reviewed articles and reports are used wherever possible. These academic sources are accompanied and supplemented by newspaper articles and other relevant online content. The relevant literature is critically reviewed and structured with the help of two academic models (analysis tools). The first model that is used and applied in this literature review is Porter's Five Forces Model. This model helps unveil the dynamics and structures of the complex and interesting luxury watch retail industry. The second model that is applied in this literature review is the Transformation and Change Management Model (TCM Model) by Bergamin, Braun & Glaus. With the aid of this framework, it is hoped to shed light on important aspects of change and transformation amongst luxury watch retailers. Additionally, another goal of applying the Transformation and Change Management Model by Bergamin, Braun & Glaus is to unveil some reasons for the recent trend of M&A's in the luxury watch retail industry. Each of those two analysis models is at first suitably introduced and their significance is explained before they are applied to the case of Bucherer's acquisition of Tourneau and the general luxury watch retail industry using state-of-the-art literature. Moreover, this literature review chapter serves to identify research gaps in the defined research objective according to the research questions of this thesis. These research gaps needs to be filled in order to fully answer the research questions and to reach the objective of this study. Chapter 5 (Methodology) explains in detail how the research gap, information that cannot be presented solely by means of a literature review, will be filled.

4.1. Industry Analysis: Porter's Five Forces Analysis of the Luxury Watch Retail Industry

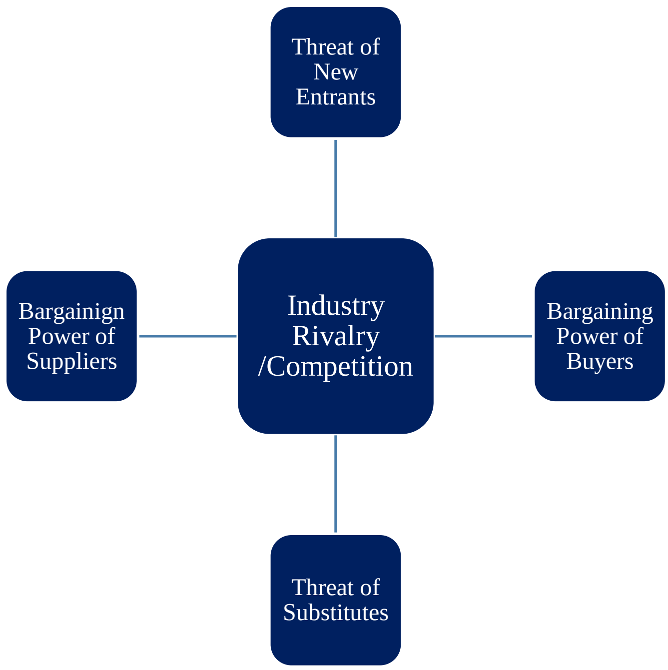
With the help of Porter's Five Forces analysis model, it is hoped to show the dynamics of the rather complex but highly interesting luxury watch retail industry. The main goal of applying the Five Forces model by Porter in this literature review is to deliver transparency about the competitive situation in the global luxury watch retail industry. This delivers a good basis for further research into the topic of industry consolidation. As already stated in subchapter 3.4.1 (Geographical Scope), the luxury watch retail industry is highly globalized. For this reason, Porter's Five Forces model is laid out on a global basis. Wherever applicable and wherever relevant differences are spotted, the main disparities between the USA and Switzerland will be highlighted. Switzerland and the USA are the home markets of the luxury watch retailers Bucherer (CH) and Tourneau (USA), who are the focus of this thesis due to their recent M&A.

4.1.1. Method and Significance of Porter's Five Forces Analysis Model

According to Porter (1980), an industry player adjusts their business strategy to gain a competitive advantage over other players in the same industry. Thanks to Porter's Five Forces analysis model, companies are able to determine successful strategies in order to be successful in a certain industry. If an industry player, such as Bucherer in the luxury watch retail industry, understands the influence of the five forces on business profitability, it is possible to increase a firm's long-term profitability with the help of a situation-specific strategy. The five forces that are part of this model are: the core element of the industry rivalry, the threat of new entrants, the bargaining power of buyers, the threat of substitutes and the bargaining power of suppliers (Porter, 2008). To illustrate, Porter (2008, p.25) wrote that: "Awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack." The analysis of the five forces not only reveals the most important influencers of profitability in an industry but also shows how profitability could develop over the years in the near future, as industry constellations and industry attractiveness might change (Azadi & Rahimzadeh, 2012). Figure 4 illustrates the five different forces that are part of Porter's model.

The author believes that applying the Five Forces Model, which has been developed by Porter, will be a big benefit for this Master’s thesis. The model is regarded as a helpful tool for this research as it delivers a great analysis structure to identify the underlying rivalry issues and general structures of the global luxury watch retail industry. The center of this model in particular, the industry rivalry / competition, is very important in order to describe the diverse and complex luxury watch retail value chain. Therefore, the industry rivalry / competition represents the heaviest part of this Five Forces Analysis and is consequently further structured into sub-chapters to enhance readability. A big plus of the Five Forces Model by Porters is the fact that it clearly shows the influence of numerous factors on the well-being of companies, such as Bucherer and Tourneau, that operate in the luxury watch retail industry. It is hoped that valuable information will be gained with the help of this model to answer the research questions stated in Chapter 3.3 (Research Objective and Research Questions). The model is applied with the help of secondary research. Specifically, academic literature and other trusted sources are used to find relevant information to complete all sections of this model.

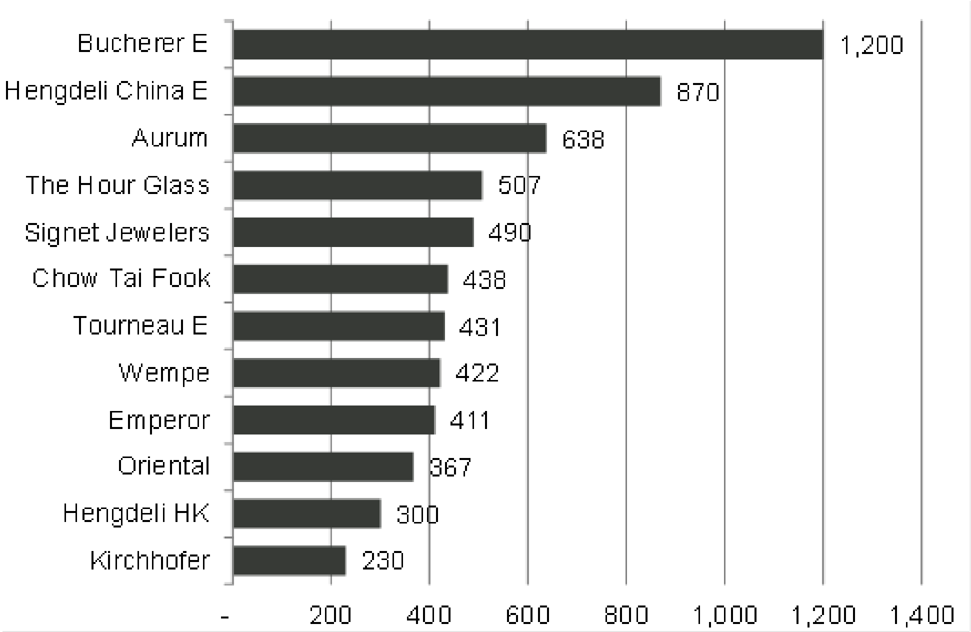
Figure 4: Porter's Five Forces (own illustration based on Porter, 1980)



4.1.2. Industry Rivalry / Competition

The global luxury watch retail industry is highly saturated with an immense number of players competing against each other. There are many independent, often rather small, jewelers who sell watches for a local type of clientele. These small and local standalone players exist in every country and it is hard to say which country has the biggest amount of small independent watch retailers. On the other hand, alongside the local retailers there are of course also a number of large players who operate worldwide with a presence in several markets. These global, multinational companies sell watches to an international clientele, often from various international point of sales. There are a handful of huge players that dominate the market with regard to the luxury watch retail industry (Theurillat & Donze, 2017). As it can be seen in Figure 5 by Weber (2018), the 12 largest watch retailers globally, according to sales, all generate sales volumes of above CHF 200 million. In Weber's (2018) estimation, Bucherer is the world's largest watch retailer, followed by Hengedeli China and Aurum. According the Weber (2018), Bucherer is the biggest retailer, which is considerable with regard to their recent acquisition of the US retailer Tourneau; they alone generate CHF 431 million according to Weber (2018). Together, the new constellation with Tourneau as part of Bucherer would result in estimated sales of CHF 1,631 million. Additionally, it needs to be highlighted that Hengedeli China and Hong Kong have been kept apart in this figure.

Figure 5: Global watch retailers: sales 2017 in CHF million (Weber, 2018)



4.1.2.1. Distribution Models of Luxury Watches

In the history of luxury watch selling, watch manufacturers usually sold their timepieces exclusively through jewelers and certain upscale retail outlets (Barrett, 2000).This has changed drastically, however. Nowadays, luxury watch manufacturers (brands) use a number of different retail models to sell their watches to the end consumer. Some brands use only one retail method, such as retailing their watches through authorized multi-brand retailers, (wholesale) and other brands can be found selling their watches on all channels with a so called multi-channel retail strategy or omni-channel retail strategy (Theurillat & Donze, 2017). Multi-channel refers to when different sales channels are used but treated totally independently. An omni-channel retail approach, on the other hand, sees the seamless integration of different retail channels in order to address the customer at different, interacting touchpoints such as offline and online (Verhoef, Kannan, & Inman, 2015). Figure 6 illustrates the simplified value chain of luxury watch retailing. With the help of this self-made illustration, inspired by Gauvillé & Tillson (2017), we hope to visually clarify the complexity of how a luxury watch gets from the manufacturer all the way to the wrist of an end consumer. It should be emphasized once more that this thesis looks at the retail side of luxury watches. In Figure 6, this is represented by the center piece of the model, which is surrounded by a dashed line.

Figure 6: Distribution model - luxury watch retailing value chain (own illustration based on Gauvillé & Tillson, 2017)

It is important to stress that the luxury watch retail industry can be divided into two main retail categories with regard to new watches and pre-owned or antique watches: the official retail channels and the unauthorized (unofficial) retail channels. Both, new luxury watches and pre-owned luxury watches, can be found being sold via official retail channels and unauthorized retail channels. (Adams, 2017).

4.1.2.2. Wholesale Multi-Brand Stores (Official)

Official retail channels are retail methods that are authorized and supported by the watch manufacturers (brands). These include the wholesale part of watch selling, the third-party, multi-brand retailers who sell watches from different brands in the same shop and whose global ranking can be found in Figure 5. Those retailers have mostly been selling watches through physical outlets, so-called brick and mortar stores, up to now. There is already strong competition between these multi-brand watch retailers, alongside other luxury watch retail channels that will be looked at later in this sub-chapter. This can be seen by the fact that there have recently been frequent M&A's as players acquire each other or reduce or even exit business. According to Weber (2018), Bucherer together with Tourneau, Hengedeli (China and HK) and Aurum (acquisition of American Mayor Jewelers not yet considered) are the three biggest official wholesale watch retailers globally. According to Corder from Watch Pro (2018), there are even rumors that Aurum is planning a public listing. Aurum is owned by the New York-based Apollo Global Management, who wants to find a buyer for Aurum or go public with an IPO. This potential move shows the turbulences and large movements in the luxury watch retail industry, when even the top three players are deeply involved in large buying & selling activities as well as public listings (Corder, 2018). Aurum Holding's recent name change to "Watches of Switzerland Group" in June this year is also indicative of a potential going-public move (Corder, 2018). Brian Duffy, the CEO of Aurum Holdings, told Watch Pro, according to Corder (2018, p.1): "We have been through quite a transformation in recent years and we believe that this new name is reflective of what we do and clearly more relevant to both the consumer and the investor community."

As previously mentioned a couple of times, the luxury watch retail market recently started to consolidate (Koltrowitz, 2018). The field is highly competitive with a handful of large players dominating the industry, as Figure 5 illustrates well. According to Adams (2018), there are not many third-party watch distributors left in the United States (US). Only a small number of retailers remain successful. This phenomenon can be observed not only in the US but in Switzerland too, where smaller, standalone players are increasingly coming under pressure. Furthermore, Koltrowitz (2018) remarked that multi-brand retailers are in trouble as many of them sit on old and outdated watch models that no longer sell very well. This means they have large amounts of cash tied up in inventories (Koltrowitz, 2018). Adams (2018) suggests that strong watch manufacturers (brands) will generate up to 80% of their sales directly in the near future, which means that third-party retailers would only be left with a share of approximately 20% of total luxury watch sales. Koltrowitz (2018) points out that several Swiss luxury watch brands such as Audemars Piquet, Roger Dubuis, Richard Mille and others, have stated their intention of reducing their third-party retail point of sales. In 2017, the renowned and deeply-rooted, Zurich-based luxury watch retailer Türler left its traditional location at Paradeplatz on Bahnhofstrasse in Zurich. The Paradeplatz area of Bahnhofstrasse is Zurich's most prestigious and most visited shopping street for luxury items such as watches, where Bucherer and several watch brands also sell their products to an international clientele (Hudec, 2017).

In the US in particular, but also in Switzerland, the home market of most luxury watch brands, third-party, multi-brand luxury watch retailers are under strong control of watch brands. According to Adams (2018), the Swiss watch brands have a rather damaging influence on the market for luxury watches in the US. Adam (2018) postulates that the watch brands over-control the American retailers and act with mistrust and micro-management. There is even supposed to be sort of hostile situation and a tense relationship between Swiss watch manufacturers and American watch retailers. The desire of luxury watch manufacturers to exercise control over their global retailers is nothing new and is a phenomenon that has also been described by other authors such as D'Arpizio, Levato, Kamel, & de Montgolfier (2017). This is especially true with regard to the experience that luxury watch retailers deliver to the final customer (D'Arpizio, Levato, Kamel, & de Montgolfier, 2017).

Adam (2018) emphasizes that luxury watch retailers have to invest large amounts of money in certain product lines of watch brands they offer in their stores. The reason for this is that watch manufacturers regularly make retailers purchase large numbers of watches prior to their actual production so that the watch manufacturer can be sure of their desired sales. In this way, manufacturers make sure they have sufficient demand prior to starting a production run. There are even brands that do not let retailers choose the product they want to sell in their multi-brand stores. On the contrary, some watch brands simply tell their retail partners which watches they will be receiving, which may not be the best-selling watches, rather the watches the manufacturer wants to sell (Adams, 2018).

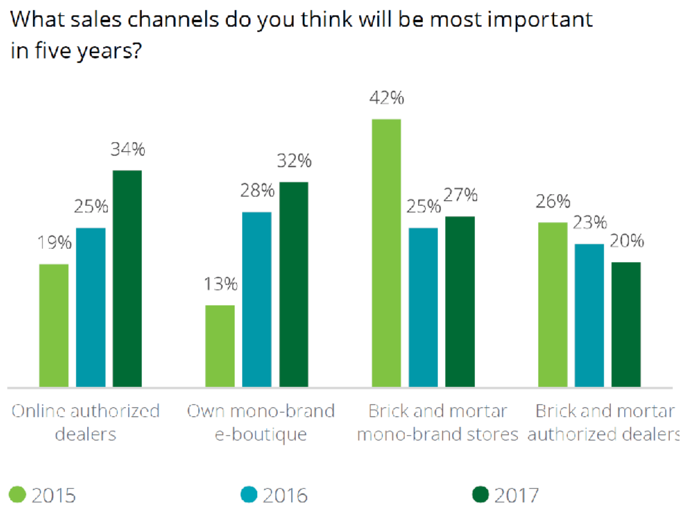
4.1.2.3. Mono-Brand Stores (Official)

Since luxury watch brands want more and more control over the entire value chain, not only the manufacturing process but also all the way the final time-pieces are sold to the end consumer, there was a large trend of operating mono-brand stores during the last decade. A mono-brand watch store is a physical store owned by a watch brand that only sells the watches of that respective brand in a store design and atmosphere that matches the brand's corporate identity (Steigrad & Diderich, 2012). Thanks to mono-brand stores, luxury watch manufacturers have the ability to go straight to the consumer and bypass the retailer, which lets them keep the profits and customer data in-house. With these brand boutiques, which are primarily found at central locations in large metropolitan cities, a watch brand is able to create an entire brand experience around the product with no other watch brands directly encroaching on their space. Often, however, these luxury watch, mono-brand stores are operated by third-party retailers under a franchise from the respective brand (Adams, 2018). One example of such franchised, mono-brand retailing is Bucherer, who operate seven Rolex boutiques as explained in Chapter 3.1.1 (Bucherer Group). In Figure 6, the luxury watch retailing value chain, mono-brand stores are tagged with a star symbol that refers to the in-house ownership of mono-brand stores by watch manufacturers. This is illustrated by a dotted line around "Mono-brand stores" as they are on the manufacturer/brand side.

4.1.2.4. Online Sales (Official)

Mono-brand boutiques, however, do not necessarily have to be physical brick and mortar stores. E-commerce is another strong sales channel, which has slowly but surely been influencing the rather traditional luxury watch retail industry. Mono-brand e-boutiques that are owned and operated by watch brands themselves are on the rise, though long-standing, multi-brand retailers such as Bucherer and Tourneau are also putting more and more effort and investments into their e-commerce channels. If one considers the overall picture, luxury goods, which clearly include luxury watches, are still mostly sold at stationary retail sites. Nevertheless, online sales are becoming increasingly important and winning shares of sales (Kluge & Fassnacht, 2015). Moreover, D'Arpizio, Levato, Kamel, & de Montgolfier (2017) emphasize in Bain & Company's Luxury Goods Worldwide Market Study, that the distribution models of the luxury market, which luxury watches are part of, is expected to change significantly. In 2017, the online distribution format was estimated to account for only 9% of the total luxury goods market value. This is predicted to increase to 25% by 2025. A mix of store formats is expected to be relevant in the future, with regard to the predicted decline in the importance of mono-brand stores too. Mono-brand stores in the global personal luxury goods market are expected to decrease by 5% in terms of their contribution, from 30% to 25%, within the next ten years. When looking at the value of the overall global market for personal luxury goods, physical stores are predicted to account for 75% in 2025 whereas online stores are expected to contribute 25% in 2025. Comparing this to 2017, when physical stores are estimated to have accounted for 91% of the overall market value, it becomes clear that the great importance of physical stores is expected to decrease over the next decade (D'Arpizio, Levato, Kamel, & de Montgolfier, 2017).

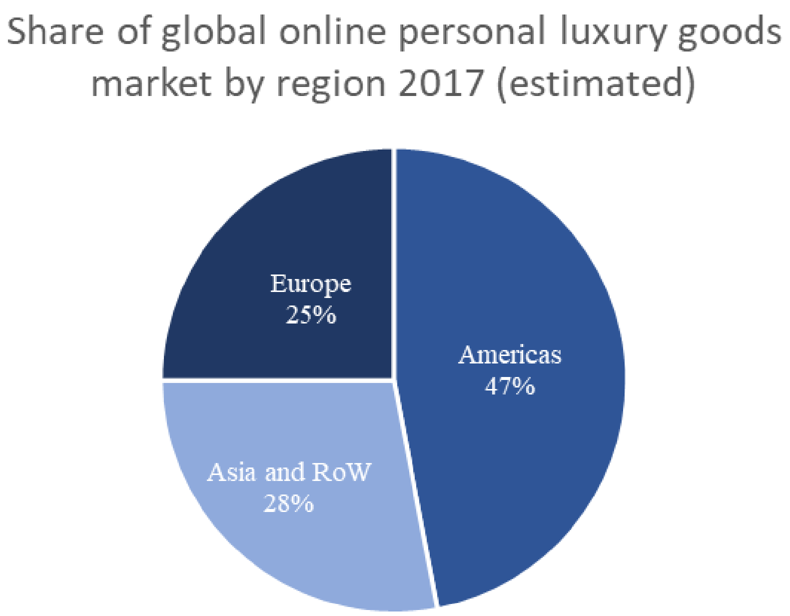
Figure 7: Importance of luxury watch sales channels (von Radowitz ,et al., 2017)



Von Radowitz, et al. (2017) investigated the same topic, the development of retail channels in luxury goods, but specifically the luxury watch industry. As Figure 7 from von Radowitz, et al. (2017) illustrates very well, the importance and relevance of certain sales channels in luxury watch retailing has changed drastically. Corresponding to D'Arpizio, Levato, Kamel, & de Montgolfier (2017), von Radowitz, et al. (2017) show the growing importance of online channels in luxury watch retailing by asking more than 60 watch executives the question: "What sales channels do you think will be the most important in five years?" In 2017, the majority of watch executives believe that authorized online dealers will be the most important sales channel for luxury watches in the coming five years. On the other hand, the importance of brick-and-mortar stores is decreasing, especially with regard to authorized dealers such as Bucherer or Tourneau, for example. The perceived decline of the future relevance of brick-and-mortar, mono-brand stores is also especially impressive if one compares the surveys from 2015 and 2017. This clearly shows that the large hype surrounding brick-and-mortar, mono-brand stores will level out over time.

With regard to the geographical share of the global, online, personal, luxury goods market, the Americas take the biggest share of 47%. Europe (including Switzerland) only accounts for 25% of the global online market for personal luxury goods, whereas Asia and the rest of the world account for 28% (D’Arpizio, Levato, Kamel, & de Montgolfier, 2017). Figure 8 illustrates the estimated 2017 online market shares of the global personal luxury goods market.

Figure 8: Share of global personal luxury goods market by region 2017 (E) (own illustration based on D'Arpizio, et al. 2017)



Von Radowitz, et al. (2017) confirm this trend and specifically investigated the willingness to purchase a watch online. Most people still prefer to purchase a watch in a physical store. Nevertheless, there are rather large differences between countries with regard to the willingness to purchase a watch via an e-commerce channel. When comparing Switzerland and the US, the same trend that was described above by D’Arpizio, Levato, Kamel, & de Montgolfier (2017) is uncovered by von Radowitz, et al. (2017). In Switzerland, 74% of people would most likely buy a watch in a store, versus only 26% who would favor an online purchase. In the US, the online-affinity with regard to the preferred purchase channel is higher. 32% of people in the survey by Deloitte would tend to purchase their watch online, versus 68% who feel more comfortable with a purchase from a physical store (von Radowitz, et al., 2017).

4.1.2.5. Gray Market (Unauthorized)

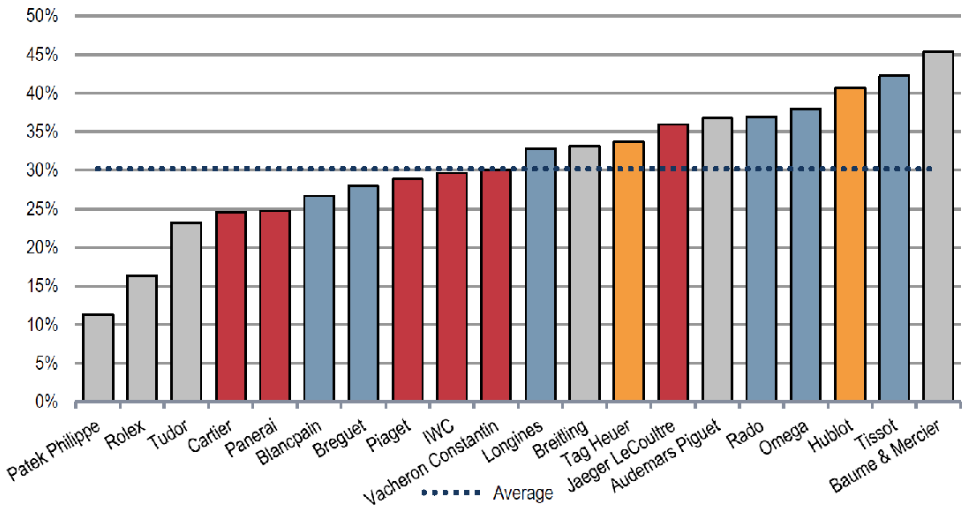
Lastly, to finalize this rather heavy subchapter 4.1.2 (Industry Rivalry / Competition), it is crucial to highlight the fact that unauthorized retailers are another highly influential component of the luxury watch retail value chain that should not be forgotten or left aside. As indicated in Figure 6, the unauthorized retailers need to be totally separated from the official retail side. The gray market for luxury watches currently accounts for the most discussed and fastest growing share of unauthorized retailers (Shannon, 2017). The black market is of course part of the unauthorized retail segment too, but does not fall within the scope of this thesis and therefore, for simplification reasons, is not shown in the value chain illustration (Figure 6).

The gray market for luxury watches represents a retail channel that is not authorized by the watch brands who manufacture timepieces. Nevertheless, the gray market does not sell counterfeit watches per se. On the contrary, gray market channels sell genuine watches. The gray market represents a huge competition for official retailers and shakes up the global value chain for luxury watches, and therefore creates a remarkable challenge for luxury watch brands (Zhao, Zhao, & Deng, 2016).

As previously explained in this chapter (Industry Rivalry / Competition), third-party luxury watch retailers can be under pressure from brands who make them order watches that the retailers may not be able to sell very easily to their end-consumers. Nor may retailers be able to sell watches because of an over-production by the brands or a simple economic downturn. Therefore, it is common for luxury watch retailers to sell unsold timepieces at discounted prices to gray market players, as indicated by an arrow in Figure 6. Luxury watch retailers involved in such practices bypass the watch manufacturer's policy of not discounting and in this way make sure they get rid of their hard-selling watches (Adams, 2018). Grey market players can be doing business offline, in the form of physical stores that are usually simple and small, or online via e-commerce platforms. Mostly however, and especially more recently, gray market players in the luxury watch retail industry sell their watches through online platforms and ship them to customers all over the world. The US represents the heart of the online gray market scene, which is especially interesting when one considers that it is also the second largest market for luxury watches. Examples of very active and successful, unauthorized American gray market players are: AuthenticWatches.com, Jomashop.com and PrestigeTime.com. There are of course large gray market players outside of the US too. Chrono24.com, for example, is a huge gray market player from Germany that connects buyers with unauthorized dealers all round the world (Shannon, 2017). Chrono24 is far from being a small and suspicious startup. They are present in New York and Hong Kong with sales offices that serve the local markets (Koltrowitz, 2017). The company's webpage has over 10 million monthly visitors and their customer service as well as fast delivery of well-discounted pieces of some of the most recognizable luxury watch brands helped the company reach its high status in the unauthorized luxury watch retail industry (Shannon, 2017). Sometimes even the rarest and most prestigious timepieces can be found on such online gray market platforms. The customer's benefit obviously lies in getting a good deal with a cheaper watch than if they were to buy it from an official retailer or from the brand directly. Nevertheless, there are also some downsides for customers who purchase luxury watches from the gray market for large amounts of money. The main downside of purchasing a luxury watch online on a gray market platform is that watch brands generally cancel any type of warranty as it has not been purchased through an official sales channel (Koltrowitz, 2017).

The grey market problem on the whole seems to be more of an issue in the US than in other parts of the world (Gauvillé & Tillson, Swiss Watchmakers, 2017). Gauvillé & Tillson (2017, p.5) state that luxury watch exports to the US are "still well above replenishment levels, leading to a bigger inventory glut." Figure 9 shows a distribution chart by Gauvillé & Tillson (2017) with the average discount (compared to prices from official retailers) for 20 different watch brands from the American grey market online retailer Jomashop.

Figure 9: Average discount on grey market online retailer Jomashop (Gauvillé & Tillson, 2017)



In Credit Suisse's 2017 watch industry report, Gauvillé & Tillson (2017) emphasize that the Swatch Group has the biggest inventory surplus because the Group's largest watch brands can be found discounted on the grey market with more than the average 30% industry discount. Consequently, luxury watch brands want to fight the gray market because discounted watches at prices far below their regular retail price harm the brands' image and prestigious status. Therefore, third-party luxury watch retailers who supply the gray market with discounted watches can be suspended by their brands if such practices are discovered (Adams, 2018). Nevertheless, Adams (2018) and Koltrowitz (2017) made it clear that in fact, some luxury watch brands themselves even sold inventory excess directly to the gray market. Neither Adams (2018) nor Koltrowtitz (2017) mentioned the names of any brands involved in this practice because understandably, no brand publicly announces this.

On the other hand, most watch brands try to combat the gray market. Buying back inventory surplus watches from third-party retailers or swapping slow-selling watches with more promising pieces are two examples of remedies that brands employ to combat the gray market. This is indicated by arrows in Figure 6. Richemont in particular is known to have bought back large amounts of watches, mainly their Cartier brand. Their buyback must have helped slow down the gray market presence of Cartier as Figure 9 illustrates: Cartier is the least discounted of Richemont's brands on Jomashop (Gauvillé & Tillson, 2017).

4.1.3. Threat of New Entrants

According to Porter (2008), possible new entrants into a certain industry need to gain market shares and therefore exercise pressure on other players with regard to prices, costs and innovation.

In the luxury watch retail industry, however, there are quite a lot of barriers for new entrants as the initial capital investment needed for players who want to enter the industry is quite high (Ostapenko, 2016). Apart from the high costs of purchasing a wide selection of luxury watches and stocking them, marketing costs and branding costs are also needed. There are many long-standing, traditional watch retailers with a rich history and a great reputation in the luxury watch retail industry. Due to the saturation of the luxury watch retail market, the entry barriers are rather high. Nevertheless, due to the diversity of the different retail methods that are available, especially online channels, new entrants still have the chance to survive (Ingram, 2018; Deshpande, 2017).

Table 3 shows the most recent new entrants, limited to a maximum of five players per country, who have emerged over the past six years with their origin in Switzerland or in the USA in online luxury watch retailing. The research to find these disruptive online players has been conducted over the search engine Google as there is no academic study available summarizing the most recent online players. It is important to stress that this list includes both gray market players and online retailers who have been authorized by watch brands. It is not the goal of this chapter to categorize the retailers as official or unauthorized, but rather to show the new e-commerce entrants who disrupt the luxury watch retail industry. In addition, some online luxury watch retailers are both, authorized and unauthorized, depending on the brand they sell on their platform. Moreover, it is important for the reader to know that this list is not exhaustive as it has deliberately been limited to a maximum of five players per country. Neither does the table classify the new entrants according to their sales volume nor according to monthly webpage visits. It is solely a representation of the most recent entrants to online luxury watch retailing. This table does not consider new online players who were founded by existing physical retailers such as Watchbox that was founded by the American Govberg Jewelers. Such spinoffs are not considered new entrants as they are based on successful industry players who have already had sound experience in the luxury watch business for many years.

Table 3: New entrants in online luxury watch retailing during the last 6 years in Switzerland and the USA (own illustration)

Switzerland		USA	
Company URL	**Founded**	**Company URL**	**Founded**
Sovogue.com	2016	DelrayWatch.com	2017
Watchadvisor.com*	2014	Truefacet.com	2013
---	---	Contrapante.com	2012
---	---	Crownandcaliber.com	2012
---	---	Hodinkee.com	2012**

* Not in e-commerce, but online platform to connect buyers and retailers

** Company founded in 2008, e-commerce platform founded in 2012

Even though the luxury watch retail market is highly saturated, it is remarkable how many dedicated and professional online luxury watch retailers have emerged during the last six years. The table above is just an excerpt. Nevertheless, it shows very well how companies can still enter the highly competitive luxury watch industry. There is, however, a big difference between the number of Swiss and US luxury watch retail startups. In Switzerland, online research only revealed one player involved in e-commerce that had emerged during the last six years. One additional player provides an educational and informative platform for buyers, but does not have an online store. In the USA, on the other hand, several new and, in the meantime, relevant players have emerged over the past six years who sell watches on their e-commerce platform. Of course, the USA is a much bigger country with many more inhabitants than Switzerland, which also explains why Switzerland has much fewer new online players in the luxury watch industry. More precisely, most luxury watch e-commerce players sell their watches on a global basis as they ship the products all around the world. Therefore, online players, including older and even more elaborate ones than those listed in the table above, can be seen as competitors for any type of luxury watch retailer on a global basis (Ives, 2017). The tread of new entrant in general, however, stays low to medium.

