

JAPANESE WATCH MARKET SURVEY

On Import Watches in 2003