4.1.4. Bargaining Power of Buyers

According to Porter (2008), buyers of products in a certain industry have a high bargaining power if they have a strong ability to negotiate a reduction in the price of a certain product. Such a bargaining behavior usually originates from a high price sensitivity.

Luxury watch consumers, the final buyers of luxury timepieces, however, expect an outstanding buying experience and a great aftersales service without being very price sensitive, as Ostapenko (2016) suggests. According to Ostapenko (2016), the bargaining power of buyers of luxury watches is rather low, as luxury watches are not sold in large quantities and many brands have limited product lines. Additionally, customers who are willing to purchase a luxury watch and, most importantly, who are able to afford a luxury watch, have a rather low price sensitivity (Ostapenko, 2016). Nevertheless, with the increase in new retail models such as e-commerce that also comes along with gray market players, customers know that they have the possibility to get a watch cheaper than the initial recommended retail price, which puts pressure on authorized sellers (Koltrowitz, 2017). Luxury watch consumers have very low switching costs as they can easily move from one retailer to another due to the fact that there are large numbers of luxury watch retailers in both the USA and in Switzerland, most of whom offer the same brands. These low switching costs, however, cannot be directly translated into a higher bargaining power of the buyers because watch brands dictate to retailers how much discount (if any) can be granted to customers, given they are authorized dealers (Adams, 2018).

4.1.5. Threat of Substitutes

According to Porter (2008), substitutes of a product or service have the same purpose and perform a very similar or even the same function. There are two perspectives with regard to substitutes in the luxury watch retail industry. Firstly, there is the retail-model perspective, and secondly there is the product perspective. Both perspectives are explained below.

When considering the retail-model perspective, the most obvious substitutes for official luxury watch retailers are unauthorized market players. New, unauthorized entrants in e-commerce, though also long-standing players on the luxury watch grey market, can surely be considered a strong substitute for the sales and service offered by authorized luxury watch retailers such as mono-brand stores and third party retailers (Koltrowitz, 2017).

The second perspective includes luxury watches as such; the watch as a product. There are many different substitutes and alternatives for luxury watches. There are a vast number of more affordable substitutes on the watch market, mainly due to the fact that luxury watchers are very pricey products. Every potential consumer of luxury watches could simply purchase a very well-functioning watch with a quartz movement for just a couple of dollars[1]. There are many cheaper substitutes for luxury watches that come with several functions, a nice design and sometimes even with Swiss made automatic movements (Ostapenko, 2016). Fashion watches such as Daniel Wellington, Fippo Lereti and MVMT are inexpensive alternatives for people who are style-oriented, but who possibly prefer to buy a new watch more frequently (Adams, 2018). Apart from analog watches, digital watches, which include smart watches and even smart phones, can even be considered substitutes for luxury watches for some people. All of these personal electronic goods have the ability to show the time. Smart watches not only display the time, which is the core feature of a watch, but also offer various health/fitness, organizational and messaging features (Darmwal, 2015). Yet the majority of Swiss watch executives do not see smart watches as a big threat because only 23% believe that smart watches will have a major impact on the luxury watch industry. Moreover, most consumers do not regard smart watches as jewelry or horology as they mostly believe that

[1] Basic explanations about watch movements can be found in sub-chapter 3.4 (Domain and Scope Definition)

they have a smart phone on their wrist. Many consumers regard mechanical luxury watches as engineered timepieces that embody numerous intangible values such as craftsmanship, prestige and tradition. These values cannot simply be replaced by a digital tool (von Radowitz, et al., 2017). Apart from fashion watches and digital watches, counterfeits and replica watches are also a treat and can be considered as a substitute for genuine luxury watches. Such fake watches are sold under a luxury watch brand’s name and are often copied very well and even run with automatic movements. Many watchmakers in the luxury segment have suffered big losses due to counterfeit watches, which can serve as a cheaper but certainly lower quality alternative to an original timepiece. Nevertheless, it is important to stress that the perceived value of a substitute, such as buying a fashion watch instead of a luxury Swiss watch, is mainly psychological and depends largely on the individual. For many luxury watch consumers, there are no substitutes available that could replace a luxury watch; for others, the significance of owning a prestigious and valuable timepiece is not that high. Therefore, the individual willingness to purchase a substitute cannot be generalized. Nevertheless, it is a fact that there are large numbers of potential substitutes available for luxury watches (Ostapenko, 2016).

When viewed from the retail-model perspective and the product perspective, a number of strong substitutes have been identified that have a severe impact. Therefore, the profile of substitutes for the luxury watch retail industry is very high.

4.1.6. Bargaining Power of Suppliers

According to Porter (2008), suppliers that have a lot of strength and bargaining power capture a larger amount of the value for themselves by demanding higher prices or limiting the quality and quantity of their product and services.

With regard to the bargaining power of suppliers in the luxury watch industry, there are two possible views that need to be considered. Depending on the view one takes of the situation, two very different suppliers are identified with very different bargaining powers.

Firstly, the view of third-party luxury watch retailers has to be considered. Watch brands (manufacturers) are the suppliers of luxury watch retailers. Third-party retailers buy watches from brands in order to sell these watches to the end-consumers in their stores or on their e-commerce platforms. Luxury watch manufacturers have a relatively high power over their authorized dealers. As mentioned in sub-chapter 4.1.2.2 (Wholesale Multi-Brand Stores (Official)), many brands make their retailers order watches before they start the production run and sometimes even dictate which types of watches are to be ordered. Nevertheless, volume plays a crucial role as regards the bargaining power of watch manufacturers. Therefore, large watch retailers usually have an advantage over small ones as they have the opportunity to benefit from negotiating better price deals with the watch brands when ordering larger numbers of watches on an international basis. Nevertheless, the power clearly lies on the supplier side (luxury watch manufacturers) as retailers need to fight to keep their brand partnerships. This is also due to the fact that many watch brands try to reduce their point of sales (Adams, 2018; Koltrowitz, 2018).

The second perspective originates from the watch brands (manufacturers) themselves. Luxury watch brands can act as retailers themselves if they operate their own brand, as described in sub-chapter 4.1.2.3 (Mono-Brand Stores (Official)). The main suppliers for luxury watch brands are movement and component producers, provided the respective brand purchases parts externally. Additionally, there are of course certain fixed-cost providers, such as the renting and insurance of real estate and retail space too. Both mono-brand store owners and multi-brand retailers have to bear these costs. Therefore, suppliers (providers) of fixed-cost services and products are not considered in the evaluation of the bargaining power of suppliers. Nevertheless, suppliers of watch components such as movement producers have a rather low bargaining power over luxury watch manufacturers nowadays. Watch manufacturers can switch their supplier of components and negotiate better deals. However, this depends heavily on the size of the respective watch brand (Adams, 2018). Many watch manufacturers have even verticalized their production in order to have all their production in-house and to minimize their need for external peripheral suppliers (Hoffmann & Lecamp, 2015)

4.1.7. Key Findings Porter's Five Forces

The following table helps to simply illustrate the key findings that have emerged during the literature review for the Porter's Five Forces in the luxury watch retail industry.

Table 4: Key findings for Porter's Five Forces in the luxury watch retail industry (own illustration)

Industry Rivalry / Competition
High: Due to large complexity, big saturation and many possible retail models
Threat of New Entrants
Low to medium: due to large capital need and reputation of long-standing players. Nevertheless; new possibilities and entrants in online segment, incl. gray market (mainly USA)
Bargaining Power of Buyers
Low: due to low price-sensitivity of consumers. Luxury watches are often limited in pieces and not sold in bulk. Nevertheless: pressure on AD's and brand stores due to cheaper gray market alternatives (mostly online)
Threat of Substitutes
Retail Model → *High:* due unauthorized dealers **Luxury Watches** → *High:* due to numerous alternatives such as fashion watches, digital watches (smartwatches), counterfeit watches etc. Substitute willingness however highly psychological/emotional and depending on personal value for luxury watch
Bargaining Power of Suppliers
Retailer Perspective →*High:* volume is critical when purchasing watches, investments in brands needed **Watch Brand Perspective** → Low: due to verticalized productions and replaceability of suppliers

4.2.Transformation and Change Management Model

The new Transformation and Change Management model (TCM) that has been developed by Bergamin, Braun, & Glaus (2018) helps discover the position of a company in a certain industry on the strategic paths of digitalization and globalization. According to Bergamin, Braun, & Glaus (2018), it is crucial for CEO's of any company to have a great awareness of transformational and change aspects within their industry. The model helps identify a market player's position with regard to digital processes and digital skills as well as with regard to the players' global footprint. Thanks to the TCM model of Bergamin, Braun, & Glaus (2018), a company can identify its position and also define where and how they want to move. From there, a player can develop a business transformation strategy, become more agile as an organization, invest in digital processes/skills and digital assets or expand internationally. Due to a large number of disruptive digital forces on the global market, companies need to proactively assess their current situation and strategically position themselves while thinking future-oriented. Figure 10 illustrates the concept of the TCM model by showing the two axes of digitalization and globalization as well as how different players could be categorized into six different fields (Bergamin, Braun, & Glaus, 2018).

Figure 10: Transformation & Change Matrix (own illustration based on Bergamin, Braun & Glaus, 2018)

4.2.1. Method and Significance of the TCM Model of Bergamin, Braun, & Glaus (2018)

With the help of the Transformation and Change Management model (TCM) of Bergamin, Braun, & Glaus (2018), it is hoped to show the impact of digitalization and globalization on the worldwide luxury watch retail industry. Additionally, the TCM model helps industry players determine where they stand with regard to their global footprint and their digital integration.

This model is then specifically applied to the luxury watch retail industry in sub-chapter 4.2.2 (Digitalization and Globalization in the Luxury Watch Retail Industry) and 4.2.3 (Mapping of Bucherer/Tourneau and Watchfinder/Richemont). In sub-chapter 4.2.2, the aspects of digitalization and globalization are examined with regard to general developments in the global luxury watch retail industry. The subsequent Chapter 4.2.3 categorizes the two luxury watch retail-players Bucherer and Tourneau as standalone players before the M&A and as a united force after Bucherer acquired Tourneau in January 2018. Bucher and Tourneau have been chosen as illustrative examples as their countries of origin, Switzerland and USA, lie within the scope of this thesis. Additionally, two other players in the luxury watch retail industry, Richemont and Watchfinder, are mapped as a reference example in order to show the movements along the strategic paths of digitalization and globalization before and after an acquisition.

The author regards the Transformation and Change Management model of Bergamin, Braun, & Glaus (2018) as a valuable and illustrative tool for this thesis as it is very helpful in unveiling the position of a certain player in the luxury watch retail industry on the strategic paths of digitalization and globalization. Thanks to the Transformation and Change Management Matrix (Figure 10) the model illustrates the assessment of a company with regard to digitalization and globalization very well as players can be mapped visually, including their arrows of change. Not only does the model map and classify specific players in the luxury watch industry, it also portrays the transformation and change awareness of the luxury watch retail industry as a whole.

4.2.2. Digitalization and Globalization in the Luxury Watch Retail Industry

It is very important to understand the meaning of the two axes, digitalization and globalization, in this model. The horizontal digitalization axis positions an industry player according to their degree of globalization. The model differentiates between local/regional players and players with a global market position. Subsequently, the vertical digitalization axis describes the degree of digitalization an industry player is involved in. This dimension is divided into three main specifications. An industry player can either be doing business with traditional business models that are barely touched by digitalization, or it can decide to operate with a mixed business model that makes use of traditional offerings and digital solutions. Next to that, a player can also decide to work in a fully digital environment through using digital business models (Bergamin, Braun, & Glaus, 2018). Both digitalization and globalization are major enablers for companies to further develop their business (Hoffmann & Lecamp, 2015).

The luxury watch retail industry and the industry players involved are also impacted and driven by the two transformation and change dimensions of digitalization and globalization. Adams (2018), however, points out that many companies operating in the luxury watch industry have not considered the Internet and globalization properly, so that most have not updated their distribution system. Nevertheless, the more tradition-driven luxury watch industry is still getting caught by digitalization and globalization. In recent years in particular, e-commerce has started to become a topic for many luxury watch brands and retailers, which is very late if one considers other retail industries that have already been using the Internet for decades (Theurillat & Donze, 2017; von Radowitz, et al., 2017). Selling watches through physical retailers is no longer the prevalent way customers buy luxury watches (Adams, 2018). Especially Millennials find it often much less intimidating to browse and buy on an e-commerce platform rather than in fancy luxury watch stores. The transparency of information and comparability of products are other reasons why Millennials tend to turn to digital platforms for their research instead of walking from store to store. Some large and established physical retailers as well as watch manufacturers have started reacting to this trend and have built up e-commerce solutions on their own digital platforms (Naas, 2018).

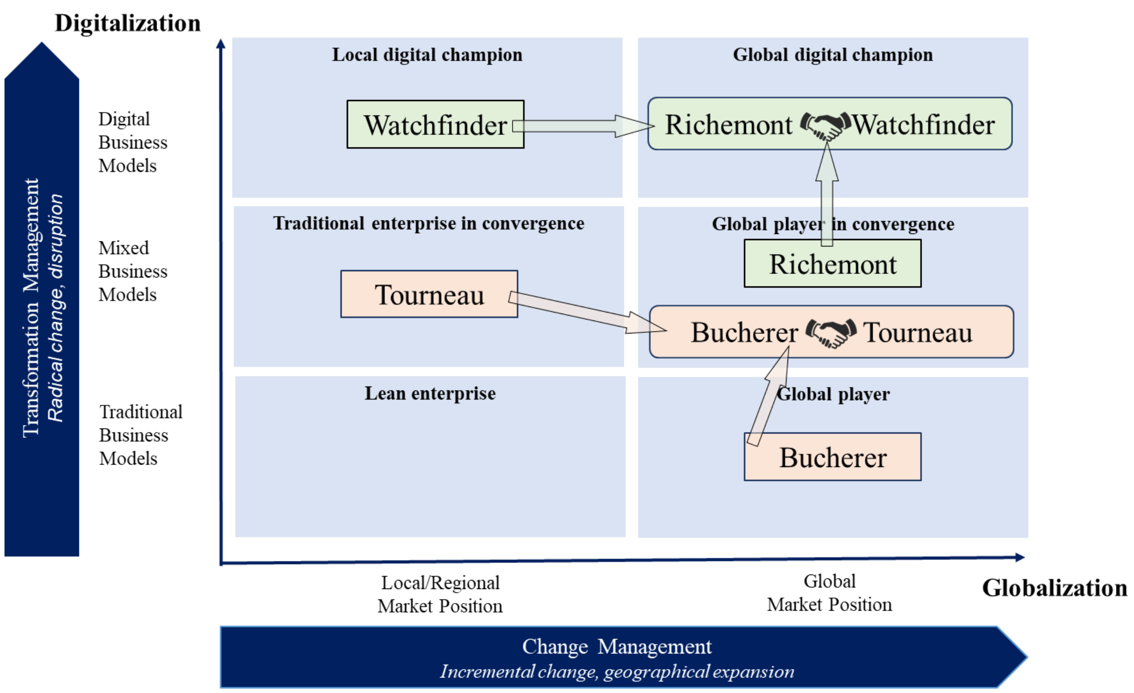
Von Radowitz, et al. (2017) confirms this trend and points out that the development and implementation of digital channels represents the strategy with the second highest priority for watch executives, right after their core priority of developing and introducing new products. Naas (2018) further clarifies that online business in the luxury watch retail industry currently focus strongly on setting up a distribution system for certified pre-owned (CPO) watches and vintage watches. Sellers of CPO watches guarantee the customer that the pre-owned watches are authentic and usually provide a warranty of several years. Martel (2018) remarks that watch manufacturers themselves are beginning to get more and more involved in the CPO business. This could be witnessed when Richemont acquired Watchfinder in 2018. Watchfinder is a UK-based player in luxury watch retailing that focuses strongly on selling CPO watches on their e-commerce platform. Naas (2018) explains that owners of multiple luxury brands such as Richemont who also own CPO-channels have a place to directly sell buy-back products, as explained in sub-chapter 4.1.2.5. Simultaneously, several new, disruptive digital players are emerging in the luxury watch retail industry. The most recent digital new entrants during the last six years that have not been created out of established physical retailers are listed in sub-chapter 4.1.3 (Threat of New Entrants) in Table 3. As previously mentioned, apart from total new entrants in the digital e-commerce sector of luxury watch retailing, established retailers, who are mostly known for their physical stores, have also started building up strong e-commerce platforms, especially in the CPO market. Other e-commerce players started their business back in the 90ies. Examples of such players are Watchbox by Govberg Jewelers, Jomashop or Tourneau's strong e-commerce, which includes one of the US's largest CPO businesses (Bucherer, 2018; Adams, 2018).

Globalization, the second aspect of the TCM model, has always had both a positive and negative impact on the worldwide luxury watch industry. Globalization can come along with major uncertainties in the modern business environment (Hoffmann & Lecamp, 2015). Most luxury watch brands are nowadays available to purchase around the world, especially also thanks to e-commerce. As it has been highlighted in sub-chapter 4.1.2 (Industry Rivalry / Competition), large, multinational luxury watch retailers are becoming more and more important and are increasing their growth and share of global sales with the help of M&A's, such as the Swiss Bucherer Group (Weber, Bertschy, & Walder, 2018).

4.2.3. Mapping of Bucherer/Tourneau and Watchfinder/Richemont

In this sub-chapter, as previously announced, four players in the luxury watch retail industry are visually mapped on the Transformation and Change Matrix of Bergamin, Braun, & Glaus (2018). The initial example is built up by Bucherer and Tourneau. The Swiss Bucherer Group acquired the American multi-brand retailer Tourneau in 2018. The two players are mapped before the acquisition as well as how they stand now, after Tourneau became part of the Bucherer Group. As a reference example, Richemont and Watchfinder are mapped accordingly. The Swiss luxury giant Richemont acquired the UK-based Watchfinder in 2018. The players are mapped before the acquisition and after the acquisition as a united force, which is indicated by arrows of change.

Figure 11: Mapping industry players on the Transformation & Change Matrix (own illustration based on Bergamin, Braun & Glaus, 2018)



As visible in Figure 11, Bucherer is positioned on the far right as a global player without being fully digitalized. Bucherer does, of course, have some good digital capabilities and offerings, such as a dedicated e-commerce platform and state-of-the-art IT systems. Therefore, it is important to highlight that Bucherer is surely not operating with solely traditional business models, as Figure 11 might suggest (Bucherer, 2018). Nevertheless, Bucherer is less-digitalized compared to the Richemont Group, which is active in retailing through large e-commerce platforms and boutiques of their own brands such as IWC, Jaeger Le Coultre, Cartier and many more. With Richemont's acquisition of the UK-based, CPO watch retailer Watchfinder in 2017, the company was able to build on their strong digitalization standpoint and further boost their overall transformation management towards a global digital champion, as indicated by arrows in Figure 11. Before being acquired by Richemont, Watchfinder was not operating with a solely local market position, as the visualizations in Figure 11 might suggest. Next to their physical stores, which only exist in the UK, Watchfinder's e-commerce platform was always selling watches internationally. Not only Watchfinder was a crucial acquisition for Richemont to further improve their digital skills and global data platforms; the Yoox Net-A-Porter Group (not mapped in Figure 11) that was acquired by Richemont in 2018 also helped Richemont become a global digital champion (Thomson Reuters, 2018).

The Swiss family-owned Bucherer Group took a very similar step to Richemont with the acquisition of Tourneau. Tourneau is the biggest luxury watch retailer in the USA, with 23 stores and one of the strongest CPO businesses as well as state-of-the-art e-commerce. Acquiring Tourneau helped the Bucherer group to strategically transform its business towards being more disruptive while strengthening its global standpoint. As illustrated by arrows in Figure 11, Bucherer's acquisition of Tourneau helped the company to further intensify and professionalize their digital processes and skills (Bucherer, 2018; Naas, 2018). Bucherer, together with Tourneau, can therefore be categorized as a global player in convergence. If Bucherer successfully integrates Tourneau into its business models, the family-owned Swiss luxury group will be able to learn from Tourneau and benefit from their existing skills. Therefore, Bucherer is well on the way to one day becoming a global digital champion if they keep investing in their digital standpoint.

4.3. Research Gaps

The main underlying reasons for the recent trend of consolidation in the luxury watch retail industry have not yet been fully clarified by only looking at the literature review. The extensive literature review that is presented in Chapter 4, however, revealed some useful and interesting information about the luxury watch retail industry and its circumstances. The two models that have been applied, the Five Forces Model of Porter and the Transformation and Change Management Model of Bergamin, Braun, & Glaus (2018), helped to deliver a solid understanding of the complex forces and conditions in the luxury watch retail industry. Additionally, the literature that was used for applying the two models, together with the available information about the luxury watch retail industry, unveiled some interesting facts about the behavior of individual stakeholders and players. Overall, it has to be highlighted that there are rather limited academic sources available that discuss the luxury watch retail industry and its current constellation and movements. On the other hand, there are several newspaper articles and articles in economic or watch-related magazines that touch on the current topic of this thesis: consolidation in the luxury watch industry.

Nevertheless, the three research questions that are stated in sub-chapter 3.3 (Research Objective and Research Questions) have not been answered entirely with the help of only the literature review. The evolving distribution models in the luxury watch retail industry as well as some major industry constellations, rivalry issues and disruptive impacts are just some examples of valuable information that has been gathered through the study of literature. Detailed reviewing and condensing of the gathered information are presented in Chapter 7 (Discussion). Nonetheless, the literature review clearly did not reveal the advantages and disadvantages of large players compared to small players in the luxury watch retail industry or the implications of recent M&A's. This presents a major gap in existing literature, calling for additional research into the megatrends leading to consolidation in the luxury watch retail industry as well as the advantages and disadvantages of small versus large retailers. Additionally, it is not possible to answer research question three (stated in sub-chapter 3.3), which examines how luxury watch retailers stay competitive on the global market, by only looking at the literature review.

5. Methodology

In this chapter, the research methodology including the research design as well as data collection and analytical approach are demonstrated. Specifically, this chapter explains how the above-mentioned research gaps (sub-chapter 4.3) will be filled in order to be able to answer the three research questions that are stated in sub-chapter 3.3 (Research Objective and Research Questions). The goal of this thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that, it is hoped to uncover the advantages and disadvantages of large consolidated players compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing. As the previous sub-chapter 4.3 (Research Gaps) has shown, it is not possible to reach this goal without additional research. Therefore, a primary research approach has been chosen to fill this research gap, as it is explained in detail in the following sub-chapters.

5.1. Primary Research Design

In order to fill the research gaps as well as to complement and back up the literature review, a primary research design with expert interviews was been chosen. A sufficiently large number of expert interviews (11) were selected as the most promising form of qualitative research for this Master's thesis as they complement the knowledge gained through existing literature. According to Eisenhardt (1989), qualitative research with the help of interviews is especially suitable if the existing information from literature is insufficient, limited or not available at all. With regard to literature dealing with the consolidation trend in the luxury watch industry, the available academic sources are rather limited, as has already been stated in 4.3 (Research Gaps). Qualitative research, such as the chosen form of interview, is a highly suitable research method when a study aims at understanding how people interpret their experiences and what importance they attach to certain involvements in industry (Flick, 2014). As the objective of the expert interviews was to uncover personal opinions as well as experiences, the chosen design of qualitative research is seen to be appropriate for this thesis.

Interviews with 11 industry experts from the field of luxury watch retailing were conducted with a semi-structured approach and a pre-defined questionnaire. Details about the 11 interview partners are listed in sub-chapter 5.2.1 (Method) and Table 5 on page 47. Semi-structured interviews are the most common type of all qualitative research methods. The prepared questions helped to guide the interviewee (author) through the course of the interview and ensured that the interview process was carried out in a systematic and consistent way (Qu & Dumay, 2011). The way a semi-structured interview works is that it allows the direction of the interview and the order of the questions to remain flexible, which enhances the natural flow of conversation. Due to the natural flow of conversation, semi-structured interviews let the interviewees fully elaborate their answers. Moreover, this rather open way of interviewing let the researcher collect vast amounts of information through the possibility of asking spontaneous question between predefined topics (Saunders, Lewis, & Thornhill, 2009). For this thesis, the prepared questions that were used during the interviews were based on a range of broad themes to be covered according to the literature review and the research gaps. In this way, the researcher made sure that the conversation was guided towards the issues and topics under discussion. As suggested by Qu & Dumay (2011), the questions were asked in an indirect and open way so that the interviewees talked openly about their point of view without being influenced by closed or one-directional questions. These open questions evoked a large number of responses, as can be seen in the transcripts of the interviews in the appendix (sub-chapter 10.1 on page 97). The findings from the 11 interviews are presented in the next Chapter 6 (Findings from Interviews) on page 50.

5.2. Data Collection and Analytical Approach

In this part, the data collection and characteristics of the analytical approach are described in detail.

5.2.1. Method

Experts in the luxury watch retail industry might have a contrasting point of view and very diverse experiences depending on the company and field they come from. The impression someone has about a certain topic or set of problems differs strongly depending on the angle from which they regard it (Flick, 2014). Therefore, in order to obtain as varied answers and viewpoints as possible during the expert interviews, 11 interview partners were chosen from different stakeholders and distinctive companies. All of these 11 interview partners have very close ties with the luxury watch industry and the majority of them are even actively involved in it. Others are journalists, academics or researchers who enhance the quality of the findings as they look at the industry from a different, possibly neutral, standpoint of view. Due to the geographical scope of this thesis, two out of the 11 interviews were conducted with luxury watch experts from the USA. The rest of the interviews were conducted in Switzerland with Swiss players and stakeholders in the luxury watch industry. As this thesis also discusses the advantages and disadvantages of small niche players and large consolidated luxury watch retailers, two owners of independent and local niche watch stores were interviewed, in contrast to the interview with an executive from the large consolidated Bucherer Group. Four interviews, including the two interviews with American interview partners, were conducted over the telephone due to the geographical distance or limited time available to the respective interviewee. Table 5 shows the details of the 11 interview partners and their company background as well as their field of specialization and other information with regard to the interview procedure. The table is arranged in a chronological order, starting with the initial interview in the first row.

Table 5: Details of interview partners

Full Name	Company	Positon/Job	CH/ USA	Field of Specialization	Date & Location	Interview Type
Mr. Patrick M. Graf	Bucherer Group	Chief Commercial Officer	CH	M&A / integration, Int. director watches	29.06.18 Zurich	Face-to-face
Ms. Maria Bashutkina	HEG- Haute école de gestion Arc	Senior Lecturer & Trainer Institute of Watchmaking	CH	Trainings and clients intelligence in luxury industry	03.07.18 Neuchâtel	Face-to-face
Ms.Roberta Naas	A Timely Perspective	Owner, journalist, author	USA	Award-winning journalist in the watch industry with 30 years of experience	04.07.18 Zurich	Phone
Ms. Silke Koltrowitz	Thomson Reuters	Journalist	CH	Luxury watch industry (consumer goods)	05.07.18 Zurich	Face-to-face
Mr. Marco Galli	Galli Uhren Bijouterie	Owner	CH	Luxury watch retailing; small independent business	06.07.18 Zurich	Face-to-face
Ms. Tiia Mäkinen	Musta Experience	Managing Partner and Founder	CH	Future of luxury, business development, experience management	06.07.18	Phone
Mr. René Weber	Bank Vontobel	Managing Director	CH	Analyst in luxury goods with a focus on luxury watches	11.07.18 Zurich	Face-to-face
Mr. Valerij Stepanov	Watchadvisor	Founder and CEO	CH	Digital business; focusing on watches	11.07.18 Zurich	Face-to-face
Mr.Federico Iossa	Delray Watch Supply	Co-Founder and CEO	USA	E-commerce, watch collector and former Tourneau employee	16.07.18	Phone
Mr. Beat Stierlin	Sutter Uhren und Schmuck	Owner	CH	Luxury watch retailing; small independent business	17.07.18 Winterthur	Face-to-face
Ms. Karine Szegedi	Deloitte	Partner	CH	Analyst in Fashion / Luxury	19.07.18	Phone

5.2.2. Procedure

The 11 industry experts were contacted by the researcher via email or via LinkedIn and informed about this Master's thesis and the research in the field of luxury watch retailing with regard to industry consolidation. After a positive resonance had been acquired from each interviewee, appointments were coordinated via email or over the phone. As already stated in sub-chapter 5.2.1 (Method), the interviews were conducted either personally, in a meeting in the office of the respective interview partner, or over the phone. The interviews usually lasted around one hour, depending on the time available to the interviewee, and some interviews were shorter. Due to the semi-structured interview approach with a predefined questionnaire, as explained in detail in sub-chapter 5.1 (Primary Research Design), it was possible to jump from question to question without sticking strictly to the order of the predefined questionnaire. The predefined questionnaires were tested for their comprehensibility on a friend before the initial interview with Mr. Patrick M. Graf; CCO at Bucherer. This ensured that the interviews were able to be conducted in the planned time frame and that questions were formulated in a clear manner.

The number of questions and prepared content of the questionnaire changed slightly as the interviews had different durations according to the time available to the interview partners. Furthermore, the prepared questions were sometimes adapted according to the interviewees' field or company. For instance, the interview guidelines were adapted in order to specifically investigate the business circumstances of small independent retailers and to obtain as much relevant information as possible for the interviews with the two owners of small and independent standalone luxury watch stores (see Table 5 on page 47). The first couple of questions in the interviews addressed the research topic more generally. The subsequent questions were formulated in accordance with the research questions, while considering the information gained from the literature review and the research gap. If there was enough time, an open question was asked at the end of the interview with no direct reference to the topic of this thesis but to provoke some thoughts and to possibly unveil some interesting personal viewpoints as well as to finish the interview in a casual way.

In order for the author (interviewer) to be prepared in the best possible way, the literature review was, of course, conducted before any interview was held. Additionally, the initial interview was deliberately scheduled to be with the thesis partner, Mr. Patrick M. Graf, CCO at Bucherer, in order for the author (interviewer) to become familiar with specific terms and vocabulary in the watch industry. As it turned out, the interview partners were highly appreciative of an understanding of the luxury watch retail industry as well as the fact that specific industry-related terms were already well known by the interviewer, which led to good discussions without misunderstandings.

As indicated by Bortz & Döring (2006), the interviewee approached the interview casually yet professionally with small talk in order to create a friendly and open atmosphere while getting to know each other. After an introduction to the topic and research objective, the interviewees were asked to provide honest and sincere answers. All of the interviewed industry experts were asked for their permission to record the talk. Unless otherwise requested, the interviews were recorded with a smart phone so that the answers could be transcribed later. Only one interviewee did not wish to be recorded, so detailed interview notes were used to capture all the information. The transcripts of the interviews were sent to the respective interview partners for their approval. If wished by an interviewee, changes were made to the transcript. All of the 11 interview transcripts, including one interview note where a recording was not wished, can be found in appendix 10.1.

Due to the very rich content of all the interviews, the transcripts were simplified very slightly without impacting the original statement of the industry experts. Generally, the interview transcripts are systematic, appropriate transcriptions that are nearly completely verbatim-based with minor simplifications and omissions of non-lexical conversation sounds and paralanguage. Generally, the 11 interviews delivered outstanding value for this thesis as they complemented the literature review very well and also delivered contrasting opinions and new input. Due to the immense amount of information in the 11 interviews, only a certain crucial share can be taken into consideration for the subsequent Chapter 6 (Findings from Interviews).

6. Findings from Interviews

In this chapter, the findings from 11 qualitative research interviews with luxury watch industry experts are presented in order to fill the research gap that has been identified in sub-chapter 4.3. The findings are structured according to the main topics that emerged during the 11 interviews in accordance with new information that has been unveiled.

The titles of the following sub-chapters 6.1 to 6.7 are the main themes that were discussed during the interviews. Main categories that were highlighted by interviewees are a direct part of the discussed topics. These categories include specific statements and opinions of the 11 interview partners. Due to the large number of interview partners, a lot of information was gathered, making this chapter very important but rather heavy in content.

6.1. Drivers of Consolidation in Luxury Watch Industry

6.1.1. Oversaturation of Market

Over the past few years, the luxury watch retail market has started to become oversaturated (Graf, 2018). Weber (2018, appendix 10.1.7) points out that: “There are currently probably too many players around, and therefore that is another reason why I believe we will see further consolidation in the industry […].” Stepanov (2018, appendix 10.1.8) shares the same opinion as Weber (2018) and mentions: “I think the big players will become bigger and the independent retailer will have a challenge. […] In the retail business it is harder if you are small and easier if you are big.” Stierlin (2018) explains that the market is highly saturated in Switzerland and that for him as a small retail jeweler it is “[…] nearly impossible to grow geographically due to this high saturation and due to the fact that local retailers in other cities also have strong customer bonds.”

Weber (2018, appendix 10.1.7) emphasizes that: "There is also a consolidation process in my opinion going on in the US." Naas (2018), unlike most other interviewed industry experts, said that as far as she was aware, consolidation in the luxury watch retail industry has not yet started in the USA. Nevertheless, Naas (2018) affirms that there is a great saturation, also in the USA, with regard to thousands of independent luxury watch retailers. The pressure on small and independent retailers is growing, as Naas (2018, appendix 10.1.3) notes: "We certainly are seeing a lot more of the small mom-and-pop jewelers going out of business."

Koltrowitz (2018, appendix 10.1.4) shares the idea of most interviewed industry experts that traditional, multi-brand luxury watch retailers are required to rethink their business models, as she points out that: "The fundamental thought is that the traditional retailers, their business is threatened and shrinking. They are under pressure from their customers and from the brands. I think that forces the retailers to do mergers and acquisitions."

> Weber (2018, appendix 10.1.7) sums up the view of the majority of the interviewed industry experts very well:
>
> "I am a little afraid that a lot of the smaller players will not survive in the long term, which I find a little bit frustrating. Also if you look in terms of profitability, the good margins are clearly with the large players where all the smaller ones have to struggle to get a profitable business."

6.1.2. Power of Watch Manufacturers (Brands)

All 11 interviewed industry experts pointed out that the power and pressure of watch manufacturing brands represents a major driver of consolidation in the luxury watch retail industry. Bashutkina (2018) mentions the great control of watch brands over third-party retailers. Graf (2018) mentions the fact that certain watch manufacturers limit the number of watches produced. One example is Audemars Piquet, who limited their production to 40,000 pieces a year. Graf (2018, appendix 10.1.1) states that: "Demand might be bigger than supply at the end of the day. " This results in the situation that "[…] everybody is trying to get as many watches as possible out of those 40 thousand pieces that are produced on an annual basis." According to Graf (2018) more players on the market make it harder to get the right amount of watches as a retailer.

On the one hand, it is a matter of size when doing business with watch brands, as Bashutkina (2018, appendix 10.1.2) illustrates well: "If you are too small then the watch brands might also not be fully attracted to collaborate." Koltrowitz (2018, appendix 10.1.4) shares this opinion and states: "The watch manufactures want everything under their control. […] Many of the small luxury watch retailers are very dependent on the brands." Naas (2018, appendix 10.1.3) further explains that: "They require retailers to carry X percentage of their inventory has to be this brand, and it ties up their money."

Iossa (2018) sees the luxury watch brands as the main reason for consolidation in the luxury watch retail industry. Compared to the high capital investments that are needed by luxury watch retailers to collaborate with large brands, the margins of such retailers are rather small. According to Iossa (2018), third-party retailers have a margin of 37.5% to 50% if they are not discounting. Therefore, Iossa (2018, appendix 10.1.9) states that: "Luxury watch retailers are consolidating to survive." Galli (2018) supports the idea that certain luxury watch players do M&A's to get bigger and to therefore have more power in the face of the brands. Weber (2018, appendix 10.1.7) supports the view of other interviewees and comments that: "The large groups have gained market shares over the last few years, so that to be a more important partner to the brands, it makes sense for you to have several positions in different markets."

Koltrowitz (2018, appendix 10.1.4) warns that: “Many watch brands are actually cutting back and reducing the number of points of sales they have. The watch brands all say that. They will have fewer points of sales in the future and only go with the best ones.” One option for watch brands in this respect is to operate their own mono-brand stores. This clearly puts a lot of pressure on third-party retailers (Koltrowitz, 2018). Szegedi (2018) supports the view that watch brands want to get as much control as possible. Being able to own customer data and controlling prices is something that has been a high priority for brands over the past decade considering their focus on mono-brand stores (Szegedi, 2017). Szegedi (2018, appendix 10.1.11) explains: “In mono-brand stores, watch brands can protect and control their prices. Therefore, a few years ago there was a huge amount of mono-brand stores being opened by watch manufactures.”

Galli (2018, appendix 10.1.5) explains how he experiences the situation and how mono-brand stores impact his small family-owned business: “For almost every brand we sell there is a mono-brand store not far away from here. So if a client wants to have the full collection and try every model on, you do not find it here.”

> Iossa (2018, appendix 10.1.9) further explains the power of watch brands and their relationship with retailers:
>
> “[…] the ultimate goal of any luxury watch brand is to have no more retailers left. They all want boutiques. […] You know brands do not like retailers. Brands have retailers because they need to sell watches, but if a brand could do this in one day, they would close every retailer in the world including Bucherer and just sell everything from their own boutique.”

Weber (2018), on the other hand, states that in his opinion, the watch manufacturing brands will not increase the number of mono-brand stores they run any further. Weber (2018, appendix 10.1.7) clearly states: “I think that trend is over.” Szegedi (2018, appendix 10.1.11) has a similar point of view about the current stagnation in the importance of mono-brand stores as the watchmaking brands “[…] realized that these mono-brand stores are very cost intensive, especially if a brand has a large number of mono-brand stores. The inventories and the rent make mono-brand stores a very expensive retail model for watch manufacturers.”

6.1.3. Digitalization and Online Businesses

All interviewed industry experts mentioned digitalization and online business as big underlying factors currently changing the entire luxury watch retail industry. Koltrowitz (2018) emphasizes that new competition from online businesses in the form of e-commerce puts a lot of pressure on traditional retailers. Various players are currently fully focused on building up their digital platforms. This includes the watch brands themselves but “also gray market platforms, where watches are being offered at lower prices, cheaper prices” (Koltrowitz, 2018). Graf (2018, appendix 10.1.1) has the same impression and states that: “ […] therefore now the brands, the brand owners start to consolidate to first of all make sure that the market will keep clean in terms of gray market.” Naas (2018, appendix 10.1.3) agrees that online business increasingly puts smaller players under pressure and explains that: “[…] they cannot compete with the bigger stores, and they cannot compete with online.” Mäkinen (2018, appendix 10.1.6) therefore warns that: “These days I think you cannot be too blind for competition. It can come from anywhere, honestly.” Galli (2018) totally agrees with Mäkinen (2018) as he experiences a strong competition from e-commerce players- especially in the lower price range for watches. Galli (2018, appendix 10.1.5) additionally states that the gray market is “[…] leading to consolidation as it represents a big competition for authorized dealers and mono-brand stores.”

Mäkinen (2018) agrees that digitalization is one of the triggers of industry-wide changes in the luxury watch retail sector. This is mainly because the behavior of customers has changed and players need to adapt. Szegedi (2018, appendix 10.1.11) emphasizes that: “The retail models evolved over time and nowadays with new distribution models luxury watch retailers need to adapt constantly, which leads to consolidation.” Weber (2018, appendix 10.1.7) backs up the opinion of Mäkinen (2018) and Szegedi (2018) and states: “Therefore it is a trend to build conglomerates to focus on delivering strong online platforms.” Stepanov (2018, appendix 10.1.8), generalizes the opinions of Mäkinen (2018) and Weber (2018) and argues that: “When companies in the luxury watch retail industry do M&A’s they do this often also to buy intellectual property. The knowledge that exists for example by online platforms to handle their CPO business.”

Weber (2018) sees similar points to those of the other interviewed industry experts with regard to new online trends and emphasizes that there are currently two major trends impacting the luxury watch retail industry, which ultimately lead to consolidation as industry players themselves wish to gain access to them. These two trends are e-commerce and CPO business. According to Weber (2018), Bucherer gained access to both of these through M&A’s with Watch Gallery and with Tourneau. Koltrowitz (2018, appendix 10.1.4) supports the idea of Weber and comments: “Bucherer has always been one of the big players, so they can make a move and acquire a business in the US that is very strong in e-commerce and also in the CPO business.” Weber (2018) further explains the importance of the CPO market on the recent case of Richemont acquiring Watchfinder, the largest CPO player in the UK doing big business with their e-commerce focused on pre-owned watches. Weber (2018, appendix 10.1.7) demonstrates that: “if you look at the large groups, Richemont is now the first one that invests into that business, it clearly shows that it will be one of the emerging, growing markets of watch retailing.” Szegedi (2018) confirms that the business with pre-owned watches seems to be the next big thing. Naas (2018, appendix 10.1.3) evaluates such acquisitions of groups like Richemont, stating: “I think they are looking to purchase these types of sites, so that they have a place to release their goods that are not selling […].”

Graf (2018) summarizes and points out that there are various new pure players emerging with a highly digital mindset who are very quickly to adapt and deliver new business models. Graf (2018, appendix 10.1.1) remarks that: “[…] we have a totally new setup of competition. In the past the competition was mainly between the traditional retailers, today the competition is more between the brands, the retailers, and the pure players.” Szegedi (2018, appendix 10.1.11) therefore declares that: “The retail models are changing very quickly and very rapidly. Luxury watch retailers need to be one step ahead and in line with technology.”

6.1.4. Expanding Reach – Global Growth/Presence

Consolidation in the luxury watch retail industry can also be driven by pressure from the customer side. This is mainly in the sense of following the international customer and wishing to win a share of the global market. Bucherer therefore sees this as a natural move to extend their business geographically and to take the step into retailing in the USA so as to foster their presence (Naas, 2018). Naas (2018 appendix 10.1.3) demonstrates that Bucherer is: " […] not a very well-known brand in America. They are actually, probably little known at all except for people who travel the world, and have seen Bucherer stores in Europe." Bashutkina (2018) supports this view and emphasizes the importance of a presence on diverse markets in order to follow the customer, which makes brands and retailers achieve customer contact and international visibility. Weber (2018) undermines the need for a global presence and emphasizes the fact that retailers often have to follow large watch brands in order to be present in different markets. Stepanov (2018) supports this view and adds that it is crucial for luxury watch retailers to be close to the customer.

According to Graf (2018, appendix 10.1.1) the consolidation is: " […] an opportunity to grow business and market share," which goes in hand with Bucherer's "size matters" strategy and international growth ambitions. Galli (2018) also sees a reason for increased M&A's in the luxury watch industry in the growth strategy of the involved players. Mäkinen (2018, appendix 10.1.6) supports this idea and says: "[…] consolidation is of course one of the realistic options when you look at it purely from numbers. So you buy new channels. You buy new client groups or target groups. You buy new markets."

6.2. Customer Behavior/Trends

6.2.1. Increasing Customer Knowledge

Due to digitalization and the information available on the internet, watch customers are becoming increasingly educated. Consumers inform themselves on digital platforms, a totally different situation to the past with respect to luxury watch consumers. The modern luxury watch consumer is therefore highly educated and informed about watches in order to be ready to purchase what is right for him or her (Graf, 2018). Graf (2018, appendix 10.1.1) demonstrates: “[…] we can see today that like 80% of all consumers who enter the stores, they know exactly what they would like to purchase.” Graf (2018, appendix 10.1.1) adds: “I think the future is more about self-exploring. More independent.”

Stepanov (2018, appendix 10.1.8) supports this view and adds: “Technology is transforming the way how people make decisions. People research information and educate themselves online and also check the availability of luxury watches online.” Galli (2018, appendix 10.1.5) shares the same view as Stepanov (2018), namely that customers are very educated about watches and says: “People do a lot of research before going to the store.” Weber (2018, appendix 10.1.7) endorses this opinion and states that: “They come in the store, they probably know more than the shop, the retailer itself.”

Luxury watch customers, however, do not just inform themselves about specifications of watches, such as colors and dial sizes, or technical aspects of the movement. Today, customers are very well aware of how much watches actually cost (Naas, 2018). Naas (2018 appendix 10.1.3) remarks: “[…] I think customers have become smarter and more savvy at price shopping.” Iossa (2018, appendix 10.1.9) has exactly the same opinion as Naas (2018) and mentions: “I think customers are getting smart and customers are no longer going to pay these crazy prices. The Internet changes everything.”

6.2.2. Need for Information

The increasing customer knowledge goes hand in hand with the increased need for information that luxury watch consumers have in modern times (Koltrowitz, 2018). Graf (2018, appendix 10.1.1) states: “I do believe that the whole service ritual will be much more assisted in terms of digital experience and digital assistance in the future.” Stepanov (2018, appendix 10.1.8) agrees with this point and states: “[…] customers want to have transparency […]. People will go more and more online to research about watches and to find out what they actually like.” Koltrowitz (2018, appendix 10.1.4) totally agrees with Graf (2018) and Stepanov (2018) and mentions: “They expect better information and I think they have less tolerance than in the past.” Stierlin (2018, appendix 10.1.10) confirms that: “The Internet as an information and preparation tool for customers is very important and has changed a lot during the last couple of years.”

Mäkinen (2018, appendix 10.1.6) strongly supports the need for information of modern luxury watch consumers and suggests that: “People want to know where the materials are coming from, who is making them. Especially in the richer segment or in the ultra-high net-worth individuals, it's all about purpose.” The story of and information about watches are very important for watch customers. The reason for this is that customers expect to know everything about a product or brand and how they can identify themselves with a certain brand or product in order to be part of this story themselves (Mäkinen, 2018).

6.2.3. Acceptance of Online Shopping

The majority of interviewees also pointed out that young watch customers have a high acceptance of online shopping (Naas, 2018). Naas (2018, appendix 10.1.3) explains: “In the end, many of today's consumers especially millennials are very comfortable buying online, and they do not have a problem.” Weber (2018) supports this view as he mainly sees younger generations as being very willing to carry out online purchases. Iossa (2018, appendix 10.1.9) totally agrees with Weber (2018) and points out: “Young guys, they do not buy things in a store anymore. They buy online.”

6.2.4. Redefinition of Luxury

The relevance or, to put it differently, the redefinition of luxury is another very crucial aspect that needs to be considered when looking at the consumer behavior in luxury watch retailing. The definition of luxury, and thus the importance, priority and value of luxury watches too, is currently being reevaluated by customers (Mäkinen, 2018). According to Mäkinen (2018, appendix 10.1.6), the perception of luxury is becoming more democratized as she emphasizes that: “It is shifting more towards quality, the uniqueness, sophistication, what is rare, excellent reputation, rather than this kind of privileged and pretentious luxury.” Furthermore, access to luxury has been democratized, meaning that many more people have access to it without necessarily wanting to buy the most expensive pieces (Mäkinen, 2018).

> Weber (2018, appendix 10.1.7) backs up the statement of Mäkinen (2018) and comments:
>
> “In the past we could always see that the average price of a Swiss mechanical watch moved up. And now in the last two, three years, that started to be more flat. So it looks like that people are not willing anymore always buy very expensive watches.”

Iossa (2018) supports the ideas of Mäkinen (2018) and Weber (2018) that the prices of watches are often too high. Iossa (2018, appendix 10.1.9) points out that: “Customers now expect a discount, almost guaranteed, because the watch brands price themselves out of the market.” Additionally, Iossa (2018, appendix 10.1.9) remarks that: “not everybody believes in luxury anymore. I think luxury retailers need to reorient their marketing to make luxury cool again. Because right now it is not cool. It is just expensive and it does not serve a purpose.” Iossa (2018) suggests that brands and retailers need to focus their entire strategy on online activities and become more open-minded in terms of stiffness and pretentiousness. Many younger people are intimidated and feel embarrassed walking into luxury watch stores because they are too formal (Iossa, 2018).

6.3. Relevance of Physical Stores Compared to Online Stores

6.3.1. Omni-Channel Approach

Many customers use different channels throughout the journey of purchasing a luxury watch. Customers have various possibilities to browse for products, such as online or in large multi-brand retailers, or even specific brand boutiques. Consequently, the final purchase can also be made in different ways. Either people purchase their watch in a physical store where they tried it on, or they go online to purchase it with a click (Mäkinen, 2018). Mäkinen (2018, appendix 10.1.6) states: “I do think that in the future we will have hybrid models, but those hybrid models need to be strategically defined and complementing one another in a strategic way.” Stepanov (2018, appendix 10.1.8) also agrees strongly with the fact that different retail models are needed and says: “There are not just physical stores. An omni-channel approach is most desirable. Customers want to experience different alternatives and also have the watches on their wrist to see for example how heavy it is and how it feels to them.” Graf (2018, appendix 10.1.1) totally agrees with Mäkinen (2018) and Stepanov (2018) as he states: “I think the future will be about creating a seamless and smooth O to O, online to offline experience.” Bashutkina (2018, appendix 10.1.2) endorses Graf (2018) while declaring: “I believe that we are almost obliged to find a way to combine online and offline sales.”

Szegedi (2018, appendix 10.1.11) addresses some interesting points with regard to the relevance of physical watch stores: “I believe that the brick–and-mortar store is still relevant whereas it does not mean that customers necessarily buy there. Customers might buy online or travel and purchase the watch in another store.”

6.3.2. Atmosphere and Brand Identity

All interviewed industry experts agree that physical, brick-and-mortar luxury watch retail stores will not completely disappear, even though e-commerce is growing strongly. A physical store is a great opportunity for a brand or a retailer to deliver an atmosphere and to showcase the brand identity (Bashutkina, 2018). Bashutkina (2018, appendix 10.1.2) further specifies: “Today we are talking a lot about lifestyle and it is not only about selling watches but it is about being the place to be, the contacts.” Koltrowitz (2018, appendix 10.1.4) shares this opinion and comments: “It is not just the product itself. They sell you a story, they sell you a myth, a legend. They really want to create a brand identity that people will identify with.”

> Szegedi (2018, appendix 10.1.11) additionally comments that
>
> “In such a store, the client feels and experiences the ambiance and spirit of the respective brand. […] Through physical stores, retailers and brands have the possibility to tell a story. […] The brand only exists if customers know and understand what the brand is standing for.”

6.3.3. Purchase Ritual Due to High Value

Various industry experts pointed out that physical stores are also relevant for customers due to the high value of the goods that are purchased at luxury watch retailers. Purchasing a nice luxury watch is a big investment and cannot be compared to quickly purchasing a pair of Jeans (Graf, 2018).

> Graf (2018, appendix 10.1.1) emphasizes that customers “[…] prepare themselves for weeks or months or even years before they buy a watch. So usually if you take so much time to prepare such a purchase you also take time to celebrate the final purchase act. The celebration is often preferred in the store.”

Bashutkina (2018) furthermore expresses the view that clients want to experience emotions when purchasing a watch in physical stores. Galli supports this idea and states that: "They want to try on the watch in a center place where they work close by. They want to feel it, it is a part of the whole experience." Weber (2018) comments that the main e-commerce business with regard to luxury watches takes place in a price range between CHF 2,000 up to a maximum of CHF 10,000. According to Weber (2018), the majority of customers would never purchase a watch online that is worth more than CHF 10,000. If customers purchase watches worth more than CHF 10,000, the majority go to a physical store. Weber (2018, appendix 10.1.7) argues that: "[…] if you buy a watch, you always have to do some adjustments. If you want to change your bracelet or if you want to go for service, you need somebody, and therefore you need the watch retailers." Stierlin (2018, appendix 10.1.10) strongly supports the opinion that there is a certain pain barrier with regard to the amount people spend online on watches, as he explains: "[…] from a certain amount upwards, I believe that it will always be essential to most customers to have the opportunity to touch and feel."

Furthermore, most interviewees mention the aspects of trust and purchase security when shopping for a luxury watch in a physical store. Customers want to be sure they are getting the right product and that this is not a fake or damaged. They therefore like to speak to a store representative and try the watch on (Graf, 2018). Graf (2018, appendix 10.1.1) argues: "It is also about trust. Spending a lot of money on e-commerce is today still a kind of trust issue." Naas (2018), Bashutkina (2018) as well as Koltrowitz (2018) all agree with Graf (2018) and mention that the relationship with the buyer is just as important as the customer's knowledge that they are getting authentic and genuine timepieces when they spend large amounts of money.

> Naas (2018, appendix 10.1.3) explains:
>
> "They want to have the personal interaction with the shop or the retailer and they want to know in the end if something goes wrong with their product that there is a person that they could just walk into, and complain to. […] That has always been a prevailing advantage of a brick and mortar retail over online.

6.4. Digital Space (E-commerce and Social Media)

6.4.1. E-commerce

All of the 11 interviewed industry experts mention that digital spaces such as e-commerce and Instagram are crucial and good for getting as close to the customer as possible in the luxury watch retail industry. According to Stepanov (2018, appendix 10.1.8) “today, only approximately 1% of all new luxury watches are sold via official online channels.” This does not include the gray market. Graf (2018, appendix 10.1.1) therefore sees large a growth potential and states: ”E-commerce is becoming important because it is the largest showcase window that we can offer to our customers. […] However we do believe that the sales will remain on a pretty low level within the next three to four, five years.” Szegedi (2018, appendix 10.1.11) supports the opinion of Graf (2018) and says: “The most recent focus clearly lies on e-commerce these days, even though e-commerce is still small in the luxury industry. “ Stepanov (2018, appendix 10.1.8) shares the same view as Graf (2018) and Szegedi (2018) and says: “online is very important in an omni-channel setting. […] The potential of digital solutions and e-commerce is large in this industry […].”

In the USA, e-commerce in luxury watch retailing is more vital than in Switzerland (Galli, 2018). Galli (2018, appendix 10.1.5) demonstrates this by quoting the example that geographical distances are much greater in the USA and says: “they live too far away from the closest store, which is a lot supporting the online business in the United States.” Iossa (2018) agrees with Galli (2018) that e-commerce can be sufficient in more remote cities and that it is not absolutely necessary to have physical store everywhere.

6.4.2. Social Media

Apart from e-commerce, social media have been a widely discussed topic during the 11 interviews with experts from the luxury watch industry. Graf (2018) sees the importance and potential of social media as very high with regard to the younger customer groups (Graf, 2018). Graf (2018, appendix 10.1.1) therefore announces that: "[…] social media definitely will play an important role in the future, also in the high end luxury business." According to Graf (2018), social media tools such as Instagram are an outstanding means to showcase products, to enter into a direct dialogue with customers and to create desirability. Graf (2018, appendix 10.1.1) talks about the relevance of social media for Bucherer and states: "[…] to create a brand identity and a strong brand DNA as a multi brand retailer, it is something, which is like on top of the pyramid but it is also quite a long and difficult way to get there" Bashutkina (2018) totally agrees with Graf (2018) and also mentions the relevance of showcasing the brand while connecting and discussing with clients. Bashutkina (2018), however, clearly emphasized that Instagram should not be the only strategy. Nevertheless, she sees it as a crucial part that needs to be integrated in modern sales and advertising strategies for luxury watch brands and retailers. Naas (2018) supports the ideas of Graf (2018) and Bashutkina (2018) while stating that customers admire brands and retailers who have a great online presence that tells stories and transmits emotions. Naas (2018, appendix 10.1.3) announces: "The consumers want that. They want to know that you are reputable. If you are active on social media, if you are a part of their lifestyle."

Galli (2018, appendix 10.1.5) confirmed what the other interviewees said while talking about his own example of using Instagram for his watch store: "We had quite good interactions with some brands already. And it is good to have it, it is also good to show watches."

6.5. Advantages and Disadvantages of Large Luxury Watch Retailers

6.5.1. Buying Power and Importance for Watch Manufacturers

When talking about the advantages and disadvantages of large consolidated players in the luxury watch retail industry, the buying power of larger groups has often been mentioned by interviewees as being a big advantage. Weber (2018, appendix 10.1.7) declares that: "One main advantage of large consolidated players in the luxury watch retail industry is surely their purchasing power. So for the brands it is very important to have a Bucherer as a customer." Many of the main luxury watch manufacturing brands like to focus on third-party, multi-brand retailers who have a strong purchasing power (Weber, 2018). Graf (2018, appendix 10.1.1) confirms this point for Bucherer as he says: "For us, we do believe that it is important to be relevant in terms of buying power […]." Bashutkina (2018) agrees with Graf (2018) and mentions that one advantage of large watch retailing groups is that they have the ability to make the rules when negotiating with the brands. Stepanov (2018) supports this view as he points out the bargaining power of large retailers over brands. Iossa (2018) backs up the opinion of Bashutkina (2018) and Stepanov (2018) and says that big stores have the power to say no and to negotiate better prices.

6.5.2. Opportunity to Invest

Another advantage of larger players is the fact that they have the opportunity to invest in expansions or new technology, as demonstrated by Bucherer's acquisition of Tourneau. Graf (2018, appendix 10.1.1) states that is great that large players have the possibility to "[…] offer lean processes and structures and also to be able to invest into online experiences. In e-commerce and online experiences." Stepanov (2018) also mentions that large groups operating in luxury watch retailing have the opportunity to invest in innovation.

6.5.3. Assortment

The assortment of watches that a retailer carries is said to be very important, according to various interviewees. Graf (2018, appendix 10.1.1) explains: "[…] we have this very traditional 80/20 rule. You do like 80% of the business usually with 20% of the brands." This clearly shows that the assortment of watches carried by retailers directly influences their sales. Weber (2018, appendix 10.1.7) adds an interesting point with regard to the assortment and inventory, stating: "If you are a large player, you can ship around your inventories from Zurich to Geneva, from Zurich to London, where you have a demand." Szegedi (2018, appendix 10.1.11) remarks that: "Larger retailers can bring more quality and have a better selection. For the small one-man store it will be difficult to follow these days."

6.5.4. Geographical Reach

The possibility of building a geographically diversified reach is mentioned by various interviewees as being a big advantage for large, luxury watch retailers. Mäkinen (2018, appendix 10.1.6) states that: "Large luxury watch retailers have access to main markets throughout many different target groups." Weber (2018) supports this point and sees the risk reduction as one of the advantages of geographical diversification. Graf (2018, appendix 10.1.1) says that: "Today it is a lot also about give and take. So you need to be able to also operate stores, which might be not profitable in first line and then corporate the loss with stores that are high profit work." Bashutkina (2018) and Stepanov (2018) agree with Graf (2018) and see geographical diversification as a big advantage.

6.5.5. Brand Equity

Brand equity is seen to be very important and something that large retailers are able to achieve thanks to their global renown. Graf (2018, appendix 10.1.1) sees it as crucial "to keep the brand long term on high value, on high quality." Mäkinen (2018) supports the view of Graf (2018) and endorses large groups for having a long-standing brand with a good reputation.

6.5.6. Slower Processes

One downside of a large and consolidated luxury watch retail group can be that it is possibly less agile and reactive that smaller players. Large groups often have set processes that are not very easy to adapt (Mäkinen, 2018). Most of the other interviewees agree on this point.

6.6. Advantages and Disadvantages of Small Luxury Watch Retailers

6.6.1. Close Relationships with Established Customer Base

Koltrowitz (2018, appendix 10.1.4) explains that: “It can be an advantage if a small local luxury watch retailer has a strong established customer base that is returning frequently. But I don't know if that is enough to survive these days.” Galli (2018, appendix 10.1.5) confirms this view when he talks about his own store: “We do have a very tight contact with our clients. We also work a lot through recommendations, working with different banks, insurances, and so on.”

Weber (2018) agrees with Galli (2018) and sees the advantage of smaller and local retailers in their local know-how and the loyal customer base. Stepanov (2018, appendix 10.1.8) shares the same idea as Weber (2018) and Galli (2018) when he says: “[…] they also have the local personality factor […].” Stierlin (2018) emphasizes: “In our case it is definitely an advantage that the customer always has the pleasure to deal with the owner. The customer knows that the last word is definitely spoken with us, the owners and this involves a lot of trust.” Having a personal relationship with customers and making them want to come back is crucial (Stierlin, 2018). Naas (2018, appendix 10.1.3) also talks about small and independent luxury watch retailers in the USA and mentions that they “offer amazing quality and customer service.”

6.6.2. Agility and Innovation

Another advantage of small and independent luxury watch retailers that has been mentioned several times by various interviewees is that they can be more agile and innovative than large players. Koltrowitz (2018, appendix 10.1.4) states that: “I think one advantage for a smaller retail business that is not part of a big group is that it can be more agile and reactive.” Mäkinen (2018) confirms what Koltrowitz (2018) says and sees smaller luxury watch retailers as having the ability to provide very innovative solutions. Galli (2018, appendix 10.1.5) comments on this topic with regard to his own store and states: “We always try to find a quick solution for our client, which is on the other hand not as easy if you are in a big group or in a mono-brand store belonging to a big group.”

6.6.3. Low Power over Watch Brands

On the other hand, a big downside and one of the main reasons why small players increasingly struggle to survive is the fact that they simply have less power over watch brands than big retailers do. Graf (2018, appendix 10.1.1) comments that: “It is, for a smaller luxury watch retailer today more and more difficult to politically coordinate between different groups and to fulfill all the different requests that the brand owners and the groups might have.” Negotiating power towards the strong watchmaking brands who dominate the market as described in sub-chapter 6.1.2 on page 52 is seen as crucial and can represent a big issue for smaller retailers. Graf (2018, appendix 10.1.1) warns that:” […] you need to deliver strong arguments to be the one chosen by the brand.” Stierlin (2018) agrees with Graf (2018) that large retailers can exercise more power over watchmaking brands. Bashutkina (2018) and Weber (2018) agree that small luxury watch retailers have a problem maintaining the cooperation with the brands.

Iossa (2018, appendix 10.1.9) believes that the power of luxury watch brands over small players is immense as he states:

> “As a small store you live in fear of the brands. You do everything possible to keep them happy and to not lose your account. And then you lose them anyway. Because ultimately they are going to close you.”

6.6.4. Restricted Investment Opportunities for Digital Strategies

Another disadvantage, or put differently, another challenge for small retailers of luxury watches is that they have limited investment possibilities to boost their digital strategy, as has been expressed by several interview partners. Smaller companies mostly have fewer resources than larger players to invest in new technologies or expansions. Graf (2018, appendix 10.1.1) states: “I do believe that size matters a lot in terms of e-commerce because to gain something, a lot of investments are needed. Also a lot of resources are needed.” Naas (2018, appendix 10.1.3) is of a similar opinion when it comes to smaller retailers as they “[…] cannot compete with big e-commerce players, small ones are mainly selling their watches on a brick-and-mortar store basis.” Weber (2018, appendix 10.1.7) strongly agrees that the investments needed are too large for small retailers and states that: “I do not think a small luxury watch retailer can be successful in e-commerce.” Stepanov (2018, appendix 10.1.8) also points out that: “There is such a raise in speed in the recent years when it comes to e-commerce and big brands have been investing millions. Small players lack in experience and in resources to do so.” Koltrowitz (2018, appendix 10.1.4) supports this view and mentions: “It is all just harder for those smaller ones to be present online, and to be credible. All these solutions that need to be found for e-commerce, for shipment, for warranty, for service are simply much easier for bigger luxury watch retailers.”

Stierlin (2018, appendix 10.1.10) shares this opinion and confirms:

> “[…] for us, as a small player, considering the way we operate at the moment, e-commerce is definitely not a big thing right now. The reason for that is that we do not have a budget to be visible compared to the huge competition there is.”

Mäkinen (2018, appendix 10.1.6), on the other hand, opposes the view of other interview partners and warns that: “Everybody can set up an online shop if they want to. That is the beauty of digitalization, it is like an open space.” Mäkinen (2018, appendix 10.1.6) goes on to say that: “of course, they do not necessarily have the same resources as the bigger ones […]. But if you are smart, I think, these days you can do that relatively easy even with scarce resources.”

Iossa (2018, appendix 10.1.9) supports the view of Mäkinen (2018) and points out:

> "I am eleven months in business. […] In the big picture of the watch industry, I am nobody. But if I can sell $3,000,000 in eleven months, anybody can. My website costs me $900 to make. My pictures are taken with an iPhone. Can you survive online? Yeah, of course you can. It is not hard."

6.7. Business Continuity/Success

6.7.1. Reach/Visibility or Niche

Having a good reach and visibility is seen as crucial for success on the luxury watch retailing market by most interviewees. Stepanov (2018, appendix 10.1.8) claims that: "Watch retailers should therefore have a good reach and a strong branding with a close proximity to the clients." Iossa (2018, appendix 10.1.9) believes that: "the number one thing you need is visibility, be it online or physical. You need people to see your store." Weber (2018) also adds that third-party, multi-brand retailers can increase their reach alongside their own multi-brand stores by operating some mono-brand stores for watch brands on a franchise basis. Weber (2018) quotes the example of the Rolex store in Zurich that is run by Bucherer and the Patek Philippe store of Beyer.

On the other hand, if a small luxury watch retailer is unable to achieve great visibility and an international reach, Koltrowitz (2018) and Bashutkina (2018) suggest that it has to differentiate strongly. Koltrowitz (2018, appendix 10.1.4) believes that: "Either you find the niche, something where you are really good at or otherwise you are just one among others trying to survive." Bashutkina adds: "[…] small retailers have to be very different and very specialized in the way of dealing with the customers or with the image of the boutique […]."

6.7.2. Digital Skills

All 11 interview partners agree that digital skills are crucial for the luxury watch retail industry. Graf (2018, appendix 10.1.1) believes that: "The future is all about digital skills and digitalization. Whether we speak about e-commerce or your own channel the consumer experience is assisted or driven by digital technology; that is most important." When talking about luxury watch retailers and their focus toward digitalization, Iossa (2018, appendix 10.1.9) even insists: "They need to go heavily on line, heavily, reorient their entire strategy to on-line." Naas (2018) agrees that nowadays it is crucial to offer a strong web page, possibly even with an online shop. Stepanov (2018, appendix 10.1.8) is of the same opinion as Naas (2018) and expresses: "Online is now the new touchpoint in decision making and people expect good and nicely presented web pages as well as solid content with a lot of good information." Stierlin (2018, appendix 10.1.10) also agrees that digitalization, especially e-commerce is "[…] a great tool for the brands to build a desire, maybe even a need. And secondly, it is also a very good tool for companies to get to know their customers." Galli (2018, appendix 10.1.5) demonstrates with his watch store that digital skills are crucial in modern times, while announcing: "To have a good homepage does not mean only e-commerce. That is the reason why we are working on a new homepage now."

Mäkinen (2018) also agrees about the importance of digital skills in order to be successful as a luxury watch retailer in modern times. But apart from e-commerce and web pages, as mentioned by the majority of the other interview partners, Mäkinen (2018, appendix 10.1.6) also believes that the client data that accompanies digitalization is crucial and argues that: "The better you know your customers, the better you are able to provide them the service that they need, and the better you are able to adapt your strategy according to the customer needs." Weber (2018) and Stepanov (2018) agree on the same points as Mäkinen (2018) and mention that a CRM, customer relationship management tool, is the key to knowing your clients and to being successful in future.

6.7.3. Reputation and Brand Equity

Several interviewees mention that a great reputation and a strong brand equity contribute a lot to the success of modern luxury watch retailers and brands. Graf (2018, appendix 10.1.1) emphasizes the importance of "[…] to keep the brand long term on high value, on high quality." Naas (2018) agrees with Graf (2018) and mentions that successful luxury watch retailers foster their presence and reputation on different channels such as social media. (Naas 2018, appendix 10.1.3) points out: "[…] customers want service, and customers want good price, and customers want to know that they are going to some place that is reputable, and that is in tune with the times. Mäkinen (2018) also emphasizes the importance of and need for strong brand strategy skills for luxury watch retailers. Weber (2018, appendix 10.1.7) sees reputation as one of the key factors that leads to success in luxury watch retailing, while at the same time stating that: "[…] the old established players clearly have an advantage on their side."

6.7.4. Delivering Experiences and Listening to Customers

Delivering experiences and listening to the needs and desires of customer is another key factor that various interview partners mention when talking about the business success of luxury watch retailers. Graf (2018, appendix 10.1.1) declares: "we need to move from being very transaction driven to become more experience driven." Graf (2018, appendix 10.1.1) further points out that in his opinion: "trust and bond and especially desirability is most important today." It is crucial to listen to customers and to understand how they see luxury watches and how they identify with luxury watch brands as the perception of luxury constantly shifts (Graf, 2018). Koltrowitz (2018, appendix 10.1.4) believes it is crucial to stay interesting and attractive for younger generations and "making them want to buy a luxury watch instead of using the substitute of smartphone or smartwatch". Bashutkina agrees with (Koltrowitz, 2018) and suggests: "It is also important to be in contact with the clients and to stay in contact and to keep this clientele coming to the boutique."

Bashutkina (2018, appendix 10.1.2) therefore emphasizes the priority of experience and the importance of personalization in luxury watch retailing when she comments: “The same watch should not be sold to different customers in the same manner because it should be different. It should be adapted. That is what we are looking for. Mäkinen (2018) agrees with Bashutkina (2018) and points out that personalization and individualization is crucial, especially as she suggests that the power has gradually shifted towards the customer. Mäkinen (2018, appendix 10.1.6) announces: “That means luxury watch retailers need to redefine how they best serve their customers who have the power.” Szegedi (2018, appendix 10.1.11) shares the same opinion as Bashutkina (2018) and Mäkinen (2018) and states: “The consumer clearly defines what he or she wants and also when and in which manner. Now the watchmaking brands and retailers need to much more listen to the customers what they want.”

Stepanov (2018, appendix 10.1.8) agrees on the same points as Mäkinen with regard to customer service and argues: “Nowadays the customer service goes more towards experiences. Watch retailers have the opportunity to co-sell local experiences with valuable time pieces.”

Bashutkina (2018, appendix 10.1.2) goes even further and says:

> “Experience is one of the only way luxury watch retailers can differentiate themselves from competitors. […] Luxury watch boutiques are the center of customer experience and should be the place of events, the place of pleasure and the place of differentiation.”

Weber (2018, appendix 10.1.7) shares the opinion of most other interviewees and emphasizes: “If you want to treat your customers then you have to organize events, bring them experiences, and that is usually done together with the brands. […] Working together with the clients plays an important role.” Stepanov (2018, appendix 10.1.8) backs up this view and comments: “[…] Events are very important as the customers look for experiences.

6.7.5. Availability and Assortment

In order to be successful as a luxury watch retailer, what are needed are strong brand partnerships in order to ensure a good availability and a strong assortment of brands that are wanted by customers (Graf, 2018). Graf (2018, appendix 10.1.1) warns: “People who do want to purchase something, they do want to purchase now, so if you cannot supply, if you cannot make sure that the products are available, you might have an issue.”

Graf (2018) goes on to mention the importance of working together with strong luxury watch brands in order to have an assortment that is appealing to customers. Graf (2018, appendix 10.1.1) points out: “I would say either you have Rolex, Patek, Omega or Cartier. If you are not able to work at least with one or two of those brands, you probably have an issue in the future.” Weber (2018, appendix 10.1.7) is of a similar opinion and states that: “The most important point is to get the right brands, which means get Rolex, probably Omega, you can have IWC and on the female, Cartier, Chopard. […] Then you are on the safe side.”

Naas (2018), on the other hand, denies the necessity of having the big-name brands if you want to be a successful luxury watch retailer. In the USA, there are several small and independent stores such as Cellini in New York City that, according to Naas (2018, appendix 10.1.3) “take a lot of pride in brands that cannot be found everywhere.” Naas goes on to explain that many big-name brands exercise a lot of power over their retailers and make them carry large amounts of stock. Naas (2018, appendix 10.1.3) thus states that“[…] a lot of these independent retailers do not have those big name brands because they do not want their hands to be tied.

Naas (2018, appendix 10.1.3) goes on to say that:

> “If you have to make the decision either you are going to take in a big brand, and survive that way or you are going to not take in the big brands, and offer a broader scope and breath, and survive that way.”

6.7.6. Outstanding Customer Service and Right Personnel

Finally, delivering a great customer service with the right people is another aspect most interviewees pointed out in the course of the interview. Naas (2018, appendix 10.1.3) specifies: “What they need to do today is they need to offer better customer service, they need to go above and beyond of just, Hi, how are you?” Iossa (2018) supports this view as he regards in-store service as the most crucial success factor. Weber (2018, appendix 10.1.7) totally agrees with Iossa (2018) and states: “I think service will be even more important in the future.”

Stierlin (2018, appendix 10.1.10) emphasizes that: “Customers expect to be welcomed and catered and that highly knowledgeable sales consultants talk to them. Employees in a luxury watch store need to be highly informed, trained and approachable. “They need to know the background of products and their stories behind” Stierlin (2018, appendix 10.1.10). Since luxury watch customers are highly knowledgeable and educated thanks to online sources, Galli (2018) also believes that employees of luxury watch retailers need to be highly educated themselves and constantly up to date.

Galli (2018, appendix 10.1.5) further argues that:

> “The internet gives a lot of information to the clients and it will always be like this. It is also more difficult for the brands because you cannot ask an astronomical price for a watch with a movement inside worth 40 francs because people know what is inside.”

Weber (2018, appendix 10.1.7) totally supports the views of Galli (2018) and states that: “Therefore you need people who really understand the business, who really understand watches. You probably need higher qualifications for your sales staff.” Graf (2018) shares the same opinion and states: “[…] I think it is also important to have people who have a very clear mindset. A future oriented mindset. Because today’s industry is changing so fast. It is not like in the past.”

7. Discussion

In this chapter, the information from the literature review and from the findings from primary research through interviews with industry experts is melted together and boiled down to the essentials. In order to round up this thesis, the three research questions that were formulated in sub-chapter 3.3 (Research Objective and Research Questions) are mentioned. These research questions are answered directly in this chapter:

1. What are the main drivers of industry consolidation in the luxury watch retail business?

2. What are the advantages and disadvantages of large, consolidated and international players in the luxury watch retail industry compared to small niche players?

3. What are the main, critical success factors in the luxury watch retail industry?

This chapter is therefore simply structured into three main parts in order to directly answer the research questions of this study with the help of consolidated information originating from the literature review (Chapter 4, page 16) and from the findings from interviews (Chapter 6, page 50).

7.1. Drivers of Industry Consolidation in the Luxury Watch Retail Business

The goal of the first research question is to unveil the megatrends leading to consolidation in the luxury watch retail industry. Existing literature and information gathered through expert interview have shown that there are four main points to consider; these are summarized in the sub-chapters 7.1.1 to 7.1.4

7.1.1. Complexity of Luxury Watch Retail Industry

Firstly, the complexity of various distribution systems in the oversaturated luxury watch retail industry has been shown to be a major contributor to consolidation. Porter's Five Forces model in the literature review has revealed that different types of retailers compete against each other, which increases the overall competitive situation and decreases the chances of survival for smaller players. There are two main types of luxury watch retail channels: official and unauthorized. Official channels include wholesale retailers (third-party, multi-brand stores), mono-brand stores of the watchmaking brands and online stores (of the brands or third-party retailers). The unauthorized retail side mainly includes the gray market. This complex setting puts retailers under increasing pressure, especially as there are new entrants emerging who focus strongly on e-commerce and sell watches below regular prices. Various literature sources as well as the findings from interviews have shown that the USA has a bigger number of new digital entrants than Switzerland.

The interviews with industry experts further clarified and emphasized the growing pressure from online e-commerce competition, such as CPO platforms or gray market players, on any type of luxury watch retailer with a physical store. The pressure and competition originating from the gray market is immense, and according to several interview partners, brands also want to increasingly work against it in order to keep the market clean. This is one reason why further consolidation can be expected. If a CPO platform is owned by a watchmaking brand, however, it can be used as their own "authorized grey market" to get rid of slow-selling watches, which creates a big danger for authorized dealers. Literature and interview partners both uncovered this danger, but no interviewee mentioned any specific brand engaged in such practices.

7.1.2. Power and Pressure of Watchmaking Brands

The findings from interviews resonate with and complement the information gained in the literature review because both state that watchmaking brands exercise huge power over third-party retailers while trying to keep everything under their control. This puts luxury watch retailers under pressure to grow in order to have a stronger standpoint against the brands. The literature review revealed that watchmaking brands were increasingly focusing on operating their own mono-brand stores over the last decade in order to keep prices under control and to obtain customer data. The findings from interviews, however, show that brands are not expected to open any new mono-brand stores due to the fact that they simply cost too much with regard to rent and inventory.

Several interviewees also mentioned some interesting points with respect to the pressure brands exercise over retailers. On the one hand, some watch manufacturers limit how many pieces they produce, making it hard for small players to get their hands on popular watches. On the other hand, watch brands pressurize retailers to re-order new watches, so that smaller retailers live in fear of watchmaking brands as they could simply terminate the business contract if sales do not go as expected.

7.1.3. Desire to Acquire Digital Skills and Capabilities

The literature review has clearly shown that investing in digital platforms is currently one of the top priorities in the luxury watch industry. This includes e-commerce, CPO platforms, social media and overall digital visibility. All of the interviewed industry experts also emphasized that players such as Bucherer or Richemont carried out their latest acquisition in order to take a further step into the digital world. Acquiring players that are already strong in e-commerce and CPO is a quick way to get these capabilities in-house. Interviewees particularly pointed out that changing customer expectations mean that retailers need to reorient their business towards digitalization. The average modern and future watch customer browses for information online and is less willing to spend huge amounts of money on a luxury watch. Therefore, CPO business models and e-commerce, as the literature review and findings from interviews suggest, are currently one of the biggest reasons for more M&A's in the luxury watch industry.

7.1.4. Growth Strategy

The last driver of consolidation in the luxury watch industry that emerged from the literature review and from the findings from interviews is the growth ambition of players that are involved in M&A’s. The literature review with the TCM model of Bergamin, Braun and Glaus clearly showed that recent M&A’s in the luxury watch retail industry lead to an increased global presence of the parties involved. Bucherer, for example, increased their global footprint immensely thanks to the acquisition of the two American players Tourneau and Baron & Leeds.

The interviews, however, also revealed underlying reasons for such global growth ambitions. Firstly, following a customer who might already be familiar with the brand or products is seen as one reason. Another reason is the diversification of risk arising from the geographical spread in different continents or countries. Lastly, most interview partners believe increasing the global reach to be crucial in order to gain visibility and brand recognition.

7.2. Advantages and Disadvantages of Large vs. Small Luxury Watch Retailers

The second research question aims at investigating the main differences between large and small luxury watch retailers in order to better understand the aforementioned drivers of consolidation in the luxury watch retail industry.

The information from existing literature does not deal with this topic in a great depth. Nevertheless, Porter’s Five Forces analysis model has shown that small retailers may struggle when negotiating with watch brands as their bargaining powers are simply not as big as those of larger groups. All interview partners additionally complement this information by mentioning that restricted investment opportunities bring another challenge for small retailers of luxury watches. Larger groups such as Bucherer, on the other hand, enjoy greater power over brands and have the advantage that people listen to their wishes, which can be a big disadvantage for small retailers considering the big power of watchmaking brands.

A stronger brand equity due to a larger geographical reach and historical existence is another plus that many interviewees pointed out when talking about large watch retailers. Apart from that, interviewees remarked on another big benefit of large luxury watch retailers, namely their ability to invest in digital technologies such as e-commerce or do M&A's in order to gain market share and access to new skills. Nevertheless, the findings from interviews suggest that large watch retailing groups might lack the flexibility and agility that smaller players have due to their size and set processes. According to the findings from interviews, small luxury watch retailers are seen as being very good in establishing close and fruitful relationships with a strong local customer base.

7.3. Critical Success Factors for Luxury Watch Retailers

The third and last research question examines how luxury watch retailers stay competitive on the global market. This relates to existing players and does not directly include new entrants. The findings from interviews complement the literature review, while backing up several key points. In total, seven critical success factors could be identified that retailers of luxury watches should follow in order to be successful during the next couple of years.

7.3.1. Reach or Niche

According to the findings from interviews, large retailers should increase their reach and visibility on a global basis wherever possible with an omni-channel strategy in order to attract more customers and diversify their risk. On the other hand, if a global reach is not achievable or not desired by small players, several interviewees emphasized the importance of operating in a niche. An example of this can be a focus on a very specific type of clientele from a specific culture and language or selling very unique and rare timepieces.

7.3.2. Reputation and Brand Equity

All of the largest global luxury watch retailers that were mentioned in the literature review are long-standing and reputable players with a strong brand identity. The findings from interviews resonate with the literature review as a strong brand equity is seen by most interviewees as a key factor for business continuity. No player will get far in the luxury watch retail industry without a strong brand and a reputation for being a trustworthy and high-quality retailer.

7.3.3. Bargaining Power over Brands

The findings from interviews back up and complement the literature review, which highlighted the strong influence and power of watchmaking brands on and over third-party retailers of luxury watches. Therefore, in order to get watches that are wanted by customers and not to be under immense expectations and performance pressure of the brands, a certain degree of bargaining power is very helpful, according to the finding from interviews. The bargaining power of luxury watch retailers over brands, however, is directly influenced by the size of a respective player and the number of watches sold per month, which makes things easier for large luxury watch retailers. According to the expert interviews, this is accompanied by the ability to provide a wide assortment of strong and popular watch brands with a good and constant availability. The ability do so is again directly influenced by the size and bargaining power of the respective retailer.

7.3.4. Digital Skills

Bergamin, Braun and Glaus's TCM model in the literature review clearly revealed that watch retailers have an imminent desire to obtain digital skills. This information directly resonates with the findings from interviews. Some interviewees even suggest that luxury watch retailers should orientate their entire strategy towards digital solutions. E-commerce and a strong online presence are some of the findings from interviews. Larger retailers have the financial ability to invest in such technologies while smaller independent retailers often lack the resources to be successful on the global e-commerce market, which is dominated by huge competition. On the other hand, findings from interviews and literature agree that small and new players can also be successful with digital offerings such as e-commerce if they play it smart. The literature revealed several newcomers in the online luxury watch retail business. Needed to do so, as the findings from interviews suggest, is a large amount of knowledge in the luxury watch industry and a strong reputation as well as a trustworthy image on an international basis. This can, however, be gained quite quickly, for example, through a popular blog or social media channel.

7.3.5. Delivering Experiences

Delivering experiences is a highly important point that was only unveiled in the findings from interviews. These findings suggest that nowadays, it is crucial to connect watches as products to experiences that clients can enjoy together with the brand. The physical brick-and-mortar stores of third-party retailers or mono-brand stores are said to be excellent event locations for brands and retailers to connect with customers and to transmit emotions while differentiating themselves from the competition. Younger generations in particular are very interested in enjoying unique and individualized experiences rather than purchasing a materialistic product simply and quickly, according to the findings from interviews.

7.3.6. Correct Personnel

The findings from interviews complement the literature review very well as the interviews showed how industry experts believe a successful luxury watch retailer operates in modern times. Apart from the knowledge from literature, that various retail models exist, the findings from interviews go into more detail. It has been mentioned very often during the interviews, that an outstanding customer service is one of the biggest underlying factors of success for luxury watch retailers. Therefore, the findings from interviews emphasize the importance of highly-skilled and trained people to sell luxury watches who are constantly up-to-date and have a great passion for watches. One simple reason for this is the growing number of highly-informed customers who know everything about watches thanks to the Internet. Not only is qualified sales staff needed; the management and steering board of any luxury watch retailer should also be open-minded and forward-thinking in order to keep up with the times and digitalization.

7.3.7. Consideration of a New Approach to Luxury

Lastly, a very interesting point that emerged from the findings from interviews is the urgent need for luxury watch retailers to reconsider their approach towards luxury in order to stay attractive for future generations. It has been said in interviews that younger customers in particular might feel intimidated by too much luxury. Luxury is not dead, yet the willingness to purchase very expensive timepieces has decreased over the years, as the findings from interviews suggest. Therefore, it is crucial to listen very closely to customers. This involves not only existing customers but also future customers, such as millennials. Younger generations are increasingly looking for uniqueness and individualization that go in hand with experiences, rather than fancy and pretentious materialistic possessions that are accessible to an increasing number of people anyway. Interviewees therefore suggest luxury watch retailers should loosen up and decrease their stiffness when approaching clients.

8. Conclusion

This chapter recapitulates the study and states limitations of the research while pointing out the main contribution. Additionally, the need for further research is specified.

8.1. Recapitulation

The main objective of this Master's thesis was to investigate and understand the reasons and motives for the recent trend of consolidation in the luxury watch retail industry. The most important results are summarized briefly in this chapter.

The first and second chapter of this thesis offered the reader explanations of abbreviations and vocabulary that is specific to the luxury watch industry.

The third chapter introduced the thesis by highlighting the most recent mergers and acquisitions in the luxury watch retail industry and gave relevant background information about the topic. Additionally, this chapter emphasized the relevance of research in this field of study and provided the reader with the research objective and three specific research questions: 1) What are the main drivers of industry consolidation in the luxury watch retail business? 2) What are the advantages and disadvantages of large consolidated and international players in the luxury watch retail industry compared to small niche players? 3) What are the main critical success factors in the luxury watch retail industry? Apart from this, chapter three defined the domain and scope of research and provided an overview of the structure of this thesis.

The fourth chapter, the literature review, presented information about the topic of this thesis that is currently available through research in existing literature. The literature review is based on two academic models and structured accordingly: Porter's Five Forces model and the TCM model of Bergamin, Braun and Glaus. In short, the most important takeaways from Porter's Five Force model showed that industry rivalry and the complexity of the luxury watch industry is very high because there are many possible retail models and a large number of different players competing against each other. New entrants are considered a direct threat, especially in the online business, which mostly includes gray market players. Nevertheless, large capital investments and a strong reputation are needed in order to successfully start a new business as a retailer of luxury watches. Another strong force in the luxury watch retail industry was shown to be the watchmaking brands, who exert a great pressure on the involved third-party retailers. Customers do not have a strong bargaining power, even though they can easily switch to substitutes such as digital watches or fashion watches. The TCM model of Bergamin, Braun and Glaus unveiled that recent acquisitions, such as that of Bucherer or Richemont, were driven by the desire of the involved buying party to increase their digital integration and strengthen their global footprint. Specific underlying reasons for consolidation in the luxury watch retail industry as well as advantages and disadvantages of small versus large retailers and their critical success factors revealed the main gaps in currently available literature.

The fifth chapter provided an overview of the method that was chosen in order to fill the identified research gap. Specifically, a qualitative research approach with 11 interview partners was chosen in order to uncover valuable opinions of experts in the field of luxury watch retailing.

The sixth chapter presented the findings from interviews. In short, the analysis of the interviews resulted in seven main themes that were discussed the most: *1) Drivers of consolidation in the luxury watch industry, 2) Customer behavior/trends, 3) Relevance of physical stores compared to online stores, 4) Digital space, 5) Advantages and disadvantages of large luxury watch retailers, 6) Advantages and disadvantages of small luxury watch retailers and 7)* Business continuity/success. The findings from interviews were very interesting and rich in content due to the large number of interview partners who shared a lot of their valuable knowledge and opinions.

Lastly, the seventh chapter delivered a discussion of results, melting together the information gained from the literature review and from the findings from interviews. In order to round up this thesis, the discussion was directly structured according to the three research questions. In short, the **first research question** presented four main drivers of consolidation in the luxury watch retail industry: *1) Complexity of the luxury watch industry:* there is an oversaturation in the luxury watch retail industry and disruptive pure players are emerging. *2) Power and pressure of watchmaking brands*: watch brands try to keep everything under their control, such as customer data and prices, while limiting production outputs and dictating orders, or only working with the bests and biggest retailers. *3) Desire to gain digital skills and capabilities:* the acquiring parties of recent M&A's in the watch retailing sector want to bring digital skills in-house in order to be able to deliver digital offerings, such as e-commerce and pre-owned platforms, to customers who are increasingly oriented towards digital services. *4) Growth strategy:* the acquiring parties in recent M&A's in the watch retailing sector were motivated to grow their business geographically by gaining more reach and visibility, resulting in more customers and potentially increased sales. Additionally, the **second research question** presented the main summarized advantages and disadvantages of large vs. small retailers in short: large retailers of luxury watches have a big advantage over small ones, namely their greater bargaining power and a stronger position over dominant watchmaking brands, who try to keep everything under their control. Larger retailers such as Bucherer also have the means to invest in future-oriented digital solutions and to acquire other players who are already established in that field. Moreover, another advantage of large retailers is their strong brand equity and good reputation since most of them can look back over a rich business history. Smaller retailer may, in turn, lack this power towards the watch brands and are therefore dependent on them while fearing the loss of brand partnerships. Due to their smaller size and smaller sales volumes, independent and local luxury watch retailers often do not have the resources and capabilities to invest in digital strategies, which can make them sit behind larger competitors. On the other hand, smaller retailers of luxury watches can be very good at establishing trusted and bonded customer relationships on a local basis while operating in a certain niche. Apart from that, small niche players are considered to be very agile and reactive due to their size, which can be a big advantage over larger players who might be lethargic in implementing changes.

At last, the **third research question** revealed the main critical success factors that are needed by luxury watch retailers in order to stay competitive. In short, there are seven main success factors for luxury watch retailers: *1) Reach or niche:* luxury watch retailers either need to operate on a global basis with a big reach and strong visibility or do business in a very specific niche on a local basis *2) Reputation and brand equity:* having a strong brand and an outstanding reputation is crucial in modern times to be successful as a retailer of luxury watches. This reputation, however, can also be gained online through blogs or social media *3) Bargaining power over brands:* in order not to be fully dependent on the strong watchmaking brands, a successful luxury watch retailer needs to develop a certain degree of bargaining power over his brand partnerships. However, this is much easier for larger retailers. *4) Digital skills:* successful retailers of luxury watches need to hire or acquire digital skills in order to be able to offer what customers expect. It is necessary to have a very strong online presence with a great web page and possibly even an e-commerce platform, which includes the highly promising CPO business, in modern times. Social media is also considered to be a great tool in order to be visible and to create desirability and connect with the modern consumer. *5) Delivering experiences:* providing unique and special experiences is something crucial in order to satisfy modern customers. In-store events in collaboration with brands and other special happenings outside the physical store are seen as great strategies to attract the interest of consumers and to build a relationship. Younger generations in particular like to experience something unique in combination with a certain purchase, rather than simply swiping the credit card and walking out of the store. *6) Correct personnel:* as luxury watch customers are becoming increasingly well-informed and educated about watches thanks to the Internet, it is very important to employ sales staff who are highly knowledgeable and who have a great passion for timepieces. The owners and management of any luxury watch retailer also need to be very future-oriented and digital-minded in order to keep their fingers on the industry’s pulse and not miss any chances in business development *7) Consideration of a new approach to luxury:* lastly, it is very important that luxury watch retailers reconsider how they want to approach luxury in general. Younger generations in particular feel intimidated by and are not interested in overly luxurious approach towards watch retailing. Additionally, the average luxury watch consumer is currently more interested in entry-level luxury watches up to approximately CHF 10,000. It is therefore advisable to loosen up and focus more on delivering unique and personalized offerings that go hand in hand with creating special experiences.

8.2. Contribution

This Master's thesis will be of most interest for the strategic orientation and business development of luxury watch retailers. Apart from highly valuable information about the luxury watch retail industry and its competitiveness, originating from a profound literature review, the perceptions and opinions of top-tier industry experts were gained through 11 interviews. This information will enable luxury watch retailers to reconsider their business development and strategic approach towards M&A's.

Furthermore, this Master's thesis might support new entrants into the luxury watch retail industry. One reason for this is that this thesis mirrors the dynamics and challenges of the global luxury watch retail industry very well and also identifies key players, while delivering a strong list of critical success factors for luxury watch retailers.

8.3. Limitations

There are three main limitations to this Master's thesis. Firstly, the availability of academic studies on the topic of consolidation in the luxury watch retail industry is rather limited. Therefore, apart from some academic sources, various economic journals and business studies from banks and consulting companies were used to complement the lack of academic sources.

Secondly, only two American industry experts were interviewed for this thesis, which limits the approach towards the geographical scope of this research.

Lastly, due to the nature of the chosen methodology with qualitative interviews, a complete objectivity of this study cannot be guaranteed. It is impossible to completely rule out a certain degree of influence by the researcher over the interviewees, as well as a certain degree of subjectivity while summarizing the findings. Nevertheless, the chosen methodology of qualitative interviews with industry experts is perfectly in line with the objectivity and research gap of this study.

8.4. Further Research

Further research into the critical success factors of luxury watch retailers is needed. The results of this thesis concerning the success factors rely mainly on qualitative research through expert interviews and have not been tested. The information available on this topic in academic literature is very limited and to some extent non-existent. More studies and investigations are therefore needed in order to deliver tested and validated success factors for luxury watch retailers.

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10. Appendix

10.1. Transcribed and Summarized Interviews

10.1.1. Mr. Patrick M. Graf Bucherer

Transcript Interview Mr. Patrick M. Graf (Bucherer Group)

Interview Partner: Mr. Patrick M. Graf (CCO Bucherer Group)

Interview Details: 29.06.2018, 12:00 pm, Zürich

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

Actually we can see that there has been an over saturation of the market within the recent years and therefore now the brands, the brand owners start to consolidate to first of all make sure that the market will keep clean in terms of grey market. Which in the recent years became quite an issue also driven by the online businesses. Then secondly having brand equity is becoming more important from a brand perspective. So they try to protect and make sure that whatever they do that pays in for the brand itself. To keep the brand long term on high value, on high quality.

There's also a certain limitation in terms of production capacity. Therefore today the channel brand is more quality than quantity.

From the watch producer, brand equity is extremely important because finally that is what makes the brand sustainable and also desirable in the long term perspective. Just to make sure that the brand will keep long term on high level. From a retail perspective, we might have a different view about this. Therefore it's less about the brand equity of our suppliers and partners, it's more about the brand equity of our own brand, in this case Bucherer as a retailer. In our view the consolidation has threats and also opportunities. Opportunities in terms of our size matter strategy. It's an opportunity to grow business and to grow market share. All the players might be dismissed from the brand owners and therefore from the market. Which again gives us opportunity to take over all the business and market, market share. There are also threats of course because there is a certain limitation in terms of potential revenue that can be gained and we have seen that, especially now with the recent decision that has been made by, for example Audemars Piquet. Reducing capacity to a number of 40 thousand pieces a year, which means that you have an actual gap. Maybe not of demand but of supply, yeah. Demand might be bigger than supply at the end of the day. So you can't sell more than what you have, so actually everybody is trying to get as many watches as possible out of those 40 thousand pieces that are produced on an annual basis. And if you have more players, you have less opportunities to get the right numbers. So therefore that would be like a good argument to say less distribution, which is part of the consolidation that we can see now within the last 12, 24 months. Therefore better quality in distribution.

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

The future is all about digital skills and digitalization. Whether we speak about e-commerce or your own channel the consumer experience is assisted or driven by digital technology, that's most important. And I think because of that we have seen many transactions with new players in the market who do have skills and capabilities, which we haven't seen before, which like older or more traditional companies haven't acquired in the past. That's definitely one of the main drivers. Then looking into the future, we can also see that there are new trends coming up, such as financing, watch sharing, membership programs, et cetera. And also therefore, we have seen now a lot of new startup companies entering the market that bring in new business models and new ways of selling or renting or leasing out watches, which we do believe are quite interesting.

3. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

I think the consumer behavior in general is changing a lot of time. We can see that, especially the part of consumer information is more and more becoming digital. It means the consumer is exploring whatever he would like to purchase on the internet, which hasn't been like that in the past. We see that the consumer has a lot more information. He is very informed when he enters the store. He knows everything what he wants and we can see today that like 80% of all consumers who enter the stores, they know exactly what they would like to purchase. We can also see that through social media, consumer connection has reached a totally different level than what we have seen in the past. In terms of how brands create sustainability and how brands do speak and get into dialogue with the consumer directly.

Trust and bond and especially desirability is most important today. I think that's something which is changing dramatically compared to the retail business we have seen and known in the past and also to see how people are choosing brands and how people identify themselves with brands.

4. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

Maybe it's not either or. I think the future will be about creating a seamless and smooth O to O, online to offline experience. We do strongly believe, especially in the luxury industry and we need to therefore differentiate between high value goods and mass market products. Which very often are pureed replenishment and so there's a big differentiation, also in terms of consumer behavior. If you compare it with the perfume cosmetic industry for example, where a lot of people do know exactly what kind of product they use for daily care. Very often this is pure replenishment. So you can't go wrong by ordering a new Chanel or a new lipstick or whatever. I think therefore the online stores and the e-commerce business will, within the next year reach a completely new size of business level. However, compared to the luxury watch industry, where the effort price level very often is five thousand, six, seven thousand plus. We can see that people who finally decide and usually for many people it's still a big investment, which they do prepare. Like it's usually not an impulse. So called impulse purchase. They prepare themselves for weeks or months or even years before they buy a watch. So usually if you take so much time to prepare such a purchase you also take time to celebrate the final purchase act. The celebration is often preferred in the store. You do want to try. You do want to speak to someone. It's also about trust. Spending a lot of money. Spending a lot of money on e-commerce is today still kind of a trust issue. There's some technical issues in terms of for example limitation of your credit card and so on. So there are a lot of people who wouldn't be able to spend 10K on their credit card. And as I said it's also a question of finally trust to spend 10K on an online platform, especially today where we still see a lot of non-trusted unofficial retailers in the watch industry. Watch and jewelry industry. I totally understand that people feel hesitated to spend so much money, not being sure whether they will get the right product. Whether the product will be original or even fake. We do believe that yes, digitalization is becoming important. E-commerce is becoming important because it's the largest showcase window that we can offer to our customers. It's important in terms of the purchase preparation. However we do believe that the sales will remain on a pretty low level within the next three to four, five years.

5. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***

Well first of all, social media today is definitely becoming absolutely key in our industry but again, we need to differentiate also with regard to the target groups. For example we believe if we are reaching out to become like a gate keeper, it is important that you speak to all generations. However we also need to be clear that we are talking about different generations from millennials, generation z up to the elderly generation. Today still we need to play and push different marketing tools and channels to reach out to the right people. It's not only about social media. We can see that people 40 plus are not like every day such as millennials playing on Instagram. Usually you reach them through other media channels. Print or events for example. However, social media definitely will play an important role in the future, also in the high end luxury business. This is where people create desirability. This is where people connect with brands. But also to share their own experience. It's not only about following celebrities and ambassadors, it's also important to see that people who buy brands, people who follow brands that they share their own experience. User generated content is probably even more powerful than many other forms of content. It's part of our strategy to become more important in terms of social media, however firstly I do believe it's always much more difficult for a retailer to become big in social media. Or to build your brand than a brand itself. So to create a brand identity and a strong brand DNA as a multi brand retailer, it's something which is like on top of the pyramid but it's also quite a long and difficult way to get there.

a) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

I do believe that size matters a lot in terms of e-commerce because to gain something, a lot of investments are needed. Also a lot of resources are needed. Especially in our case when looking into the number of picture and content that we need to produce to be on top of the agenda, it's huge. Comparable with many others, also with big e-commerce operators, such as Net a Porter and so on. Who have a huge powerful setup behind. It's almost impossible for a small player to become like a big number, if you do want to supply your products as well. It's quite a challenge.

6. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

I think the future is more about self-exploring. More independent. As we said before, the customer is much better informed about products. About what he would like to purchase. What's right for him and what's wrong for him. I do believe that the whole service ritual will be much more assisted in terms of digital experience and digital assistance in the future. And I also do believe that, as I mentioned before that new business models such as watch sharing, watch leasing, will definitely change the way of how we treat the business today.

7. ***What are the main advantages of operating as a large consolidated player in the luxury watch retail industry?***

I mean on the brand side we can see that, like especially Rolex, Richemont and LVMH and the Swatch group are definitely dominating. Rolex still one of the largest watch retailers in terms of their size. It's only the Richemont group, which is today bigger than Rolex, but Richemont only as the total group. Which says a lot about Rolex. For us, we do believe that it is important to be relevant in terms of buying power but also to offer lean processes and structures and also to be able to invest into online experiences. In e-commerce and online experiences. Today it's a lot also about give and take. So you need to be able to also operate stores, which might be not profitable in first line and then corporate the loss with stores that are high profit work. With this you can only do if you run a certain number of boutiques and channels.

8. ***What are the main challenges of operating as a smaller standalone retailer in the watch industry?***

You know, it's about losing the power at the end of the day to negotiate, to take a strong position in negotiating with all the brand owners who are really dominating the market today and talking about the consolidation, you need to deliver strong arguments to be the one chosen by the brand. Being able to supply the good brands and that's a bit of a problem of the industry. It’s very hard if you lose one of the strong brands and we have this very traditional 80/20 rule. You do like 80% of the business usually with 20% of the brands.

This means that normally it's about five, six, maybe seven brands who do 80% of the total business. If you lose one of those brands, it's today quite difficult because the assortment and possibilities are very limited. It's not like in fashion where you can just switch from one fashion brand to the other. It's more like if you lose one big brand you have a big problem. And since like the groups also consolidated. Just a few groups who dominate the market. Which are also very competitive to each other and the companies are also quite demanding in terms of visibility, in terms of marketing support etc. So it is, for a smaller luxury watch retailer today more and more difficult to politically coordinate between different groups and to fulfill all the different requests that the brand owners and the groups might have. The large groups are also supporting the weak brands. It's not only about pushing the strong brands. The group strategy today is more and more pushing the weak brands, which has not been such of an issue in the past because most of the brands, even though they have been part of a group, they work quite independently. Today if you look especially at the Richemont case, they have consolidated internally. And they have a new home. They overlook all the different brands and usually if they do collaborations, they do want to make sure that whoever is partner, will supply all the different brands. And there's so much politics between the different brands. Even within the same group but then even more between the different groups. So for a small company with maybe one or two or even three stores, it's quite challenging to manage this setup.

9. ***What is, in your eyes, generally crucial in order to be successful as a retailer of luxury watches, and how will this change in the future?***

It has been somehow a very slow industry also in terms of innovation. So we need to move from being very transaction driven to become more experience driven. I think experience is really important. Also to make sure that people will still come to the traditional brick and mortar stores. I think simplicity is becoming more important. Availability. People who do want to purchase something, they do want to purchase now, so if you can't supply, if you can't make sure that the products are available, you might have an issue. Good partnerships and relationships with the win-win approach are important. And then last but not least, I mean especially for the watch industry it's all about the assortment. Having the right assortment. As I said because there are just a few brands who really dominate the business, if you don't get access to those brands, if you can't build up a strong relationship, you won't be able to be successful. I would say either you have Rolex, Patek, Omega or Cartier. If you're not able to work at least with one or two of those brands, you probably have an issue in the future. And then I think it is also important to have people who have a very clear mindset. A future oriented mindset. Because today's industry is changing so fast. It's not like in the past. The industry is changing extremely fast. We can not only be dependent on the Asian business and on the Chinese, so we need to find new ways to better balance the business and to make sure that there's not too much risk in terms of any kind of future changes in Asia. What if we have a big currency change? What if we have some new regulations in terms of tax or whatever in Asia, this might be a complete game changer in our industry. So we can't just build our whole business case on the Chinese. It's impossible. It's important to have a quite well balanced clientele at the end of the day.

10. ***What are the main challenges and competitive rivalry issues within the luxury watch retail industry?***

I think the biggest challenge that we will have is that, first of all that we have a lot of new players, so called pure players entering the market. We have a lot of players entering the market who are very digital minded. Who are very quick in adapting and setting up new businesses. I think what we can also see is that the discussion of the brands operating on retail is becoming more and more of a problem. It's a problem for the wholesale business, since we have a totally new setup of competition. In the past the competition was mainly between the traditional retailers, today the competition is more between the brands, the retailers, and the pure players.

11. ***If you had a wish, what would you wish to improve/change in your industry?***

Today our business is less about wishing. I think you need to act. And I wish and I hope for the people in this industry to be able to think future oriented. Think with a clear and fresh mindset. And to show more innovation also with regards to the consumer experience and to think consumer centric. I think if you're able to do this, then the future will be less about wishing. It will be more about jumping into action.

10.1.2. Ms. Maria Bashutkina HEG

Transcript Interview Ms. Maria Bashutkina (HEG- Haute école de gestion Arc)

Interview Partner:	Ms. Maria Bashutkina (Senior Lecturer & Trainer Institute of Watchmaking, HEG- Haute école de gestion Arc)
Interview Details:	03.07.2018, 3:00 pm, Neuchâtel

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

As we talk for the reasons, for the main keywords is that probably there would be three pillars. First of all, is the presence on the markets. It's the contact to the clients. The way how to control the relationship, the experience that our brands give to the clients because that is what is always missing, to control the experience because when the marketing department imagined some strategy or some publicity campaign and then it's on the sales points where something is happening not in the same way the company imagined because the salesperson was not in a good shape or he did not like the brand. That is very important in terms of reputation, in terms of experience, in terms of relationship with the customers.

Then, visibility, visibility worldwide. It's very important because nowadays a lot of people travel all around the world without any restrictions, without any problems, it's important to be visible in the main markets. It's important to be present in main cities, in main places, in main streets like Bahnhofstrasse in Zurich or Place Vendôme in Paris or whatever.

Then I would say that the third pillar, the third keyword for the main reason would be the margins, because when the companies are starting to control the boutique, starting to control the distribution, they could take a lot of margins back because that is one of the very important part. Sometimes when the watches arrive to the boutique, they are not only twice priced. The price is not only triple. Sometimes it goes even to 10 times of the initial price of the watch. It's also an economical reason.

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

I would say that it's the possibility to sell. That's why they are on the markets. It's very important that there is somebody who is specialized in selling these watches. For example, I remember once one CEO of a watchmaking company was saying that he is not really interested at all in the distribution channel. Probably it wasn't a very good strategy, but then just about thinking that the CEO wasn't very much interested in the distribution channel because he preferred to give it for some other professionals.

Probably, the skills would be finding the right procedures, finding the right time, creation of the right place for the sales. Here we are talking about the skills of the salesperson. It's very important to maintain the image of the brand and manage to transfer and to incarnate the same image that the brand wants to show. It's also important to be in contact with the clients and to stay in contact and to keep this clientele coming to the boutique. It's the image of the boutique, the way of dealing with the customers, the customers' taste.

I would say that it's very important to manage all the logistics and to sort properly the watches. I would say that the most important capabilities for the boutiques would be managing of the contact with the customers. Invite them or make them wanting to come back several times and then also to create this special ambiance or this special hour on the point of sale also for large retailers such as Bucherer. It's also the only one point of difference in contrast to mono boutiques because mono boutiques like for example Omega boutique or Rolex boutique or whatever. Then there is multibrand stores when we have different brands as we have Les Ambassadeurs. That is their particular difference and that's why Omega is creating so many boutiques because they want to create the spirit of Omega there. The codes, the colors, the furniture, the design, how they speak and how they serve. That is the main challenge I would say for a multi-brand boutique like Bucherer or any other. Today we are talking a lot about lifestyle and it's not only about selling watches but it's about being the place to be, the contacts. For me, in my opinion, it's very important to be different from mono brand boutiques and the only one point would be the contact with the client.

3. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

I would say there are two most important trends would be personalization and experience. Personalization of whatever it is, it comes from the product then it comes to the service. The same watch should not be sold to different customers in the same manner because it should be different. It should be adapted. That's what we are looking for. If I'm coming joking, if I'm coming smiling to the boutique it would be nice if the salesperson could manage to adapt. When talking about experience, it's one of the very hot topic. It’s quite easy to go on a website or to go to any boutique and to buy whatever, the bag, the watch or the dress whatever. Then after buying some amount of things we started to think what should be next, what should be different. That's probably why a lot of a companies, for example, Bvlgari opens their luxury resorts just to create this experience, just to invite to the brand. What to do for the retailers when they are not connected to one set of brands. The question is how to get these customers, how to get them or invite them to come back. As I've seen Bucherer is quite well presented in Switzerland, but every time it's the same in Lucerne, in Geneva. In Lucerne when I've seen them, it's always the same, very high quality of service, beautiful design of the boutique but in the end, it's Lucerne who sells the most watches because Chinese tourists stay there. But what to do or when you don't have their buses stopping in front of the house. That's why I would say that the most important thing would be personalization of service, of brand proposition, of communication on their own place and experience that is around.

E-commerce is very connected to the distribution and it could be seen in two ways. It could be a threat or it could be an opportunity when the boutique is working with the proper e-commerce website or if there is any other company who can. In the internet it's a little bit difficult to create this way of experience that way of personalization. A mix of both is needed. Luxury watch boutiques are the center of customer experience and should be the place of events, the place of pleasure and the place of differentiation. They have excellent relationships with the sales person. Sometimes we come to the boutique and if I'm not very good in watches. I've just read one article online and then the sales person would not be there. So I will go online. I would say experience with very big letters. Experience is the only one thing to differentiate and that’s happening in the store mainly. But then why I will buy the watch in Lucerne and not in Moscow. Even if the same week I'm with the same boutique in different countries.

4. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

They need it because of the numbers, because of the possibility to touch the clients and when we're talking about watches, it is something special to sell. First of all they're a very specific product. I don't like the name product when we're talking about watches because it is a piece of art first of all and a lot of people are buying a watch because it's just impressive. It's just wonderful how they managed to work 200 pieces in a small case on the wrist. The technical information, technical interpretation, technical explanation is very important, but then it's important also to tell the story, to create the emotions, to explain the emotions, to explain the historical aspect of the company, the traditions, the value of the brand because finally, why people are paying a lot of money, I don't know, hundreds of thousands of euros because there are a lots of stories and there is something that was touched in them because before we bought watches to see time nowadays, it has nothing to do with the time. It has something to do with us. Why we buy watches, it would be very difficult to explain online. That's why it's very important. The relationship is very important. The experience and the values, the emotions. The same I would say, we could make it parallel to the car industry because we've all been in cars. We know what it means to drive a car, we know how to be a passenger in the car. We know how the seats are made, how windows are going down, but still we need to go all the time to choose, to try, to taste different materials, different colors. That's why there are still a lot of representative of the cars .That's why the salesperson say, when you put the watch on the wrist of the future customer, for him it would be very difficult to leave it back to the store and not to buy, just leave the store. That's why this contact is very important.

5. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***

If we start from the potential it is huge because we're just in the beginning, but probably, it's not going to be the nearest future, especially for what you may gain. It is quite relevant, but then it's also the question of being online, being offline and being connected to some people, connected to some discussions, to some emotions. There are beautiful Instagram accounts, but for my information, I don't know a lot of brands that managed to sell a lot of products only via Instagram or only via e-commerce because people need to go to see the watch and there is one very interesting case, Speedy Tuesday of Omega, did you hear about that? Actually, I would say to go to check what is that because it is an event that happened last year I believe in the beginning of last year when in a couple of hours, probably four hours or something, they sold via Instagram a couple of thousands of Omega watches. Omega managed to do it once but then when we start to think about it, why they did it and how they did it. That's why I invite you to read more in details this story because it was a special Instagram account for their friends, for their followers who are in love, who admire the special model of Omega, Speed Master. People who are the part of the community, they posted pictures. Speedy Tuesday because it was-- I don't remember if it was all the pictures posted on Tuesday or something and all that. Then one day, Omega decided to create a special model of the Speed Master, something with the colors or something with materials. Limited of course and it just took a couple of hours, probably three or four to take out all the collection. Nobody did it so far to this extend. There is potential of course but nobody else did it so far. After that it’ already one year we're talking about this mythic example. The question is how and what is needed. Is it the community first to create? Is it the content first to create? What are the main elements how to invite people to buy because there are a lot of products. There are numerous brands or startups or watchmaking startups that are coming from Kickstarter or from any other platforms that are coming to the internet but they don't have the same number of sales because nobody knows them, nobody has seen them, nobody tried them. That's why it's very important to have this way of sales, this channel, but it should be integrated in all their strategy.

b) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

I would say that it's quite difficult to find the way to survive only through Instagram. E-commerce in general. Yes, because again, it depends also for the prices. It depends also on prices because when we're talking about independent brands like MB&F or Richard Mille or I don't know, some others who have the prices starting from 10,000 and then up to one million for example. Then there is also Richard Mille. I'm not here to make the promotion of my articles but if you google Maria, I'm writing quite a lot of different articles on independent companies and their difference to others. What they do here is very interesting and also this notion of friends never happened before. When we are talking about Richard Mille. They are independent but still they are playing a very classical strategy. Here MB&F decided to talk about the people who work with them. What will be more interesting for you probably, they have MAD Gallery, MAD called crazy in English but it's more interesting than that, Mechanical Art Devices Gallery. It is very interesting because for one side, you can google it or if you happen to go to Geneva, Dubai or Taipei, you can always visit one. What is interesting there that they opened their flagship store. I would not say a boutique. I would say a flagship store or concept store or workshop where they present their models but also and why it's called a Mechanical Art Devices Gallery. They mixed it to any other mechanical devices. You can see. Thy made it in a way that even me who is not really interested in mechanics are very interested. You can go there to play. There will be always a person who would explain you all the different things. It's also quite an important thing in watch making and that's how quite small independent brands became very famous worldwide, very famous in collector’s community, circles because of this. As I told you, personalization. That's why I would not say that is a question of being independent or not independent, being startup or not startup. I believe that it's more about the approach in general, about strategy in general. I believe that we are almost obliged to find a way to combine online and offline sales. In general, there is a potential. As for the relevance for the watch industry, I would say it shouldn't be the main focus.

6. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

As for the shifts, I would say that nowadays expectations came mostly to experience different emotions. That’s what the clients are wanting from the boutiques, for the salesperson, for the distribution channels because nowadays we can go and we can buy any watch nearly anywhere. Nowadays it's quite easy to buy whatever we want to buy, I don't know, again, Bvlgari Finissimo or whatever something Moon landing or whatever, these brands are presented worldwide but the question is why they will buy there? Because of the experience? Because of the emotions? Because of something special? Because when we already have 5, 10, 20, 30 watches, they're working for something different, it could be some special piece, some very special watch, but then it's very important from my opinion it's the experience and the stories. It's the way to be present where the customers are, in Switzerland, Lucerne is quite a special exception when we are talking about the boutiques where the buses stop and it’s just about a quick purchase for many Asian customers, because in Zurich we don't see that so much, in Geneva neither.

7. ***What are the main advantages of operating as a large consolidated player in the luxury watch retail industry?***

The power. The power of decision-making, the power of the choice, the power of the presence, the power of making the rules, defining the rules in the negotiation with the brands. For example, when we're talking about Rolex. Rolex is the company that is famous worldwide, whatever is the presence. If in Asia, I don’t know, in Cambodia, everybody would know Rolex anyway, or in Russia somewhere in a small city, they have never seen one, but they know about Rolex. When Rolex decides to find a boutique, they have a list of criteria, it should be on a certain street, on this way it should be point of sales etc. They will ask for storing their own colors, their own designs, their own furniture, and then if the boutique want to sell Rolex, they have to accept, because the power of the boutique is not that important as the brands. For example. It of course also depends on boutiques. For example Bucherer who has a lot of boutiques in Switzerland in the best places. They have a very important power of negotiation.

If you're too small then the watch brands might also not be fully attracted to collaborate. Once we visited Omega and we were talking with the director of the sales and he was saying, “I went to Moscow.” or I don’t remember whatever the city. “I went to the city, I’ve seen 10 boutiques. If we want to work with them only two of them are feasible.” Because of the criteria.

8. ***What are the main challenges or advantages of operating as a smaller standalone retailer in the watch industry?***

Imagine what would you do if you have a milk shop and then there is a Coop opening next to your door. For you it will be most expensive, for you it will be more difficult to get the products and to manage the supply, the same is happening here in the watch retail industry. Actually, small retailers have to be very different and very specialized in the way of dealing with the customers or with the image of the boutique, whatever. Just to be different, the same with the brands. How to be small when everybody is big around. You have to be very special, very different. The main challenge is to have the power. The main challenge is to keep the brands, because if you have a small boutique with two salesperson, you probably could sell 10 watches per day, but when Omega or Rolex will come, they will want this shop to sell more watches. Then they will see if there will be other ways to sell watches. Here, the main challenge is to attract brands, the stay also attract for the customers. How will you compete with Bucherer or with Les Ambassadeurs who has best deals, who has best offer, who has best models, or bigger amount of watches to choose.

9. ***What is, in your eyes, generally crucial in order to be successful as a retailer of luxury watches, and how will this change in the future?***

The location, the assortment, the service. Here, I talk about service before, during and after sales. How you treat your customers and how you treat your customers when they are back with some problems, that is a very important point. It’s not only the design of the boutique, but it's all the communication that is around. That's why so many companies operate their online boutiques just to be more visible, just to be more present, just to make more people to come.

10. What are the main challenges and competitive rivalry issues within the luxury watch retail industry?

Here, if we're talking about retail industry is to have the attention of the clients. First of all, the assortment of the watches, because if I know which watch I want, I will go and ask and there is no one in the boutique for me it's not a problem to change the boutique and to go to the next door. That’s why it's very important to see the experience and the relationship in the boutique. We don't have this particular watch but could we propose something else, and probably there would be a way to convince and to change.

11. If you had a wish, what would you wish to improve/change in your industry?

If I would be nice I would say flexibility. If I wouldn't be nice I would say arrogance. Nowadays distribution channels or brands in general they are thinking about themselves. We are here, we're luxury, if you don't like it we will not change. But here we are living in the world of turbulences and the world of changes and shifting social behavior and shifting demands of the clients and the expectations of the clients and nowadays a lot of companies lots of boutiques are not flexible for these shifts. Not adaptable in the way they communicate, in the way they sell the watches. For sure it takes a lot of time and a lot of money. Several millions to produce the high luxury watches but then in order to make a shift in the direction, it's like with the plane it's easier to change direction when you're small than when you are big. For example to change the direction of the boutique, small boutique, family boutiques do it often quicker than very large players. When I was talking with the distributors in Geneva they were saying "We would never think that a guy wearing shorts and a t-shirt will buy in five minutes the watch that cost 300,000.” With arrogance, I mean arrogance in the way of vision and their lack of flexibility in their vision and that's why for now the boutique of Bucherer or the boutique of Les Ambassadeurs they're still the same from one city to another. That is their corporate duty, the corporate style but it's not personal. They are not in this new paradigm of personalization of experience or flexibility, adaptability or being just fashion. Why we would go to Bucherer and not to I don't know, other boutiques.

10.1.3. Ms. Roberta Naas ATimelyPerspective.com

Transcript Interview Ms. Robarta Naas (ATimelyPerspective.com)

Interview Partner:	Ms. Roberta Naas (Journalist, Author, Founder of ATimelyPerspective.com)
Interview Details:	04.07.2018, 6:00 pm, over the phone

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

I don't know if I have a lot to offer you because in the United States, retail consolidation is not a huge thing to be honest. We have thousands of independent retail jewelers. We've always had big chains stores. The Zales, Helzberg, and Kay for example. They've been around for decades. I don't see a huge consolidation at the retail level to the United States. What we are seeing in the United States is I guess three things. We certainly are seeing a lot more of the small mom-and-pop jewelers going out of business. Because they can't compete with the bigger stores, and they can't compete with online. We are seeing things like Bucherer buying Tourneau, I think mostly to get a foothold in the American market. And that was a huge acquisition. I think the other thing that we're seeing a big growth in is the concept of the big brands buying retail online outlets. For instance, Richemont Group has purchased Watchadvisor. And I see the LVMH Group looking around, and talking, and interviewing some of the other online sites. I think they are looking to purchase these types of sites, so that they have a place to release their goods that aren't selling without some interest of the market. But really, at retail here those are the three key things that I'm seeing is unfortunately the little guys not being able to compete, and going out of business, purchased by the big online outlets. Then the only real big purchase I've seen is Bucherer buying Tourneau.

Okay. Because I don't really see consolidation in America in the retail business, this is just a difficult question for me to answer. I see in America retailers going out of business because they can't compete with the internet. But I'm not seeing big mergers, acquisitions other than Bucherer, and Tourneau. I think it's two-fold. I think because in Europe, Bucherer is both a brand owner and a retailer. It made sense for them to have a retail outlet in the United States to foster their presence. They're not a very well known brand in America. They're actually, probably little known at all except for people who travel the world, and have seen Bucherer's stores in Europe. I think that they wanted to have retail presence in America, and I think also because Bucherer has it's own brand Carl F Bucherer. Because that brand is not well known either in America. I think their efforts were two-fold. One to have the retail presence, and two, boost the image of the Carl F. Bucherer brand, and then of course to boost the image and boost sales as well. Tourneau has been on the market for several years now. It's no secret that it's not the watch giant it used to be in the retail world. It's still certainly all about watches, but its business was not as strong. And I think Bucherer takes them in with its retail expertise, and maybe make Tourneau great again. And Tourneau stores are in some locations that are really strong. Some of the biggest cities where we have not just affluent consumers, but also very nice tourist cities. There are cities like New York to Miami and LA. You're reaching affluent customers, and you're reaching a lot of tourist customers. Then in some of the subsets like in Texas and areas, it makes sense to have a chain like Tourneau from America. Without having to open your own stores.

2. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

Right. It's all very interesting on my site. I don't know if you're aware of my site A Timely Perspective. But if you go to my site, I actually did write a story about Bucherer purchasing Tourneau, and why it's an interesting course. Tomorrow or the next day, I have a story going up about the changing world of retail. You might find that of interest. In that article, I've written about how in the last few decades retail has had to change for the best, and 30 years ago we've had this catalog jewelry. We've had hundreds of independent brick and mortar stores because online wasn't even built 30 years ago. There wasn't internet shopping until 1994, 1995. The belief in the luxury watch jewelry industry has always been that customer avoid online shopping because it's a luxury product, and they're not going to drop $20,000 because it's something online. They want to go in the store. They want to hold, and touch, and feel it. They want to have the personal interaction with the shop or the retailer and they want to know in the end if something goes wrong with their product, that there is a person that they could just walk into, and complain to. Perhaps there's something wrong with it. That's always been a prevailing advantage of a brick and mortar retail over online. However, as online has been growing, and growing, and I think customers have become smarter and more savvy at price shopping. It's shaking luxury watches because they never expected to see huge purchases go to a companies like Watch Box or Watchfinder because they thought that people wanted that personal interaction. In the end, many of today's consumers especially millennials are very comfortable buying online, and they don't have a problem. They say I know I like it, you haven't had a better price so I'm going to buy it. The biggest fear behind buying online is always is it authentic? Is it genuine? And do I have recourse? Does it come with that warranty? These are the needs that consumers face. Brick and mortar retailers will be able to sell the goods at a price that's competitive, but they often have to uphold their bottom line in order to make money to pay the rent. What they need to do today is they need to offer better customer service, they need to go above and beyond of just, "Hi, how are you?" They really need to be knowledgeable. Their sales staff have to really be informed about not just products. It's product background, the stories behind the product. It's a lot. A touch towards the training, and the other aspect that consumers want is they want to look at a retail jewelry store, and say, "Is it approachable? Are they savvy? Are they technologically advanced today?" They're looking at retailers who maybe have a great website, who maybe have their own blog. And retailers who are active on social media. These are the new ways of doing retail business. It means you have to be active on social media because this is what the customers are, and you have to have that presence. Retailers, they need to bolster their social media presence as well as their presence in general. Because customers want service, and customers want good price, and customers want to know that they're going to some place that's reputable, and that's in tune with the times.

3. ***What are the main challenges or advantages of operating as a smaller standalone retailer in the watch industry?***

In America, we have several what we call mom-and-pops. They're small jewelry stores, they're independent stores. We have some spread across America who are excellent at what they do, and this is like Cellini that I just mentioned to you. There's a dozen across America that I can say are really outstanding. Hamilton Jewelers. It is because they take a lot of pride in stocking brands that can't be found everywhere. They offer amazing quality, and customer service. They have competitive pricing, they run in-store events, they have fairs, talk shows, and they are very approachable. They offer outstanding customer service, they have watch makers generally right on premise, they have very knowledgeable sales staff. You'll find that a lot of these retailers don't carry the very big name brands that require them to invest heavily in their product. If you go with certain big name brands, I'm not going to mention names. You can imagine. They require retailers to carry X percentage of their inventory has to be this brand, and it ties up their money. It ties their ability to stock other products. You'll find that a lot of these independent retailers don't have those big name brands because they don't want their hands to be tied. Not all watch brands make the same demands of their retailers. And some of the retailers do carry Rolex. Some of them I know of the ones that I have talked about across America, probably half of them are Rolex retailers. If you have to make the decision either you're going to take in a big brand, and survive that way or you're going to not take in the big brands, and offer a broader scope and breath, and survive that way.

4. ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce and social media?***

Yes. Very important part. Social media is very important. The consumers want that. They want to know that you're reputable. If you're active on social media, if you're a part of their lifestyle. The reason they have a physical store is to get people into it. Most of them will have some E-Commerce. Most of them are trying to build out their E-Commerce, but I don't think they're trying to compete big E-Commerce sites. They can't. They're still all mainly brick and mortar.

5. ***What is, in your eyes, generally crucial in order to be successful as a retailer of luxury watches, and how will this change in the future?***

In order to be successful as retailers of luxury watches, they need to offer perfect customer service. You need to offer really strong after sale service. You have a jeweler or a watch maker employed in your store, and handling support like strap changing, battery changing. Are you a full service? I think that watch customers, watch retailers, and jewelry retailers, again are active on social media. They offer a great breath of products in their store. We have a jeweler in New York City, Cellini Jeweler. He's been around from the 50s. I've written about him on my site as well. He just recently redid his entire store, rebuilt new, and brought in a lot of the small independent brands that not everybody else is carrying in order to be competitive. In order to offer the customer choice and selection that they're not going to find everywhere, and these small independent brands do that. I think for retailers to be successful, they need to answer customer demands for choice, for quality, for online social media presence, and for service.

6. ***What are the main challenges and competitive rivalry issues within the luxury watch retail industry?***

In America, a lot of our retailers have what we call skull groups. Skull groups are where a dozen retailers meet once a month, and brainstorm. They talk about what works for them. They talk about what doesn't work for them. They share ideas, they share their secrets. While the industry is very competitive, it's also very well rounded, and helpful, and they share ideas. I don't know if that's unique to America, but these skull groups are really important. Brands do it, and retailers do it. I think the competitive edge is just within each city. There's radius, so it’s hard if you're both carrying the same brands. You have to have different brands, you have to have different atmosphere, you have to have different store feeling, and look. It's just addressing the normal issues of retail, and I'm talking retail jewelers. I'm not talking about department stores or anything, but independent retail jewelers. I think the only real competitiveness is today online.

10.1.4. Ms. Silke Koltrowitz Thomson Reuters

<u>Transcript Interview Ms. .Silke Koltrowitz (Thomson Reuters)</u>

Interview Partner: Ms. Silke Koltrowitz (Journalist at Thomson Reuters)

Interview Details: 05.07.2018, 2:30 pm, Zurich

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

I think that's been like going on for a few years now. I think one of the big underlying factors is the digitalization, and that obviously puts the traditional watch retailers under pressure to have this competition from online platforms, so many watch brands are only just in the process of building up their online, their E-commerce platforms, but there's obviously also competition from other online platforms like also grey market platforms, where watches are being offered at lower prices, cheaper prices. It's just that customers now, they go online if they want to find a watch, and then they see all the prices available there. They see where they can buy watches. Some of these platforms have authentic watches, others have maybe even counterfeits, but there is a lot of pressure from that side, I think traditional retailers have to question their own models. We see a lot of traditional watch retailers, multi-brand watch retailers like Bucherer, et cetera, also going online of course, and building up their own online presence, so it's from that side.

Then obviously the mono-brand stores, which was this big trend over the last maybe 10, 15 years, all the brands going into building their own mono-brand stores, flagship boutiques, et cetera, everywhere. Sometimes some brands do it franchised mono-brands with retailers together of course. There are a lot of watch brands that run their own mono-brand stores which obviously puts the third-party retailers under pressure. If they can take part and have franchise stores, then, okay, they can maybe also benefit.

Then obviously, there was just also recently this general slow down in the watch industry. Now things seem to be going a bit better, but they've been through this relatively impressive crises, where sales dropped a lot, and Chinese demand was under pressure a lot. There are lot of factors and anti corruption drive, Hong Kong. I mean, now the Hong Kong market is recovering a bit, but there was massive over capacity in the system, overstock. Some of the big watch brands had to actually buy back stock. Richemont, said it openly, but I heard from many places that others did it as well. They all had to buy back watches. Also again, to get this grey market under control, because then just unsold watches resurfaced in other channels at discount prices. That is obviously in the luxury world very bad, because it's bad for the brand's reputation if the watches are sold at 50% discount.

That's a big thing. In this whole context of lower demand, and new channels appearing, like online for example. I think the traditional multi-brand watch retailers just have to question their business models. Many watch brands are actually cutting back and reducing the number of points of sales they have. The watch brands all say that. They will have fewer points of sales in the future and only go with the best ones. They close. Many of them have hundreds and hundreds of point of sales, but many cut by 20% or so. I don't know the exact percentage, but they really reduced. I think they just realized they want to have better control of their distribution. Also, they just want to kick out the partners they don't trust, this grey market problem is a big problem for the brands. At the same time, if they have unsold stock, maybe they also supply sometimes watches to grey market players. Nobody says it, but it's a bit thing I've heard. I wrote an article about the grey market, which also says this. I mean, nobody from any watch brand admits it openly and I wouldn't be able to tell you who does that. But in any case, whatever they do, they want to have it under control. They don't want their retail partners to sell unsold watches onto the grey market at lower prices. They definitely hate that I think, because that harms their brand. If they for some reason via some channels do it themselves, okay, that's something else, then they control it. But if their partners do it it's a whole other story. Some brands have also, I think, gotten rid of some retail partners who did that, because they have no better ways of tracing their watches. Basically, the watch manufacturers also buy back watches from the grey market sometimes to just see where they come from. They, themselves, go out, buy on these online platforms, et cetera, their own watches to see if they're authentic. They have serial numbers, so they can trace back, and say, "Initially, we sold this watch to that retailer," so then they can maybe go back to that retailer, and say, "How did this watch end up on that platform?"

The fundamental thought is that the traditional retailers, their business is threatened and shrinking. They are under pressure from their customers and from the brands. I think that forces the retailers to do mergers and acquisitions. Well, from the final customers maybe in a way, that maybe also want different services. I think that's another thing. Nowadays, maybe they go to those shops to really touch the watch and see it, and then they buy it online. Maybe they even buy it online on one of these grey market platforms, because then they can get it cheaper. Maybe on some platforms you'll be suspicious. You'll be like, "Is that the real thing?" But actually mostly, it is the real thing. That's the grey market. They just get it cheaper, because it's grey market. And then, obviously, you maybe have trouble with the warranty and stuff, if you need that, but some people are getting it 30%.

Either they themselves try to find a niche. I mean, some retailers find niche markets, where they're really good. For example, certain types of customers. For example they might be really good with Middle Eastern customers or Asian. Maybe they hire staff speaking a certain specific language or so. Or of course, they try to grow through acquiring another industry player. Like Bucherer did, they go and they buy a group that's strong in the U.S. market, which is obviously important as they don't have a presence there yet. Because the critical mass is obviously important. It's the big watch groups like also Swatch, Richemont, or Rolex, and Patek Philippe. They really have a lot of weight in this market, and they control it. They have this tendency to control more and more. Rolex is obviously the example, where they just do everything themselves, and they control everything. It's very hard to know what their next move will be.

But I think in this environment, it is very important for the traditional retailers to say, "Okay, what will we do next?" I think the Richemont CFO said very recently that, probably the multi-brand retailers would disappear, and that multi-brand watch retailing was not the future. And that the future is going to be e-commerce, but done by the brands, and maybe some champions like Bucherer, or Gübelin. These champions will be big enough and also have the financial strengths to invest really. I mean, e-commerce, everybody thinks that is something that's easy to do, but I think in the watch world we've seen it's not so easy to do. It needs a lot of resources, they need to invest a lot of money. There are lots of tricky questions like exactly about all the services attached. How do you deliver the watch? How do you deal with all the warranties for the customers. There's a lot of things too.

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

Well I guess, at the moment it's definitely anything that has to do with this whole digital space. They need all this know how. That's something you just said, Richemont buying Watchfinder, because they are good online, and they are good in preowned. That's obviously what they were looking for here. For the pure retailers, many of these retailers, they're just very small, local players, often family owned businesses. These are the ones that are struggling. Bucherer has always been one of the big players, so they can make a move and acquire a business in the US that is very strong in e-commerce and also in the CPO business. Actually, Bucherer becomes like this sort of a global player. For example, with regards to Bucherer, I am wondering: are they gonna buy something in Asia now? Because they should have the financial strengths to do that. Maybe that's where they still need to build on if they really want to be a global player. Asia is such an important market for selling watches. Maybe that's gonna be the next move. But then, obviously, smaller family-owned business can't do that. Actually, I'm not that familiar. I don't know if the smaller or mid-sized retailers have also done acquisitions. I guess they could also use new skills. Such as the capability and space to build an online platform if they do have the means for acquiring another player. But I don't know if that's really happened, or if there are even targets. I think for a mid-sized company with 40 employees, 50 employees, or even less it's more natural to hire somebody, to bring in a new skill, than to acquire another company that has the skills and employees. The luxury watch retail market is very fragmented. There are so many relatively small chains. I remember there was this one Swiss retailers, I think it was Kirchhofer, they tried to sell the business. This was only a few years back. I don't think they ever found a buyer. I don't know what the state of play is there, because obviously, also it was not that public, but I think we did a short article on it at the time that they were trying to sell, and then it never seems to have happened. Because it's maybe difficult to actually sell at the moment. When you're a small family owned business, and you're struggling. Many of the small luxury watch retailers are very dependent on the brands. Maybe last year or something, I wanted to do a story on Cartier and I wanted to speak to the Cartier retailers to hear a bit, because Cartier watches were not doing that well, but they had this new CEO. They've had him now for a few years, seems to have done quite a good job at putting Cartier back on track. I wanted to speak to some Cartier retailers, and really hear, "Okay, can they tell me how the brand is doing, how the customers react?" And I looked at the Cartier retailers, and I think I chose Paris as well. I just looked at the Cartier brand website to find the stores in Paris, and I thought, "Oh, that's the best way." Then I phoned them all. Several of them told me, even though they were still on the Cartier website, that they recently lost the brand. That was really the complete sign, the evidence that Cartier was really cutting back on point of sales.

You notice the brands will often say, "Yeah, but the consumer wants more choice." I mean, the multi-brand retailer of one brand, even if it's a flagship brand like Cartier or Omega or something, they will never be able to have the whole selection. Then in that way internet is probably better, right? On an online platform, customers can theoretically get any model. There may be waiting times, but you can choose anything. If you go to the retailer, okay, maybe you could order something that he doesn't have in store, but I don't know how long it would take. Maybe if I know I want an Omega, then I'm probably better off going to an Omega boutique, where they should normally have a better selection than at a multi-brand retailer. At a multi-brand retailer, you're more going if you just have a certain budget, and you're not too sure ... you're not a fan of one specific brand. You want to discover different things as well. Some people also want choice. Or maybe they think, "Oh, if I go to the multi-brand retailer, I will get better advice, because he is more objective, and will really tell me what is the best for my budget. If I go to the mono brand, okay, then I'm in this mindset. I will buy this brand, and I'll probably leave the store with that brand, definitely with that brand. They won't tell me that anything else will be better. It's just a big question, what will happen with these multi-brand watch retailers. But at the same time, when you think that some of the really big players like Rolex, and Patek, and also, I think, Audemars Piquet, obviously have mono brand stores, but I don't think it's their most important source of sales. They obviously still also rely very much on wholesale. They do so well relying on this traditional channel, then you think, okay, maybe it's not going to disappear as quickly as maybe the Richemont CFO said. Well, he didn't say when, but he said, that maybe ultimately they would disappear. The mono-brand stores have also generate very high costs, fixed costs. It's much easier when you work with third-party retailers, and then, if things don't go that well, okay, they will buy less, and it's difficult for you, but at least you don't have high costs that these mono-brand boutiques generate. The rents are really high, and staff, and everything. And you need to train the staff, that's also important. That's a big investment. Many of these multi-brand retailers, especially the quality ones like Bucherer, Gübelin and so on have a very good quality of their service, and the people working are very knowledgeable.

Customers have high expectations today, and they have access to a lot of information as well. If somebody tells you rubbish in the store ... somebody gives you wrong information, or you have a sales who doesn't know enough about the product. People ask pointed questions I guess. They also want to know what kind of movement is in there, and where it's been made. Not everybody, but some people do. Or they can easily find the information. Say this sales person says something wrong, maybe the person will be like, "Hold on, I think ... " looks on their mobile phone, and be like, "That's not correct." They know the prices as well. I read this. I don't know what the name of that is, but I was told that the Chinese, they have an app, apparently that can really give you all the comparison, all the prices everywhere for each watch model. They can very quickly say, "Oh, I could find this there at that price." Okay. They are very well-informed. They also expect a lot.

3. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

I think we've touched upon that already as well. What I just said is definitely part of the onset of that, that customers just expect more. Customers expect more choice. They expect better information and I think they have less tolerance than in the past. When the modern customer goes to a certain watch retailer with a specific watch in mind and the shop does not have it, okay, then they will either order it online if they can or go to another retailer across the street. And obviously, there are also the brands building up their own platforms. Maybe not all of their models will be available at all times. Many brands have already cut back a bit on capacity. There are brands like Patek, where that's sort of their business model, right? That the customers can't get everything instantaneously. They would have to wait. But I mean that's interesting to observe, because at the same time today, everything is so available everywhere, and you can immediately check online what is available where, that I wonder how that is going to change. How customer expectations are going to shift. Patek with this scarcity model, if that will still work that way in 10 years or something.

4. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

I think it has also, again, to do with customer expectations. It's also a question of trust. For example, take Amazon ... we just heard the other day that Amazon is now also launching physical bookstores. Maybe that's not quite the same thing, but sometimes there's a big wave and everything goes online, but then also there's a backlash where people still want to experience some things and feel the product while buying it. On Amazon, you just mostly buy things that are not super expensive, books, or CDs, and stuff. Okay. It's not such a big risk you're taking. But if you're buying a luxury watch, and if you get it, and it doesn't work, it's a bigger kind of issue. For expensive things, you want to be sure of what you are getting. You want to be sure you get the real thing. You want to be sure you can use the warranty, or you have somebody to turn to if things do not go as expected. I think for that, brick and mortar stores are still important.

Also, this whole trend with the brands to launch these mono-brand stores, one very important thing was, why do people buy luxury goods? Why do they want one brand more than another brand? It is not just the product itself. They sell you a story, they sell you a myth, a legend. They make stories around it. Why do they do all this sponsoring of sports' activities, and stuff like that, because they want the people to be part of that story, to identify with it, or they have all these ambassadors, stars. That's particularly true for luxury goods. They really want to create a brand identity that people will identify with. In the physical watch stores, that's the ideal place to do that. Where you can have this whole atmosphere. There's this whole story around, the history around it. There's this whole idea of that, this world, and you have to draw people into this. Many retailers they invite their customers in collaboration with a brand to their store or to the brands factory. Then the customers has the impression, he or she has a very special relationship with the retailer, and with the brand." Then they can tell people about it. "I have this watch and I've been to the place, and I've seen how they work there, god, it's so amazing, so small." It's this whole thing, I think, that makes people want the luxury good.

I think the physical stores do play a role in that as well. You can have a very good-looking website, where you can also create an atmosphere, but it is not the same. It's just a starting point. The idea of trust is also very important to luxury watch shoppers. They like to know that they have a certain physical place to go if something is wrong with the product where they maybe already know the people working there. It might be at a mono-brand store, or a multi-brand store, but just this is the person I trust, and I bought the watch from him or her, and if it doesn't work, if something happens, I can go back, and they will help me.

5. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***
   c) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

That's a good question. People post things on Instagram and then also, in a way, sometimes that helps the brand really to promote itself. That is obviously much more credible to other users. For smaller luxury watch retailers, e-commerce and social media is more difficult than for large players. It requires a lot of resources to do. To really do that properly, you need a person, or maybe a whole team to manage all these channels. It is all just harder for those smaller ones to be present online, and to be credible. All these solutions that need to be found for e-commerce, for shipment, for warranty, for service are simply much easier for bigger luxury watch retailers.

6. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

In my personal opinion the watch brands have to catch up, or make more efforts. I think that we are at a point where service is not as good as it should be given the price of the products. I think for many customers as well, they don't realize that so much. They go and buy the watch, and they don't realize that for many things, they will have to go back to the store. If you buy a mechanical watch, then obviously that's the core, right? Mechanical watches need service. And if something is wrong, and the watch retailer can't fix it in most cases, then it needs to get shipped back to the factory, and then the customer waits eight weeks or something. In the meantime, he doesn't have a watch. The watch manufactures want everything under their control. That applies to all areas. They also really verticalize production, and they've bought suppliers, and stuff. But also for services and stuff, they've stopped delivering parts, spare parts to third-party retailers and repair centers. This has influenced the luxury watch retailers a lot. That is an issue. But also, it just means less choice for the customers. If I have my watch, if it's still under warranty, then in any case, I don't have much of a choice, and then it seems more attractive to take it back to the brand, right? To the authorized retailer to say, "I have warranty, so I don't have to pay." I may still have to wait for weeks, but at least I don't have to pay. But when it's no longer under warranty, even then, for many repairs, the independent watch repairers may not be able to do it anymore, because they don't have the parts, and because the brands deliberately don't supply the parts anymore, the spare parts. They just want everything, and then they can fix the prices. Customers could go to the third party retailer, because it's cheaper, but if this retailer doesn't have the part, and can't do what I need, then I will have to go to the brand, and then they can say, "Oh, yeah, it's 250 Francs even for something small." Then they'll be like, "Okay, well, if I can't get it done anywhere else, then I have to go to do it with you." And then again, they will have to send it back, and it'll take eight weeks on top of the price.

I think there are things that are not really up to date with customer demand anymore and customer expectations. I think customers expect better service, especially for expensive products. There's always this comparison people criticizing this. Comparing the watch industry with the car industry, where they say, "Okay, you buy your Audi, but then you can have it fixed wherever you want, it's your choice. You can compare prices as well. "You bought the car, it's your car. You decide. You decide if you want to put a spare part that's original, or from China. It's your car. The Swiss watchmakers, they behave a little bit like the watches they sold still belong to them, because they continue to dictate. I think customers really want to be free today, free to choose where they want to get their watch repaired for which price. Especially if the warranty has expired.

7. ***What are the main challenges or advantages of operating as a smaller standalone retailer in the watch industry?***

I think at the moment, operating as a small standalone retailer in the luxury watch industry is a challenge rather than an advantage. I think one advantage for a smaller retail business that is not part of a big group is that it can be more agile and reactive. That's true for everywhere in every industry in everything. A smaller company producing whatever, or selling in retail can maybe be master of their decisions, and say, "Okay, now we need to do this, then we just do it." But I think there are more challenges, because of all the things we mentioned before.

Either you find the niche, something where you are really good at or otherwise you are just one among others trying to survive. For example, specializing in customers from a certain geography, hiring staff with a special language skill, etc. You have to offer something special, so that people know, "Okay, if I want to find this, then I need to go to that retailer. He will have the best selection." But otherwise, I think it's difficult to really be successful as a small standalone luxury watch retailer in modern times.

On the other hand, clients might have especially close relationships with small retailers. Maybe they've known the people behind the retailer for years and it's a trusted person. It can be an advantage if a small local luxury watch retailer has a strong established customer base that is returning frequently. But I don't know if that is enough to survive these days.

I think every retailer has to think about these new trends, and has to do something. Maybe also team up with other retailers to do online together or something. I haven't really seen that. But I could imagine that, this could be an idea. But then, there is the question of course, if they would be more credible than one of the big groups doing it? I'm not sure. Like Bucherer doing it, then people would be like, "Why would I buy from 20 smaller retailers doing online together, why wouldn't I go straight to Bucherer? I know that they're a big group, and I know that they will do it well. And all within one established organization." I don't think it's easy. Plus, that again needs a lot of resources if you want to do team efforts and create something long-standing.

8. ***What are the main challenges and competitive rivalry issues within the luxury watch retail industry and what is needed to be successful?***

I think also in general, for the customers, I think it is important that there is a bit of competition, and different sales channels continue to exist. I think it wouldn't be a good scenario if only big watch groups build up their online presence, and then manage to do a really big important share of their sales online, and the rest would go to their mono-brand stores. Then they would really have everything under their control. In such a case they could put up the prices, given there is demand. That's why I believe a good degree of competition is needed in the luxury watch retail industry. The customers are not that stupid. If the brands control the market too much, they will go online on these platforms, forums and post negative opinions and warnings about a certain brand.

Therefore, I think that the different brands among themselves, they can distinguish themselves with outstanding service. I think it is important, and I think the serious brands do have good service, because they know that is important. Rolex also has a five year warranty I think. They introduced that not so long ago, a few years ago, so they are conscious that it is important to give the customers good service and customer experience, because otherwise, ultimately, they would be like, "Okay. I'll just spend my money on something else." Because there's this whole fundamental question, obviously, of how popular luxury watches will be in the future. It highly depends on the country, here in Switzerland, I think also many younger people wear watches because they got it from their parents, or it's also just a bit embedded in the culture. But looking at America for example, how many people in the age of 20 will have a Swiss watch? They will maybe have a watch, but probably it's going to be an Apple Watch, if that's a watch. They will have smart watches, something else, or no watch at all. They'll just have their phone.

Then, okay, the Swiss watch industry is lucky, because the production stays very small in terms of units. If you look at the whole world, and so many people get richer, and have more money, and can afford watches, so if they're clever, they should still be able to find their customers. There will be at least for the foreseeable future enough customers to address. But that's why I think hey shouldn't neglect things like services and experiences because otherwise, people will just stop buying luxury watches and buy something else instead.

10.1.5. Mr. Marco Galli Galli Uhren Bijouterie

Transcript Interview Mr. Marco Galli (Galli Uhren Bijouterie)

Interview Partner:	Mr. Marco Galli (Owner Galli Uhren Bijouterie AG)
Interview Details:	06.07.2018, 10:00 am, Zurich

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What are the main advantages of your small and independent retail store/company? (What makes you successful)?***

We are just here in Zurich since 1882. Which means I'm the fifth generation of the store. So mainly, very important for having a family business is to work with main clients, means locals. We do a lot of events with many different brands and we don't only have watches, also jewelry and this is one of the main strategies. People know it's still owned by the family. We always try to find a quick solution for our client, which is on the other hand not as easy if you are in a big group or in a mono-brand store belonging to a big group. We do have a very tight contact with our clients. We also work a lot through recommendations, working with different banks, insurances, and so on.

a) ***Have you already been thinking of growing the business geographically one day?***

No. We used to have a store in the Zürich main station a long time ago. Well, 15 years ago, maybe. Selling mostly Swatch, was doing quite well, but then the mono-brand Swatch opened and the industry changed. So it was not really worth the work anymore. We are happy here, actually. Maybe one day if it happens But the rent prices are also very high. This here on Bellevue is actually our own building. Not the entire building but this and other three floors. This is also important because as you can see on Bahnhofstrasse it gets expensive for many traditional stores. And also here, suddenly when you have to pay the double rent a month, it's difficult to cover the cost. This is a problem we don't have. It's also a big advantage. Looking at the stores on Bahnhofstrasse who it belongs to: Les Ambassadeurs is in rent, I think Bucherer too, I'm not quite sure. Even Beyer is in rent, the oldest watch store, which is very surprising. And the only one which is in their own building is Meister.

2. ***Who are your main clients and what do your clients think of large watch retailers such as Bucherer?***

Well, it reaches from being a teenager, until 80, 90. Recently we had a client from Australia which was 100 years old already, still traveling around. So we have quite a good portfolio. We have some brands also that Bucherer doesn't have. Omega, for example, and I think also Longines. Although we are not positioned in the Bahnhofstrasse we're quite a bit far. So we cover a lot, a huge part from the Goldcoast of Zurich. Some of our clients say they don't like so much the Bahnhofstrasse anymore because of all these mono-brand stores. What people appreciate is always that one of the colleagues is here, means me or my father. It just gives a better feeling. And also our employees they work here since many years already. We just recently had a watchmaker who's been here for 40 years. Until two years we had an employee who was here for 50 years. Next year another employee will have her 20 years here. With regards to the clients, we have for example IWC collectors, they buy for sure one watch a year. Mostly special editions. I also have clients they buy every four year a watch maybe, or maybe once a watch for a lifetime. But we also have older generations, they're like 60, 70 and still enjoy buying jewelry or watches. So you don't have to be young to buy something long-lasting. We are always here for the clients and do a good service. We also have a watchmaker in house. It's very important sometimes to just do something quickly. We also get, depending on the brand, some parts so we can do the things ourselves. So we do it much quicker and it will cost the client in the end much less.

3. ***What are the main challenges of operating as a smaller standalone retailer in the watch industry?***

The challenge is for us, of course, the mono-brand stores. For almost every brand we sell there is a mono-brand store not far away from here. So if a client wants to have the full collection and try every model on, you do not find it here. You will find it in, let's say Omega boutique for example. Or maybe some clients they don't know a lot about the industry and they want to buy an Omega so they'd rather go to a boutique because they think it's just the better service. Which is not true, I think, but it's kind of a trend, all these mono-brands. For the lower price range is e-commerce is very strong and this presents a challenge for us. We still have Swatch as a brand. This we will finish because the sales went down compared to the last couple of years. Many people buy online in this price range. Swatch goes up to maximum 300 francs, I guess. Maybe another topic is that Tissot will also be sold in future a lot online. We're doing pretty well with Tissot. So this can be a challenge, also. Or that maybe a brand says one day, "Well, we're not happy with you anymore. We sell the watches in our own stores." We're doing pretty well so we don't hear this kind of things with regards to sales pressure. We lost Hublot one-and-a-half years ago. We used to have that brand for many years, we were supporting it a lot and then suddenly came a letter saying, "Well, we want to sell our brand only in our own stores mostly, or online." We didn't do as good as we did before. We pushed the brand a lot. Of course we would have liked to work longer with them but in the end it totally made sense because they were not doing very good anymore. They have an expensive boutique so they want to sell it there. Yes, but there are still many other brands which are doing good. We started working with Tudor around one year ago. They belong to Rolex. And they do very good. Good price range for young and older people. But we don't have a huge pressure from the brands. They appreciate a lot the family business concept. A certain consistency. If you're reliable they really appreciate that.

4. ***How do you see larger watch retailer groups? Are they a threat to your business? (What is their advantage?)***

Well, the advantage is, I know Les Ambassadeurs quite well, they work also very good with main clients, this I know for sure. They have a very good concept in the way that people work there. They have their store in Switzerland and I think only one abroad. We don't look at them like a threat. With Les Ambassadeurs we work together sometimes, for example, if we have a client, he wants to see a Breitling we don't have so we can ask Les Ambassadeurs and they give us the watch. So there's a kind of partnership. I know Mr. Ziegler also well and some sales there, they're very kind. It's more like helping each other with them and also Beyer, for example, we also have a very good relation with him. But with Bucherer we don't have any contact. They're a huge group, anyway already, so they don't need this kind of cooperation with other stores. But as a threat, we could maybe indirectly see the large players such as Bucherer doing franchises, which means operating mono brand boutiques in Bahnhofstrasse with, for example, Jaeger or Rolex or the Audemars Piguet boutique belongs to Bucherer. So it's kind of we don't have these three brands, but they're very huge. That's true. They have franchise brands but then Zurich doesn't affect us. I mean the boutiques they own are from brands we don't carry. So we don't have AP, we don't have Rolex, and we don't have Jaeger. So it doesn't concern us much. I'm not sure if the new Oris boutique is franchised by him as well. Generally the boutiques are a bigger threat than the Bucherer Group. And now it's difficult to say. They're doing a renovation since one year or more in the main store in Zurich. Let's see how it is when they open. It will take a while, but let's see.

5. ***Has your family already been thinking of selling the company to a larger player such as Bucherer, Gübelin or les Ambassadeurs? Do larger companies often approach you with the desire to acquire your company?***

No. We're not interested. In the past I think we had offers. But no, it wouldn't make sense, I think. For Bucherer, when you're in Bahnhofstrasse you don't need the Bellevue. For Les Ambassadeur, they just opened a new store, I think, in Interlaken. They don't need another footstep in the same city.

6. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

They want to get bigger. Of course they want to have more power. And when you buy a second-hand store or market or online platform you also want to kind of try to control it. This can be positive or maybe also negative for it. Well positive, I think Richemont will profit a lot from the experience they have from online selling. But in a way you can also change the prices of second-hand products. I think in the past there were some retailers who sold to these kind of companies that usually only sell worn and second-hand watches, so they tried to cut that. For example there is this platform CHRONEXT. CHRONEXT is in Germany so maybe, I think, especially in Germany they had some old stock models which are very hard to sell so what they did, they sold to CHRONEXT just to get rid of the products. They sold to them and CHRONEXT sold it lower priced online and this destroys the boutique concept. That's why also the brands many times they buy through these companies like CHRONEXT to see where the watch came from. They have a serial number, they know everything about it.

7. ***Luxury watch retailers but also watch brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

Digital skills are crucial, I think. To have a good homepage doesn't mean only e-commerce. That's why we're working on a new homepage now. We go online, in maximum two months. It's kind of the window for the client. So when you have an old homepage and the client sees it, he's never been in your store, and he sees an old homepage, it's already loading for five seconds and they just click away and think, "Well, this is not very modern. I don't want to buy there." This is very important. The second-hand business, is something we don't do, there are many other stores we recommend if a client wants to sell a watch and buy a new one, we can always talk about it. Maybe find another client who buys the old watch, then the client gets a really good price. If someone has an old Omega Speedmaster, for example, and he or she can leave the watch here, we know some people who are always interested in certain models and then we say, well, we can offer you 2,000, 2,500 for this watch. You can choose something from our store. This we do sometimes, there are other stores more specialized for this. But it's not that we put second-hand watches in our window. It is kind of a project we might be approaching in the future but at the moment, nothing. But it needs a lot of skills and it's something very difficult. Because many clients come, they have an old watch, they want to sell it now. They want cash now. Even one or two weeks is already too long. They want the cash now and buy now, something different. So you need the people to analyze and know already what kind of price you can get at a store.

8. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

Well, a trend was for example, this whole online business, they expect an Instagram appearance, social media, the whole thing. Is a new trend although some clients still like to see this mono-shop concept as you can see in our store. Our IWC corner here, for example. So they feel closer to the brand because you have a kind of a concept that is very specific to the brands your selling. We don't have much Chinese clients but Chinese for example feel better with these kind of brand corner concepts. The brand feeling is stronger and people feel more close to the brand but for us it doesn't make it very easy because you have, let's say four different corners, and each brand wants to be the biggest, so it's a lot of negotiating.

9. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

People want to try on the watch. They want to try on the watch in a center place where they work close by or something. They want to feel it, it's a part of the whole experience. In our store, also you can compare the brands with each other on the wrist. Get detailed information about it, maybe want an additional strap. You need a place where you also can service your watches. Not only one watch from one brand, so you can do the whole thing in one store. This is important and Switzerland is a small country. The online business is not as vital as in the US. As you said, US is very big. Tourneau sells many watches online, also. But in certain cities in the US you don't have any retailer of the brand so people tend to buy more online. One other reason, because you can get the watch there, they live too far away from the closest store, which is a lot supporting the online business in the United States. And also, now the brands start selling their own watches online so you don't literally need Tourneau to order the watch. In the US you can order it directly already from Omega, for example. Or from NET-A-PORTER when you want to have a Breitling or IWC. We also ask ourselves, let's say we have an online shop, and we want to sell watches online. So why does the client want to order it from us rather than from Tissot. Tissot has most of the models in stock already, and we might need to order it first from Tissot then the client has to wait more.

10. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***

We will have a new homepage in a few weeks, but we won't start with an online shop. We won't, in the beginning, maybe later we will do it. We want to display a lot more watches than we do now. Now is pretty old and we want to show all of the prices to the client with the reference number. We also want to create a blog, for the clients to have some insights into the industry. Also display a lot of novelties when they arrive in store etc. But an online shop, no.

d) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

I think with the brands we make the most money, they are more higher priced, of course, and this is a watch you usually don't buy online. And if a client really wants it, we can still send it anyways to his address. We want to display more watches. The new concept in our homepage will be that instead of putting the watch into a cart, and order it by credit card. You can contact our store and kind of reserve it. Then we get an email and we can get in contact with the client and say you can come to our store or we can also send it, you can make a bank transfer, or this and that.

We sometimes also use Instagram. I do it for our store, I don't upload so much. We had quite good interactions with some brands already. And it's good to have it, it's also good to show watches. People do a lot of research before going to the store. They want to see our ratings on TripAdvisor, they want to see the ratings on Google. Also tourists, I recently had a client from India and the main reason for him to come to our store was the good rating on Google. We had a 4.7 and this is the reason he came to us. It's like when you decorate the windows to showcase the watches. You want to do the watch straight, you want to put the price as nice as possible, the client wants to feel confident not that you have any dead flies in the vitrine or something. This already gives the client the feeling of: well, here it is not very well organized, it's not clean, maybe they're not reliable. The same thing goes for the whole social media. It goes for the homepage, it's like a window outside. And also the ratings are important.

11. In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?

That's difficult to say. They, of course, always expect a good service. This is something we always try to achieve. How it will be in 10 years is very difficult to say. Looking back 10 years from now, a lot changed. With mono-brand stores, retailers getting bigger and bigger. Customers are also very educated on the products nowadays. We constantly need to stay up to date. The brands, they offer training to us. For example IWC, Omega, Breitling, they do training every year so our staff can see the collections. Usually these trainings take half a day or a whole day. Also Tudor did one with us this year. Because the client expects a lot from a sales person. If they ask you, "What kind of movement is it?" Or, "What is the power reserve?" and the staff has to look in a book to double-check, it's not a very positive feeling on some collectors or clients or whatever. So they need to know it. That's why it's important to have staff which are really interested in watches. And they enjoy it. And those of the jewelry, they need to know many things. So you need to have staff really live the watches. It's not just like a 9:00 to 6:30 job. You need to be on it all the time, see what's new, in terms of limited editions also which was kind of a trend in the last couple of years. Very important. That's why I always try to be up-to-date and if they don't know something they always ask me or someone else. The internet gives a lot of information to the clients and it will always be like this. It's also more difficult for the brands because you cannot ask an astronomical price for a watch with a movement inside worth 40 francs because people know what is inside.

12. ***If you had a wish, what would you wish to improve/change in your industry?***

Good question. The luxury watch industry is a lot dominated by Chinese clients. A lot. And it is immense how much money they spend on European products. That sometimes I have the feeling that certain players forget the local markets. Some people didn't do anything for the locals. Some brands, I mean. Luckily none of the ones we have but they start to suffer a lot here. Because some brands were only investing in marketing in Asia, China, China, China, China. And now, when they stop buying luxury products or Swiss watches, they have a huge problem and they regret to stop investing in other markets. But many learned from it, already, and do quite well again in the industry.

10.1.6. Ms. Tiia Mäkinen Musta Experience

Transcript Interview Ms. Tiia Mäkinen (Musta Experience)

Interview Partner:	Ms. Tiia Mäkinen (Managing Partner and Founder, Musta Experience)
Interview Details:	06.07.2018, 1:30 pm, over the phone

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

Well, in overall I think that the luxury industry is going through a tremendous change, as well as so many other industries as we speak. So it doesn't only apply to the luxury industry in my opinion. Basically, in my opinion, the change is mainly driven by dramatically changed customer experience and customer behavior. So that tremendously changed including the whole digitalization, which is impacting not only customer behavior but how the company behaves and how the company operates. So I think there are many different issues which ultimately impact to, let's say, industry-wide change or cross industry-wide change. It's not only the luxury industry. But when we come into the luxury industry, the consolidation over there which is happening in the retail industry, I'm not an expert on that. I don't have a specific opinion about that. I can only talk based on my experience with the luxury industry and with companies operating in luxury business, I would imagine that the reason for the consolidation trend is that the luxury watch retail industry is in panic, and this is somewhat of a reaction to that. It's similar as what was happening couple of years back with the private banks. The same consolidation was happening in the private banks, which meant that bigger banks were merging with smaller operators on the private banking sector. And that happened a couple of years back, so I think this is kind of like a repetition of that, so, if you want to, I would highly recommend you to look for more information about private banking industry and the consolidation, what has happened after the financial crisis. And I think, to me, this reminds a bit of this similar exercise, and of course when we are talking in general about business practice, and margins are getting thinner and thinner in each and every business, then this of course has an immediate impact into the business decisions when you look at it from numbers perspective, that consolidation is of course one of the realistic options when you look at it purely from numbers. Yet again, I have to say that personally I do see how some companies find it an interesting strategy to go for M&A; however, if you do M&A without a holistic strategy, without a perfect understanding of where do you want to go, how will that impact your client experience, how will that impact employee experience, I think there is a high risk that this kind of M&A is not successful then. So what I mean by this panic reaction is that sometimes companies have a tendency to only look numbers when they are doing M&A decisions and not necessarily long-term vision or their strategy or their brand positioning or their client experience development. What is it that they are after for with it? What's their vision? And how are they planning then to integrate the employee experiences after this M&A? I would give an educated guess that at least half of M&As that are being done do not take into consideration these topics. I do think that when they are buying skills, they need to have an idea of why they are buying those skills. And I would be interested to know and understand into what kind of a strategy these skills then connect to. How do they complement each other? What is the big vision behind those skills and capabilities?

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

Innovation skills, people skills, culture, client experience insights, client experience strategy skills, brand strategy skills. Accompanied with marketing skills, like modern marketing skills. Of course there are some digital skills, I would say, but that for me goes underneath the innovation capabilities, and over there I of course see the R&D, product development, et cetera of course falling into that. To be really honest, when it comes down to luxury watch retailers, what kind of skills and capabilities ... Other than what I listed, you know, what could those be? With the M&As you buy new access to new clients, right? So you buy new channels. You buy new client groups or target groups. You buy new markets. So that is clear. For me, that's a self-evident part of an M&A. But for me those are not skills, per se. For me skills are innovation skills, people management skills, marketing skills, branding skills, training skills, selling skills. You know, those are skills for me. But buying a channel like an e-commerce platform, that's buying a house. That is furniture. To me, that's not a skill. It's a hardware. And that's a speedway. Instead of doing it and building it yourself, you buy it as ready-made. That is clear. That's what you do in M&A.

3. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

First of all, redefinition of luxury, what luxury means, how it is being positioned. What is the purpose? What is the messaging? What is the positioning of luxury? All of this are being, kind of, reevaluated as well by customers, not only by companies, of course, but especially by customers. And, in my view, there's certain kind of like democratization of luxury going on, especially how we have defined luxury being exclusive, expensive, relating to status. I think we have, at least in a Western region, we can say that the meaning of luxury is shifting away from those a bit. It's shifting more towards quality, the uniqueness, sophistication, what is rare, excellent reputation, rather than this kind of privileged and pretentious luxury. So I do see that the meaning of luxury is being redefined, and also the access to luxury has been democratized, meaning that are more and more people in the world who have the access to the luxury products, for example. So one of the key elements of luxury is that it's rare. It's unique. It's something that not everybody can get their hands into. So how do you, in this kind of a situation, define what is luxury? If the secretaries in Asia can buy the watches, what does then the luxury mean for the manager who that secretary works for? I'm just saying that this is a little bit of a drastic example. You know, the access to luxury has been widened, and I do think that of course there are many things that influence it a bit like the whole digitization, the e-commerce, the globalization. People are traveling, they are moving, they are buying things. The products that we buy are globally relatively similar. So how do you make something stand out over there in the name of luxury? How do you make something unique in that? And I think that's the challenge that the luxury business has to solve, and I haven't seen it happening yet, to be really honest. You cannot say that luxury business can survive too long by only defining, "But we have the highest quality of materials. But we have the craftsmanship. But we have this and that." Because I can tell you that the Hermes bag, which is done apparently in Argentina in this specific leather is done exactly the same way in China. Not in mass production, but in China with cheaper employees and workforce. And it's exactly the same. You really cannot tell the difference. And when this comes in play, this whole notion of globalization, I question that do you dear Hermes, really claim that it's hand-made by artisans? I don't think so. So, as a consumer, I don't necessarily believe in that because I have seen nicely done pirate copies of those luxury goods, for example. I do think that, as a luxury industry, you cannot piggyback on the same definitions of luxury that you have done for the last 30, 40 years because that world doesn't exist anymore. So I think this is something which hasn't really sank in in the luxury industry because they are in a little bit of an ivory tower. It's a denial of change. It's a protest. And the luxury industry hasn't really gotten their heads around what it really means with profound change in their customer behavior. I think that's one of the points with these M&As. Don't go with an obvious M&A, which I think Bucherer's acquisition is. Of course, they have the resources that they could do it, but I would question that has Bucherer really thought it through of what is their long-term strategy in a changed customer world. Maybe it would have been more advisable then to do M&As with 10 different startups rather than one big dealer in the U.S. I'm just questioning whether they even looked into this opportunity or whether they looked even into this idea and asked themselves what it would have meant.

4. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

I think this is a debate that so many industries are going through. I remember when I worked in a bank everybody was saying that we don't need branches. But they are still there. I do think that in the future we will have hybrid models, but those hybrid models need to be strategically defined and complementing one another in a strategic way. I honestly don't think that you get too far as, for example, as a luxury watch retailer if you only think about one channel, and say "Okay, through retail we reach this kind of a client, and through e-commerce, we reach this kind of a client." No. I do think that these worlds need to complement one another because, all of us as customers, we do our research online, and we might go to the store to try it out, but then we end up doing the purchase process online again. It is important to define both, the meaning of the physical space and the online space. If you don't define those based on customer behavior, I don't think you will get too far as a company, to be really honest. And it absolutely depends on who your customer is or how do they want to behave. So maybe in the U.S. it makes sense to have retail branches, but then maybe again in Europe it doesn't. I don't know luxury watches' customer segmentation in that detail that I would be able to tell what makes sense in the

U.S. and what makes sense in Europe and what makes sense in Asia based on customer behavior.

5. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. Can a small standalone player in the luxury watch retail industry be successful in e-commerce or is this a privilege of large players?***

No, absolutely not. Everybody can set up an online shop if they want to. That's the beauty of digitalization, it's like an open space. I just recently read an article. It was about how a big luxury company was completely denying their biggest Instagram influencer for that brand. But the reality according to analysts was telling another story. And that's what I talk about when luxury brands think that they have an influence, but they don't. The influence and the power is with the customers, and they cannot dictate who will be their biggest Instagram influencer. Of course they can buy those as well, but there are also organic influencers. So therefore, you cannot dictate nowadays in the luxury business who is your biggest fan. These days I think you cannot be too blind for competition. It can come from anywhere, honestly.

6. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

There are a couple of things in here. There's this transparency. People want to know where the materials are coming from, who's making them. It relates to this, also, sustainability, which could be one of the things. Especially in the richer segment or in the ultra-high net-worth individuals, it's all about purpose. So what is the purpose? What do I want to achieve with my money? My satisfaction and my happiness is not fulfilled by a watch, but it's much more of a higher purpose. What's the story behind? How am I part of that story? How is this part of my story? How do I transform myself to become a better human with the help of this brand? Let's say, some people would call these esoteric questions, but I do see that those trends are coming, and they are coming in a big time. And there's not a lot of dialogue happening in the luxury segment of this. And then what I already mentioned is the meaning of luxury. How do you define that? Digitalization: how do you know your customers? So how do you collect the client data, because customer understanding is the key. The better you know your customers, the better you are able to provide them the service that they need, and the better you are able to adapt your strategy according to the customer needs. It's becoming very, very individualized, very individualized. And what does that mean for the luxury business? This whole notion of personalization, individualization, this whole notion of uniqueness: how is the luxury business going to respond to that? And then the power has already shifted to the customer. I think a lot of companies, not only luxury businesses, a lot of industries are struggling with that fact. That means luxury watch retailers need to redefine how they best serve their customers who have the power.

7. ***What are the main advantage and disadvantages of operating as a large consolidated player in the luxury watch retail industry compared to the advantages and disadvantages of operating as a small standalone player?***

Well you have the resources. Large luxury watch retailers have access to main markets throughout many different target groups. You are a long-standing brand. You have your reputation. You have your established brand position, which you can build on, so there are many advantages of course for a larger player compared to the smaller, standalone player. And I think for the smaller, then, the advantages are you can be really unique. You can provide very innovative stuff, whereas the larger ones necessarily are not that easily adaptable. They cannot change that quickly. They are very static sometimes. They cannot move that quickly. And then for the smaller ones, of course, they don't necessarily have the same resources as the bigger ones, but then again they can collaborate perhaps easier with other operators. Smaller ones also don't need to use a lot of resources to build their brand because the luxury business is all about the brand. But if you're smart, I think, these days you can do that relatively easy even with scarce resources. The brand-building has been made relatively easy. So I think it's all about the degree of innovation. I mentioned that the deficit that the smaller players have is that they don't necessarily have the brand positioning so strong yet, so they would need to use some resources to do that. But these days, if you play it smart, you can actually do brand-building using very selective strategies and scarce resources. And you might even have a bigger impact than a big brand with their traditional approach.

10.1.7. Mr. René Weber Bank Vontobel

Transcript Interview Mr. René Weber (Bank Vontobel)

Interview Partner:	Mr. René Weber (Managing Director Bank Vontobel AG)
Interview Details:	11.07.2018, 9:00 am, Zurich

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

I think it came mainly also from the development with the different brands. So you had the consolidation there as well. The large groups have gained market shares over the last few years, so that to be a more important partner to the brands, it makes sense for you to have several positions in different markets. Also from a risk point of view, the market is changing quite often as soon as the currency fluctuation takes place, so currently if you buy a watch in Switzerland, it's much cheaper than you buy it in Germany. Therefore if you are just in Germany, you are a loser. But if you are in Switzerland, you are gaining. And that was two years ago exactly the opposite.

And then also it goes in the same direction for the Chinese customers. The Chinese customers also are changing their behavior in terms of traveling. So three or four years ago, they did not want to go to Hong Kong anymore. Therefore, it was a big collapse in Hong Kong, but they moved to Japan. And so Japan was booming. And the same is now happening here in Europe. Currently we see more people, or more Chinese people going to Switzerland instead of Germany, and so Switzerland is also gaining market share from that perspective.

Therefore for the brands itself, it's also important to be in all markets all over the world, and therefore the retailers at the end they have to follow. Of course, Bucherer, which used to be mainly Germany and Switzerland, they had the problem when the pound got weaker because all the Chinese were buying watches in the UK. And therefore there were a lot of Chinese buying Swiss watches in London, and I think it was one reason to have the Chinese also as customers in the UK, and therefore Bucherer acquired a UK company, The Watch Gallery in 2017. So at the end, it's geographical diversification which makes sense for the group but also is in line with the brands which also do the same.

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

As I already mentioned in the beginning, I think when you look into the watch industry in the last few years, there were already two major trends, so one is e-commerce and the other one is the CPO market. When you look back two years ago, Bucherer had nothing in e-commerce at all, even the whole digital platform was very weak. So they started with a CRM which is a very important step. I think you have to know your customer and with the CRM they have started to go in that direction. That was done by their own. But then the second one going into e-commerce was a big help with the acquisition of The Watch Gallery because Watch Gallery already had the platform in the UK. And the reason for Bucherer to get up a platform here in Switzerland and Germany so quick was mainly due to the Watch Gallery acquisition.

If you go to the next step, to the CPO market, Tourneau the US company, is one of the leader in the US in that market. So here again, Tourneau can deliver them, the CPO platform, which is already in the US but also could be used for Bucherer here in Europe. At the end on a global basis. They are not in Asia, so they are clearly not in Asia and currently the CPO market is not really strong in Asia. The Chinese people still prefer to buy a new watch but over the long term, of course, Asia will be a topic as well. But for Bucherer no, it's not the current target I guess. They focus now on the integration of Tourneau and already the Watch Gallery what they have done before. I think the CPO market at the end will become important as well, especially as now Richemont has acquired Watchfinder in the UK, which is the number one UK CPO player. If you look at the large groups, Richemont is now the first one that invest into that business, it clearly shows that it will be one of the emerging, growing markets of watch retailing. It fits really well together because what Watchfinder was missing was geographical exposure into other areas. Watchfinder is a purely UK business. They have some US clients, but very small. And so having the know-how of e-commerce with Yoox-Net-A-Porter (YNAP), I think it will be easy for Richemont to bring that together with Watchfinder and bringing out Watchfinder as a global platform. In the CPO market, a very important player is also Chronext the German one and then the US one is The Watchbox, which is also now expanding outside of the US. They have just opened up a Swiss subsidiary. So they are quite a good company, which is very strong already in the US. Also have quite interesting people behind, which bring the money. But of course Watchfinder which has now Richemont behind is even another size than a privately owned company. The CPO market, you can compare with the used car market. Because important is that you have a guarantee. If you have a guarantee, even if Richemont is behind, then you know that you are not buying a fake and you are not buying a watch that does not work properly. And so therefore the C of the certified pre-owned, I think that's a really important point and will be at the end also something which goes against the gray market. For Bucherer but also even more for the brands, the gray market is something which is a big issue. So I think Richemont has now found a way with Watchfinder, to go into CPO in a really big way.

3. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

At the end it comes with age, I think when you look to the development. So the older generation, let's say above 60, they are not used to e-commerce. I think people which are 40, 50, they are much more e-commerce oriented. And of course younger people are even more. If you look at the current main buying group of watches, that's between 40 and 50. I think they make more than half of it. And as the younger generation is much more into Zalando and this kind of stuff, but they are probably not yet watch buyers, but they move to that direction, then e-commerce really plays a role. With the Chinese, that's a little bit different. Chinese are much younger in terms of watch buyers. But yeah, for Bucherer, currently the Asian market is not big topic. They just have Chinese tourists.

I think due to internet, people have a much bigger know-how than they had in the past. They come in the store, they probably know more than the shop, the retailer itself. Therefore you need people who really understand the business, who really understand watches. You probably need higher qualifications for your sales staff. So I think it's not possible anymore to have a person in there which have, let's say, half a year of training into the watch business because the customer learn really fast. The problem is that it's also a trend that as they know more about watches and about the brands, probably they know exactly what kind of watch they want. And then some of them go directly into a mono-brand store, and not into multi-brand stores. And so for the retailers it's also important that they do not just have their own multi brand store but they run some mono brand stores. And I think that's big help from Rolex and Patek which do not have any own stores. So if you go here in Zurich, the Rolex store is run by Bucherer. Or if you go to Patek, the store is run by Beyer. That's all over the places. So a lot of the brands have their own stores which they own. So Omega has a lot of own stores but if you go to Rolex, Patek, they've always done it with partners. Those retailers like Bucherer, they know the market. And if you look to the Patek store, that's just a side of the Beyer store, and therefore for Beyer it's really easy to reorganize the people between the Patek store and the multi-brand store. And of course if you are here in Zurich, Bucherer has by far the biggest exposure. So beside the Rolex which I already mentioned they also have a Tissot store. They run the Audemars store. They run the Jaeger le Coultre store. So they have several mono brand store. Or if you go to Lucerne, everything which is behind the Bucherer store is operated by Bucherer.

4. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

I think with watches it's a different story than it is with fashion because with watches on one hand you pay much more. And when you look to e-commerce, the major business is between 2000, 5000, perhaps it goes up to 10,000. And you will probably not go for a watch which is above 10,000. There's an exception sometimes, but usually if you want to have more expensive watches, then you go into the store. And the difference between watches and fashion, if you buy a watch, you always have to do some adjustments. So probably your bracelet has not the right size, the right length. Probably you do not understand how the moon-phase really works. If you want to change your bracelet or if you want to go for service, you need somebody, and therefore you need the watch retailers.

But there are currently probably too many players around, and therefore that's another reason why I believe we will see further consolidation in the industry because there are so many small player which cannot offer that kind of service level; or they cannot offer that kind of events like Bucherer is doing, which really needs a CRM behind. But overall you can clearly see that in terms of mono-brand stores we will not see an increase anymore. I think that trend is over. And you look to brands like Cartier or Tiffany, they have now, all of them, roughly 300 stores. For example, Cartier has not open new stores in the last eight years, there's no change anymore; they go mainly for renovations. Of course they close down one there but opened up a new one, but over the last 10 years, it's always 270, 280 stores. And also for watch retailers, I think you will not see opening up more stores in the future. If Bucherer expands then usually they will try to acquire a smaller one, or probably they do not have to acquire a smaller one because they are already quite strong in most of the European cities. Of course it always depends on opportunities. So Tourneau was clearly an opportunity, which was up for sale. I think also the US was a market which was on a decline now for five years. Tourneau was also declining for five years. So I think it was a chance for Bucherer. On the other hand, when looking to the Asian companies, it is still very much fragmented. You have quite large players there, but just if you go to Hong Kong, you have four large players. If you go here in Switzerland, it's always more consolidated. But if one of the large Asian players come up for sale, I guess Bucherer will be interested as well. The question for Bucherer, and I guess they will do that, it's not decided, if they change the name Tourneau into Bucherer, in my opinion it will make a lot of sense because Tourneau is well known in the US, but it does not have really a reputation for being a luxury watch retailer. It's more of a watch retailer. And I think Bucherer itself, tries to position themselves a little bit on the higher level than Tourneau is, and of course it would be much easier to have one brand, one global brand, in terms of e-commerce it's easier, in terms of advertisement is easier. And the Chinese customer which is still among the most important one, when he sees a Bucherer, he knows what he can expect all over the world.

5. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***
    e) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

For me, not. I don’t think a small luxury watch retailer can be successful in e-commerce. I think Gübelin, was the first one who started with e-commerce here in Switzerland. And Gübelin is considered to be number four in Switzerland. And I think already for them, it was quite a big investment, and I think being number four, it could still work because he has several locations. But if you are just one store business, like Galli is, he's in Zurich. He knows his clients. He has the same clients now for all over the years, I think. Therefore, he does also not have a lot of Chinese people there. Chinese are more on the Bahnhofstrasse. And so I think smaller ones, no, it will be really difficult because it really needs a lot of investments to do that. And at the end, the consumer has to know you, has to know your brand. Galli is known here in Zurich. He has a great reputation here in Zurich, but that's it. If you are Bucherer, Bucherer is well known in Switzerland, well known in Germany, so they already have a much broader client base. And now with getting into UK it's getting even bigger. So I think if you go on Google and you enter watch retailing or you give in the brand, then probably Galli will never pop up. So you need one of these big names. I think watch retailing is really different than fashion and all the other ones. You need much bigger know-how than you need for fashion. And so Bucherer has established themselves, they have a very good reputation and, I think that's the most important point, if you have Rolex as your partner, then you are on the safe side. Rolex is not willing to go e-commerce, Patek either. Therefore the only way to get Rolex is at the end in a Bucherer store. Yes you can buy it on the CPO market, but you pay much more than you pay in the retail store. So when you buy a Daytona, you have a waiting list for four years, you pay 11'800 if you go to the CPO market, you can buy it as well, but it cost you 18 or 20 thousand. And for Patek Nautilus it is exactly the same. It's also 20, 30% premium you have to pay if you buy it on the CPO market. If you have these two brands, then you are on the safe side. E-commerce will not play a role for these two brands in the short term, I have to say. Perhaps they are not as much driven by the gaol of constantly increasing sales as probably companies which are on the stock market. So if you go to Patek, Patek tells you we do not produce more than 58,000. If you go to Audemars, they say we do not produce more than 40,000. Rolex does not give you a number, but you also can see a little bit they try to limit the grow. They want a certain exclusivity, they would not want to have their new watches on an e-commerce platform, because then it does not make sense. So up to now, perhaps it's changing 5 or 10 years, but currently Rolex is clearly not online. You get all the information online on the Rolex platform, but you cannot buy it online.

6. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

In the past we could always see that the average price of a Swiss mechanical watch moved up. And now in the last two, three years, that started to be more flat. So it looks like that people are not willing anymore always buy very expensive watches. That was the reason why a lot of brands have started to push more the lines on the entry level. Also when you look to Rolex, Rolex is not pushing the 20,000 Swiss Franc pieces. They are going for the GMT for the 8,800. Also when you go to Omega and all these brands, Cartier was the typical example which made it really wrong. They tried to bring up their brand into the price category where Patek is. So 50,000 Swiss Francs or more. The customer was not interest in it. If you spend 50,000 Swiss Franc for a watch, you want to have a Patek or an Audemars but not Cartier. That was a reason why Cartier had to buy back quite a lot of their inventories. And the inventories buyback was mainly for these high end pieces because the market never really understood that. So now also Cartier started two years ago being much more on the entry price level. So you see a lot of new watches coming out for three, five thousand Swiss Francs. So that was one of the customer trends you have seen.

On the other hand, talking about services. I think service will be even more important in the future. There are always more watches in the market, and therefore people want to buy a brand which they know, which they know that they have a service. Sometimes the problem is it's rather expensive, so if you bring in a Patek or Rolex or Omega, you spend 500 to 1000 Swiss franc for a service. And so it's expensive, but I think people start to understand, because it always has to be done by hand. Goes back to the factory normally, sometimes also at retailers such as Bucherer. But yes, I think that helps at the end the large retailers to gain further market share.

7. ***What are the main advantages of operating as a large consolidated player in the luxury watch retail industry?***

One main advantage of large consolidated players in the luxury watch retail industry is surely their purchasing power. So for the brands it's very important to have a Bucherer as a customer. And on the other hand it's also the geographical diversification. So you have less risk if you are in different places.

8. ***What are the main challenges or advantages of operating as a smaller standalone retailer in the watch industry?***

No, it's more of a challenge. I think the advantage is to have the local know-how, the local customers. But they are not used, for example, to a group of Chinese. Therefore the smaller ones they are dependent on the local customers. But yes, probably they have a customer base which helps them. On the other hand, they have the challenge that they can keep the brands because all the brands want to reduce the point of sales, to concentrate their business, move with the large players. And the third point is also inventories. If you are local player, the inventory management is a really important task. If you are a large player, you can ship around your inventories from Zurich to Geneva, from Zurich to London, where you have a demand. If you're just here in Zurich, probably you have some watches which you can never sell. So inventory management plays an important role for them.

But as you can see in the last few years, there was a reduction in terms of the small retails due to the fact that the brands wanted to have more mono brand stores. This stagnated now, I think. And now the second part is that they want to concentrate more on large retailers that have a bigger purchasing power. In the USA, they have the local customers. But I think the consolidation will take place as large global players come to the US market. Until now it was a US story, but now you have Bucherer coming in, you have Aurum, one of the three top players, and now being engaged in the US market and probably also the US will start to consolidate. And in the US you clearly have seen a consolidation in a way that you see a lot of closures of really small stores because some of the brands did everything themselves by running these mono-brand stores. So there's also a consolidation process in my opinion going on in the US.

9. ***What is, in your eyes, generally crucial in order to be successful as a retailer of luxury watches, and how will this change in the future?***

The most important point is to get the right brands, which means get Rolex, probably Omega, you can have IWC and on the female, Cartier, Chopard. You need real good brands which are well known by consumers and which are in demand. So you cannot open up a retail store with just small brands. It will not have any customers at the end. So the brands are most important one.

And then a second one is also location. So it does not make sense to have one store in St. Gallen because the place to be for watch retailing is Lucerne, Zurich, or Interlaken, Geneva, probably. Because here you do not just have the local customers but you also have the Chinese, or other international customers. So therefore it's important for retailer to be in the large cities where you do not just have the local customers.

And probably the third on is having a reputation. So it's difficult to bring up for a new player. So therefore the old established players clearly have an advantage on their side. And in the longer run, you also have to offer services, which is not just service a watch. At the end it comes together with CRM. If you want to treat your customers then you have to organize events, bring them experiences, and that is usually done together with the brands. But Bucherer they organize it, they have, let's say, a dinner with Panerei, and show the new Panerei models. Or they have a special invitation going to Basel World, with some of the collector groups. Working together with the clients plays an important role. Or make a visit to one of the watch factories. These kind of events.

10. ***What are the main challenges and competitive rivalry issues within the luxury watch retail industry?***

At the end it goes the same direction we already talked about. So brands want to reduce the number of point of sales. So they have the pressure from the brands, especially as some of them want to push very much a mono-brand store concept. That's especially true for the Richemont group. And then of course there is e-commerce, and there I think it has just start. It's not clear who is really the winner. If the customer goes directly to the brand page or if he goes on the watch retailer page or if he even goes to a third page. So for example, Net-A-Porter has currently also just started with a watch part. And so it's really something which has to be seen. And then of course, another one, which I believe is not a challenge but also chance, is the whole CPO market. The CPO market is really something which they did somehow in the back. So Beyer for example, they had a very successful CPO market, but it doesn't work together with new watches. So when you brought in an old watch, you can sell it to Beyer, and then you can use that money to buy a new one. Like in the used car market, you bring your old car and you buy a new one. And I think they are, the retailers, for them it's a big change that they could develop the CPO market. But of course now having Richemont being one of the big CPO market players, and you have currently two, three fully independent players which come from a different angle like Chronex and Watchbox, yeah that's not only a chance, it's also a challenge.

11. If you had a wish, what would you wish to improve/change in your industry?

I consider it as a threat because what we have seen in the last few years, the large players, large brands, they clearly have gained market share, and so it's getting even more difficult for the small watch brands to get attention. And this comes up together with the consolidation in the watch retail industry. Because Bucherer also says we have 40, 50 brands, and not more. Therefore I'm a little afraid that a lot of the smaller players will not survive in the long term, which I find a little bit frustrating. Also if you look in terms of profitability, the good margins are clearly with the large players where all the smaller ones have to struggle to get a profitable business. So probably in longer term, I'm afraid that we will lose some of these small mid-sized companies in the watch retail segment.

10.1.8. Mr. Valerij Stepanov Watchadvisor

Transcript Interview Mr. Valerij Stepanov (Watchadvisor)

Interview Partner: Mr. Valerij Stepanov (Founder and CEO Watchadvisor AG)

Interview Details: 11.07.2018, 11:15 am, Zurich

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

Technology is transforming the way how people make decisions. People research information and educate themselves online and also check the availability of luxury watches online. Therefore it is a trend to build conglomerates to focus on delivering strong online platforms. The watch industry is rather late when it comes to digitalization. The travel and hospitality industry have been one of the first industries being affected by online platforms. There is also a growing pressure from the watch brands towards the retailer. The luxury watch industry is a US 100 billion industry measure in revenue. The entire industry is basically owned by around 30-40 families. The luxury watch industry has two main challenge. Firstly it's the product complexity. There are many products, many features and it's hard for the consumer to understand what is good and what is bad. The second challenge is the distribution complexity. If you decide for a watch you don't know where to buy it for the best price. There are 20'000 watches on sale and it's hard to understand for the user what the differences are between the products and brands. Therefore, the consolidation in the luxury watch retail sector originated from the fact that there were too many retailers. Customer want a better choice and better selection as well as a better buying experience. And this is not easily deliverable by small luxury watch retailers.

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

Being close to the consumer is very important in the luxury watch retail industry. When companies in the luxury retail industry do M&A's they do this often also to buy intellectual property. The knowledge that exists for example by online platforms to handle their CPO business. The watch brands themselves try to bring the CPO business more and more inhouse. Nowadays it is also very crucial to have a good database in form of a CRM. This is also some sort of a skill that can be acquired.

3. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

In my eyes, the main customer trends that leads to a constant need of re-orientation are that customers want to have transparency and experiences. Watch retailers should therefore have a good reach and a strong branding with a close proximity to the clients. Also, events are very important as the customers look for experiences. This means, special locations and special events. Customers want that added value and like to get unique experiences they cannot buy. If this is combined with the purchase of a watch, it gets very memorable.

4. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

Physical brick and mortar stores are still very relevant in the luxury retail industry as this is where the user experience is happening. It is very relevant for watch retailers to have educated sales people who can properly cater the customer needs. Today there is a totally different approach needed in luxury watch retailing. There are not just physical stores. An omni-channel approach is most desirable. Customers want to experience different alternatives and also have the watches on their wrist to see for example how heavy it is and how it feels to them.

5. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***

Today, only approximately 1% of all new luxury watches are sold via official online channels. The grey market is excluded. But as I already mentioned, online is very important in an omni-channel setting. Also mono brand boutiques are crucial. The mix is relevant. The potential of digital solutions and e-commerce is large in this industry and we are working on various approaches with Watchfinder. People will go more and more online to research about watches and to find out what they actually like.

a) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

I don’t think that they can be successful in e-commerce. No chance. There is such a raise in speed in the recent years when it comes to e-commerce and big brands have been investing millions. Small players lack in experience and in resources to do so. We at Watchadvisor are not an online watch retailer. We are the partner of watch retailers. We put information in context and connect clients with retailers. Like a Trip advisor for watches.

6. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

There will be a shift towards self-service experience. Watch consumers are highly educated on the products they tend to buy, they have skills on how to research and they make their own decisions. The customer is touched much later by the physical store and retail in the entire process. This consumer behavior has changed a lot. Online is now the new touchpoint in decision making and people expect good and nicely presented web pages as well as solid content with a lot of good information. Nowadays the customer service goes more towards experiences. Watch retailers have the opportunity to co-sell local experiences with valuable time pieces. New services can be build.

7. ***What are the main advantages of operating as a large consolidated player in the luxury watch retail industry?***

Availability, variety, better price, power, volume. Larger watch retailers mainly have a strong power to the brands. Buying power. They can invest in different locations globally and also have money to innovate. People like to buy brands when it comes to watches. And large retailer sell big-name brands to their clients.

8. ***What are the main challenges of operating as a smaller standalone retailer in the watch industry?***

I think the main challenge is their reach. Bringing people into their store can be a problem. However do they also have the local personality factor and the local maintenance offers, which can be a plus. I do not see a chance for local players to survive in the long term. Large players have a bigger buying power and differentiation is important.

9. ***What is, in your eyes, generally crucial in order to be successful as a retailer of luxury watches, and how will this change in the future?***

In the end of the day it’s proximity to the customer, understand exactly what the needs are, offer him services which are unique. Experiences need to be unique as we talk about luxury. People are interested to get new experiences that you cannot buy. Such as concerts, experiences, food, special locations, meeting people that you could normally not meet. These are all things to get proximity to the customer. And also is it possible to build an emotional connection.

10. ***What are the main challenges and competitive rivalry issues within the luxury watch retail industry?***

I think the watch industry is very innovative in terms of marketing and branding. And we have a very strong base here in Switzerland. I would say 95% of all luxury watches are produced here in Switzerland. That is knowledge, not only in the production but also in the marketing of the products. The brands have kind of a power and there will be future new products which will be attacking the market in order to get market share and the key will be to innovate. What kind of concept can we develop that a mechanical watch is still cool in 5-10 years. The fact that mechanical watches don’t need to be charged or updated, that sort of eternity is of course a USP of the market. But at the end of the day it’s the question of what kind of innovations can you produce. During the last couple of years it was maybe too much focused on the technical aspect, which is certainly important. But at the end of the day it’s important to certainly reinvent the spirit or the aura of a mechanical watch in terms of making it desirable. I think this is the challenge of the industry within the next 20 years.

I think the big players will become bigger and the independent retailer will have a challenge.

I personally believe that you need a long term approach. You need a master plan to know where you wanna be in 5 or 10 years time. In the retail business it’s harder if you’re small and easier if you’re big.

11. ***If you had a wish, what would you wish to improve/change in the luxury watch industry?***

I have a very big respect for what the watch industry achieved within the last 30 years. It’s something unique, it’s something special. And if you see how people go crazy for a piece of mechanics, that’s what is for me really impressive. People are looking for the kind of products which what they can express their personality. I like this eternity approach. My wish would be that we keep on going, innovating and market the watch industry and the brands. Because it’s a differentiator to today’s life. In today’s life you have a phone, TV, computer, electric car in the future, smart city, smart home. Everything becomes connected and being put together with extra services. The mechanical watch has still some specialty. Because it’s not connected. It has something independent. Everything depends on everything. And a mechanical watch is standing out. So my wish would be to continue and represent this industry because it’s like a label for Switzerland. People connect the watch industry with Switzerland and that’s a super cool marketing tool. The combination of Swissness and Watches is so strong and it will even have more power in the future. I really wish that we engaged more in a combination of the qualities of Switzerland with the quality of the mechanical watches.

10.1.9. Mr. Federico Iossa Delray Watch Supply

Transcript Interview Mr. Federico Iossa (Delray Watch Supply)

Interview Partner:	Mr. Federico Iossa (Past Tourneau Employee and Co-Founder and CEO Delray Watch Supply)
Interview Details:	16.07.2018, 6:00 pm, over the phone

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

Well, it's a great question and there are main reasons. The first one is I'm going to blame it entirely on the brands. It's all the brands' faults because the truth is this business is the only business in the world that I know where you need a huge amount of capital to work and the margins are so paper thin that even when you have a ton of money you don't make a lot of money. Luxury watch retailers are consolidating to survive. All of this is because brands are cutting margins, cutting distribution and to be in the watch industry as a retailer, I mean, you have to be crazy. It's an awful business. And I'm crazy because I'm doing it. But just to give you an idea, in clothing, the average margin is 300%. In jewelry the average margin, if you're making your own jewelry, is 300%. If you're selling somebody else's jewelry it's about 150% mark-up. And the watches, if you don't give any discount, so zero discount for the client, it's between 37 1/2 to 50%. And that's before you pay your bills, before you pay commission, before you do anything. And that's not a lot. The watch producers themselves, they have a bigger margin of course. I used to work at Piaget, and even me, as an employee, that is an answer no one will ever give you. No one will ever tell you how much it costs to make a watch. It doesn't matter how important you are. No one will ever tell you. That's like the biggest secret in the industry.

Think about it. You've got a mid level brand, so forget Rolex and Patek. Let's say you're an American authorized dealer (AD), and you want to open Hublot. You want Hublot as a brand. You need to put down anywhere between 200 to 500 thousand dollars as an investment to get Hublot because you need to buy inventory and you need to build a showcase and whatever. I used to do this for a living with Piaget. So $250'000 to $500,000, and then you're expected to survive making 40% margins if you don't discount, because if you discount it's 20% or 30%. And then on top of that with that 30 or 40% you have to pay your employees, pay your bills and then when you sell a watch Hublot expects you to re-order. They expect you to reorder every month, even if you don't sell. So really $500,000 openings order really means you need $700,000 in rotation. This tiny margin. This is all the brands' fault because every year the brands cut margins.

But they do it on purpose because having worked for Richemont, I can tell you the ultimate goal of any luxury watch brand is to have no more retailers left. They all want boutiques. Look at Omega. Whenever Omega opens a boutique in a city, Omega opens a boutique in Dallas. They close every other Omega dealer in Dallas. You know brands don't like retailers. Brands have retailers because they need to sell watches, but if a brand could do this in one day, they would close every retailer in the world including Bucherer and just sell everything from their own boutique. That's the dream for the brands. They don't always have the capabilities do do so. But the ones that do are starting to. Omega, they're doing it now. Rolex is opening boutiques all over the place. IWC has boutiques. Even small brands, Roger Dubuis has boutiques. So they don't have the capability but you have to understand, the brands don't see retailers as partners. The brands see retailers as a necessity and as soon as they can, excuse my language again, fuck them, they will. It's just the way it is. There's no real partnership here.

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

So skills. The number one is marketing. There are many watch retailers that don't even have a website for them. It's 2018 brother, how do you not have a website? So everybody needs a website. But I think the biggest thing they need is in store customer service, which is the entire reason Tourneau sold to Bucherer. And which is another reason why other companies like Wempe, Bucherer's biggest competitor, and Bucherer themselves are doing so well because their service is excellent. I'll give you an example. I worked at Wempe and Tourneau and they're one street away from each other. Wempe is Bucherer's biggest competitor. Tourneau and Wempe were the two biggest watch stores in New York and they were a block away from each other. Now, when you walk into Wempe it doesn't matter how old you are, how you are dressed. It doesn't matter if you are looking at a Rolex, at a Patek or if you're looking at at strap, you know, $100.00. You walk in, "Welcome to Wempe. Can I give you some champagne? Please take a seat. How may I assist you? Would you like some chocolate?" Every sales person at Wempe is extremely well trained in etiquette, in customer service and in languages. When you walk into Tourneau on Fifth Avenue, they don't even have water. They don't even have a place to sit down. I mean if you go read the customer service reviews of Tourneau, it's awful. They took the luxury out of luxury watches. And who's going to spend $10,000 when you're talking to an uneducated person who doesn't know anything about watches and you can't even have a glass of water? That's not a secret. Just Google, Google Tourneau reviews, it's all over the place. It's another thing, I used to work at Tourneau and it was completely commissioned-based. I was extremely pushy with my clients. Sometimes, I'm going to be honest with you, I was rude, because if they don't buy a watch I don't get paid. In a place like Wempe, there's no commission. You get paid a very, very high salary and you have a few bonuses at the end of the month. If you do something special you get a little bonus or something, but if you don't sell a watch you still get paid, and this provides better customer service. The in-store customer service is surely one of the main skills and capabilities. In the case of Bucherer and Tourneau, it was, that Bucherer can bring their service level to Tourneau, hopefully. And the second factor would be, it's 2018, every dealer needs a website. Every dealer needs pictures of their product a lot. I think that is important and not everybody's doing it.

3. ***Tell me more about what Tourneau did wrong and why you think they didn't approach customer service correctly?***

Yes, Tourneau did customer service completely wrong. Tourneau would do zero discount, not even 5%, which in watches, if anybody buys a watch the full price, that's super rare nowadays. So Tourneau did it as a very corporate structure. The sales people have no decision making ability. They had a script, no discounts, no place to sit. It was like walking into McDonalds. And all of this with minimal training. Whereas at Wempe, which is a very big store, they train sellers for a long time and then you have the ability as a salesman to discount. You have the ability to decide what brand to show the customer. You have a lot of decisions to make. And if you make mistakes at the end of the day your boss will tell you, "Listen, Federico , you gave too much of a discount. Don't do it again." But at least you have the ability as a salesman to be free to do certain things to sell a watch. Whereas at Tourneau you couldn't even offer somebody a glass of water. You go through the script and if they don't buy, "Okay, bye-bye, see you next time." Whereas Wempe was very personal. Everybody had the power to do something for the customer.

4. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

Well, first of all, online shopping. Young guys, they don't buy things in a store anymore. They buy online. I don't even buy toilet paper in the store anymore. I buy it on Amazon. And the same thing is happening for watches. That's the shopping part of it. Now as far as the other trends, you know, watches are too expensive. Prices are too high and a Millennial, somebody who's under the age of 30, I'm 29, not everybody believes in luxury anymore. I think luxury retailers need to reorient their marketing to make luxury cool again. Because right now it's not cool. It's just expensive and it doesn't serve a purpose.

They need to go heavily on line, heavily, reorient their entire strategy to on-line. Then I think they need to become more open. Too many luxury retailers wear suits, for example. You walk into a store, it's dark, leather couches everywhere, wood, a salesman in a suit. They need to relax. You know what I mean? They need to make it comfortable for someone like you or someone like me who's under 30 to walk in. Because a lot of people, believe it or not, they get intimidated. They love the Rolex in the window. They go outside the shop. They see all this dark wood and these suits and they're embarrassed to walk into the store because they're wearing jeans and you should never make the customer uncomfortable. So I think they need to relax the image of everything they do. It's too formal. Good customer service does not mean formal. That's something the retailers mix up all the time. They think if they make their sales people wear a $2,000 suit that they're giving good customer service. The two things are separate. I'm not saying they should wear tee shirts, but maybe lose the tie. Wear a sports jacket. For example, at Wempe, great store, I still had to wear a tie every day. I wore a pocket square. I wore white gloves whenever I was showing a watch. That is a little bit too much in 2018.

5. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

In my opinion, it's not needed. I think it's an old fashioned business model. I think it works in a lot of places. Like, if you're in New York, you need a store on Fifth Avenue. If you're in London, you want a store on Bond Street. If you're in Zurich it'll be Bahnhofstrasse for example. Or in Geneva, Rue Du Rhone. There's many places where you can have a store, but to have a store in a third tier city like Sacramento, California or I don't know, Indianapolis. It doesn't make any sense. The costs are very high and the profit isn't there. I think they're doing it because they don't know any better and because they have no other options. They're not on-line. They don't have an option right now. Bucherer or any other retailer, they don't really have options to not open stores, because their online business is not developed. So the only way they can make a sale is to have a store in every big city and in every bullshit city. There are exceptions, like Bucherer has a store in Lucerne. Now, Lucerne is not a big city but they have a fantastic tourism. That is Bucherer's most successful store.

So I'm not saying it has to be city only, but there has to be a reason for that store. For example, maybe you don't need a store in Sacramento, California but maybe you put a store in the Grand Canyon of the United States. There's no city but there are tourists. There has to be a reason for a store. There are too many right now. It is over saturated.

a) ***Well do you think you can still survive easily as just a pure digital online business as a small player?***

Can I tell you something, Florian? I'm eleven months in business. I'm nobody, okay? I have a YouTube channel with 40,000 subscribers. In the big picture of the watch industry, I'm nobody. But if I can sell $3,000,000 in eleven months, anybody can. My website costs me $900 to make. My pictures are taken with an iPhone. Can you survive online? Yeah, of course you can. It's not hard.

6. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***

It's massive. It's the future.

b) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

Well, I think the answer's yes, but it also depends what you define as successful. The definition of successful is very important in that question. There are also local and independent physical luxury watch retailers that are successful. The most famous one is in Zurich. Beyer. it's the oldest watch store in the world. Don't forget Florian, when you have clients, like Mr. Beyer does, he might only sell five watches a month but those watches are all Patek Sky Moon Tourbillon. When you have a client book like he does where your average sale is $200,000 Swiss Francs then that's all that matters. He makes most of his money with high-end brands.

7. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

Customer expectation has shifted in terms of price. Customers now expect a discount, almost guaranteed, because the watch brands price themselves out of the market. Giving a discount is almost considered standard nowadays and that's a big problem because people don't walk into Gucci and ask for a discount on shoes. But people walk into Breitling and ask for a discount on watches. Why? Because honestly when a Breitling is $10,000 they're out of their mind. Nobody pays that. It's crazy. The secondary market, people like me, when you can go into Breitling and the watch is $10,000.00 but at Delray Watch there is the same watch in perfect condition for $3,100, there's a reason. So I think customers are getting smart and customers are no longer going to pay these crazy prices. The internet changes everything. They're getting education, you say, they're getting smart.

8. ***What are the main advantages of operating as a large consolidated player in the luxury watch retail industry?***

Power. When you're a big store you can tell the brands no. When Hublot calls you for a re-order you can tell them no! What are you going to do, close? What are you going to do, close me down? No, but it's true. I know it sounds rude but you have the power to say no because you're important. You have negotiating power. You get better prices. You get better terms.

9. ***What are the main challenges or advantages of operating as a smaller standalone retailer in the watch industry?***

As a small store you live in fear of the brands. You do everything possible to keep them happy and to not lose your account. And then you lose them anyway. Because ultimately they're going to close you. The ultimate challenge is you need a lot of money. I mean, to open a jewelry store it's two, three hundred thousand dollars per brand, minimum per brand. Then you have to have the space, you have insurance, you have security. I mean, this is a business that is very cash intensive. And why do you think the gray market exists, by the way? Because these small stores, when they have a bad month. They didn't sell a lot, but they know Rolex is going to call them tomorrow for the re-order. They're going to call Delray Watch or whoever and they're going to be like, "Federico , I've got 25 Datejusts and I'll give them to you at cost." And yeah, they'll sell them at cost because they need the cash flow. The gray market exists because the brands are greedy. My point is, the brands created the gray market because if I'm Rolex and I call Florian's watch store and you say, "You know, Mr. Rolex, I can't order anything this month. I had a bad month." My answer is, "I don't care. I don't care if you had a bad month. You need to order more." The brands pretend like the gray market is evil but it's their fault that it exists. You know, that was my job at Piaget. My job every month was to call all my stores and I would be like, "You need to order these seven watches." "Well, like, Federico, I only sold two." "That's not my problem." It's nuts. It's a vicious cycle because the mono-brands sell full price so they don't sell as well as the small stores. The small stores discount because they need to sell more watches because the brands are pushing them, but then the brands get pissed off because they're discounting. It's a very incestuous and awful scenario. I love brands. I used to work for the brands, but all this trouble is because of the brands.

10. ***What is, in your eyes, generally crucial in order to be successful as a retailer of luxury watches, and how will this change in the future?***

So the number one thing you need is visibility, be it online or physical. You need people to see your store. And then the second most important thing is customer service. But it's a numbers game. It's all about traffic. You have to remember, for every 1,000 people that visit your store you sell two or three watches. It's all about numbers.

Bucherer has their stores in very central locations in important cities that generate a lot of traffic. Such as the Bucherer in Paris is next to the Opera, they have enough traffic to sell watches no problem. They have traffic and they have customer service which is why Bucherer is doing so well. It's in a popular area and they're treating their people very well. As you can see those are the two key things in my opinion.

11. What are the main challenges and competitive rivalry issues within the luxury watch retail industry?

Pricing, so discounting. People discounting against each other. Distance. Sometimes you're a store, you sell Breitling, and one block away you have another store that sells Breitling. So distance is an issue. Saturation. I think the main issue, honestly, is pricing. Remember, every store discounts. So you're going to Florian's store and you want to buy this watch and Florian said, "I'll give you 20% off." And you're like, "Okay, I'll think about it." Then you walk into Federico 's store and Federico 's like, "I'll give you 15% off." The guy says, "But Florian gave me 20." "Okay, I'll give you 25." That happens, like 50% of every customer. People used to walk into Tourneau and they used to say, "But Wempe gave me $1000 off. And they're a block away. What can you do?" So people compete on price. And it's illegal, it's illegal to tell a store they can't discount. So the brands have no control of this. At least here in America it's illegal. In America everything is very capitalist. All the prices are called suggested retail price. The Rolex is suggested at $10,000.00, but if I want to sell it for $5.00, it's my store. I can do whatever I want. Then Rolex is going to get pissed off and Rolex can say, they can't tell you "You discounted so we're closing you," because that's illegal. But they can tell you, “You’re window's dirty. I'm closing your store." They make up an excuse to mess with you.

12. ***If you had a wish, what would you wish to improve/change in your industry?***

I would wish. That's a good question. That's a very good question. I would wish for there to be more access to more brands. A lot of stores only carry the big brands, Rolex, Breitling, Omega. A lot of the small brands, they don't have many retailers. As a watch lover I would like to see a bigger variety of brands available.

10.1.10. Mr. Beat Stierlin Sutter Uhren und Schmuck

Transcript Interview Mr. Beat Stierlin (Sutter Uhren und Schmuck)

Interview Partner:	Mr. Beat Stierlin (Owner Sutter Uhren und Schmuck AG)
Interview Details:	17.07.2018, 2:30 pm, Winterthur

This is an appropriate systematic transcription of the interview. The content has been very slightly simplified where necessary.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What are the main advantages of your small and independent retail store/company?***

Well, it’s definitely the case that the regular customer of large watch retailers usually doesn’t have the chance to talk to the owner. In our case it’s definitely an advantage that the customer always has the pleasure to deal with the owner. The customer knows that the last word is definitely spoken with us, the owners and this involves a lot of trust.

b) What makes you successful (recipe for success)?

The customer satisfaction of our clients is really high, due to the fact that we care about the customers a lot and are able to build long standing relationships with local clients who come back regularly.

2. ***What are the main challenges of operating as a smaller standalone retailer in the watch industry?***

Generally, the watch retailing market is very saturated and there are many specialized, large but also small jewelers in each city here in Switzerland. For us, the challenge is more, that it is nearly impossible to grow geographically due to this high saturation and due to the fact that local retailers in other cities also have strong customer bonds. This means, that we need to keep growing strong with our store here in Winterthur. On the other hand, another challenge that we have as a small standalone retailer of luxury watches is the market power. The market power is simply much smaller than the one of large luxury watch retailer groups. Large retailers also have more power towards the watchmaking brands.

3. ***How do you see larger watch retailer groups? Are they a threat to your business? (What is their advantage?)***

Well, there is always a risk that existing or also new potential clients go to a competitor, which could be a larger watch retailing group. But we don't exactly fear that competition here. In Winterthur we have a leading position but you never know what the future brings. Here in Winterthur the threat is not imminent as there is no large watch retailing group yet operating here. What if a bigger retailer decides to open up a large store right next door?

4. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

Producers of watches would like to achieve to be as close to the customers as possible. Also retailers try to open new channels as close to the customers as possible. This includes e-stores, online shops, e-campaigns, social media in general. They all try to understand that and be very close to the consumers. Therefore, it makes sense for them to acquire companies that have these channels already.

5. ***Luxury watch retailers but also watch brands often choose M&A's as a way of acquiring new skills and capabilities. What are the most admired/needed skills and capabilities to have in modern times as such a retailer?***

That is probably what I have already been talking about before. E-commerce skills, the knowledge to attract customers online and to sell online is very important. However, for us, as a small player, considering the way we operate at the moment is e-commerce definitely not a big thing right now. The reason for that is that we don't have a budget to be visible compared to the huge competition there is. These large companies have huge budgets to do campaigns on Instagram and Facebook. For us, the personal one-by-one contact is far more important and obviously therefore our shop needs to be attractive when customers walk by. We should achieve that they want to have a look at our windows and possibly even come in to observe and purchase something.

Also building up a strong brand is a must nowadays. In a way we have done that as well with our diamond jewelry, Diamonds by Sutter, which we are very successful with. Especially with the engagement rings. We buy the stones, do the designs and manufacture the final pieces. Jewelry is not part of this topic here, but it’s just an example of how important for luxury retailing own brands can be.

6. ***What are the main customer trends that lead to a constant need of re-orientation for luxury watch retailers?***

More and more customers are very well educated about the specific watch they want to buy when they enter our store. The internet as an information and preparation tool for customers is very important and has changed a lot during the last couple of years.

7. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER’S acquisition of Tourneau)***

Up to let’s say 1'000 Swiss Francs, I see that if a retailer is focused on this price range, ecommerce is surely a real threat. It has already been so during the last couple of years. I expect this ceiling of 1000 Francs to rise within the next couple of year. But in our core business, which is above lets say 3'000 Swiss Francs, this is not a threat for now and I don’t expect it to become a big threat for quite a long time. Mainly because if someone spends a serious amount on a watch he or she wants to have the opportunity to try it on, to feel it, to see it in real. Not just from a picture. Therefore, for us e-commerce is right now not a huge topic. It is expected that Millennials want to experience their purchases. They want to have a buying experience and not just a click. They want to have the interaction in a nice store with all that what comes together with such a buying experience. And obviously as well, that’s our hope that this trend will continue. Again, in my opinion, the amount, which is spent online, will increase. But from a certain amount upwards, I believe that it will always be essential to most customers to have the opportunity to touch and feel.

8. ***E-commerce, in combination with Instagram for example, is a common tool for other retail industries. How relevant is that for the luxury watch retail market and how do you see the potential?***

It's definitely important because it's first of all a great tool for the brands to build a desire, maybe even a need. And secondly, it is also a very good tool for companies to get to know their customers.

c) ***Can a small standalone player in the luxury watch retail industry be successful in e-commerce?***

For us, we don't have the same budget as large players. Therefore we cannot reach the same visibility. I think we could not be successful in ecommerce. But, it of course totally depend on the core business a company has. There are companies that do quite well with their e-shops, but their core business is between zero and maybe 500 Franc and in this price range, e-commerce can be very successful and probably will be even more in the future.

9. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

Customers expect a cozy environment, obviously luxurious in our case. The store should represent also what kind of goods we carry. Luxury watches in our case. Obviously, the service needs to represent that same thing, as well. The service level should be outstanding. This is obviously something, which you don't get on the internet. Customers expect to be welcomed and catered and that highly knowledgeable sales consultants talk to them.

10. ***If you had a wish, what would you wish to improve/change in your industry?***

I would probably wish to increase service thoughts of the watch manufacturers again. Satisfy existing customers and hopefully transform them also into future customers, should be a matter of course. This way of thinking got missing the last couple of years and I wish this would improve again.

10.1.11. Ms. Karine Szegedi Deloitte

<u>Transcript Interview Ms. Karine Szegedi (Deloitte)</u>

Interview Partner:	Ms. Karine Szegedi (Partner at Deloitte Switzerland)
Interview Details:	19.07.2018, 8:00 am, over the phone

These are extended interview notes and do not act as a word-by-word transcript, as the interviewee wished not to have the conversation recorded.

The goal of my Master's Thesis is to provide an answer to the question of what the main drivers of consolidation in the luxury watch retail industry are and how luxury watch retailers re-orientate themselves strategically through M&A's. Next to that I want to find out what the advantages/disadvantages of large consolidated players are compared to small retailers of luxury watches as well as what is crucial nowadays to be successful in luxury watch retailing.

On the example of Bucherer's acquisition of Tourneau, it is hoped to shed some light on the reasons for the growing trend of consolidations in this industry. I am looking forward to hearing about your knowledge and opinion.

The following questions deal as a guideline and have been kept open for discussions.

1. ***What is, according to your opinion the reason for the recent consolidation trend in the luxury watch retail industry?***

There has first been a big consolidation in the incoming streams, which considers suppliers and manufacturers of luxury watches. Now in a second phase the groups consolidate their distribution capabilities. One of the reasons for this is a better contact to the clients. Four years ago the industry’s main distribution model was through multi brand retailers. But the brands realized that they didn’t get enough sales and customer data. It was not really possible for the brands to very well manage their business and supply chain without having enough data. Also, it was hard for the brands to control the sales price, as they were just suggesting retail prices and the multi-brand retailers can easily get a discount to the clients, which is then deducted on the retailers margin. In mono brands stores, watch brands can protect and control their prices. Therefore, a few years ago there was a huge amount of mono brand stores being opened by watch manufactures. In mono brand stores, watch brand have the possibility to train qualified sellers in the way they want it so that the seller properly understands the product and is able to explain it well to clients. In multi brand stores, on the other hand, there might be some brands that are pushing more than others. There is always the question, when considering multi brand stores, if the seller is acting in the interest of the client or in the interest of the company. Brands later then also realized that these mono brand stores are very cost intensive, especially if a brand has a large number of mono brand stores. The inventories and the rent make mono brand stores a very expensive retail model for watch manufacturers. The latest tendency for watch brands and retailers to invest most is e-commerce. The most recent focus clearly lies on e-commerce these days, even though e-commerce is still small in the luxury industry.

The retail models evolved over time and nowadays with new distribution models luxury watch retailers need to adapt constantly which leads to consolidation. Also is there a recent trend in pre-owned watches. Looking at Richemont acquiring Yoox Net-A-Porter and Watchfinder or Tourneau being acquired by Bucherer, shows that there are new future models of distribution.

2. ***Luxury watch retailers and brands often choose M&A's as a way of acquiring new skills and capabilities, what are the most admired/needed skills and capabilities to have in modern times as such a retailers?***

This is constantly changing over time. Ecommerce for example has been highly important in recent years and currently ecommerce is maybe not the very best solution. Nowadays it might be business with pre-owned watches, which is the next big thing. It's hard to say what specific still a luxury watch retailer needs to have as they constantly need to be one step ahead of the existing sales model. An example is the company Hodinkee that is now also selling watches over their webpage, even though they initially just started somehow as a blog or watch magazine for pre-owned watches. It was not a sales tool at the beginning and now they started to sell themselves. Usually, the watch brands push these ecommerce platforms and dictate them which kind of watch models in terms of category and price they want to see on those platforms. With Hodinkee they opposite way. They have a very good reputation in the watch world and decided themselves which watches they accept for sale on their online store. This is a good example, where it can be seen that ecommerce platforms have an increasing power. The retail models are changing very quickly and very rapidly. Luxury watch retailers need to be one step ahead and in line with technology.

3. ***The luxury watch retail market is very saturated with a great number of physical retailers. Why is the traditional brick and mortar watch store still relevant in the modern times of digitalization? Especially, considering BUCHERER'S acquisition of Tourneau)***

Certain brick and mortar stores are flagship stores, which all luxury brands have. In such a store, the client feels and experiences the ambiance and spirit of the respective brand. Brick and mortar show well what the brand really represents, while it's possible to try a watch and get some information from a sales consultant. Companies also invite clients and do events in such stores. Through physical stores, retailers and brands have the possibility to tell a story. On the other hand, luxury watches are quite expensive and customers still need some explanations about the complicated product they are buying. I believe that the brick and mortar store is still relevant whereas it doesn't mean that customers necessarily buy there. Customers might buy online or travel and purchase the watch in another store. The brand only exists if customers know and understand what the brand is standing for.

In very touristy places, it is needed to operate a brick and mortar store to welcome travelling clients. These stores, such as in Luzern are very relevant in terms of volume.

I don’t think the stores will disappear.

4. ***In which direction did the customer expectations shift over the last couple of years, and how do you expect the customer service to be in 10 years?***

In modern times, the consumer is in the center. The consumer clearly defines what he or she wants and also when and in which manner. In earlier days, the watchmaking brands have been very much pushing some specific watches they wanted to sell. Now the watchmaking brands and retailers need to much more listen to the customers what they want. A new watch brand that is called Baume that has been launched by Richemont shows that personalization is important and that the customer stands in the middle. Baume lets you set up your watch as you want it on their webpage and get it delivered at home. The consumer can decide how he wants his watch to look like.

5. ***What are the main advantages of operating as a large consolidated player in the luxury watch retail industry?***

The Quality is an advantage of large retailers. Watchmakers often complain about the quality of the personnel that do not understand what they sell. Sales people need to be passionate like this they are also more convincing and better advising clients. There is the Fédération de la Haute Horlogerie (FHH). It has issued a qualification for sales personnel in the watch industry and also offer courses. They have an app as well “watch live” – the FHH Academy There also large groups that do the training of the sellers themselves.

Larger retailers can bring more quality and have a better selection. For the small one-man store it will be difficult to follow these days.

6. ***If you had a wish, what would you wish to improve/change in the luxury watch industry?***

I would want more innovation in the luxury watch industry. The brands and the retailers could do more in my eyes. There should be interactive applications, such as one where you can scan your wrist and virtually try on your watch. These things are not happening yet.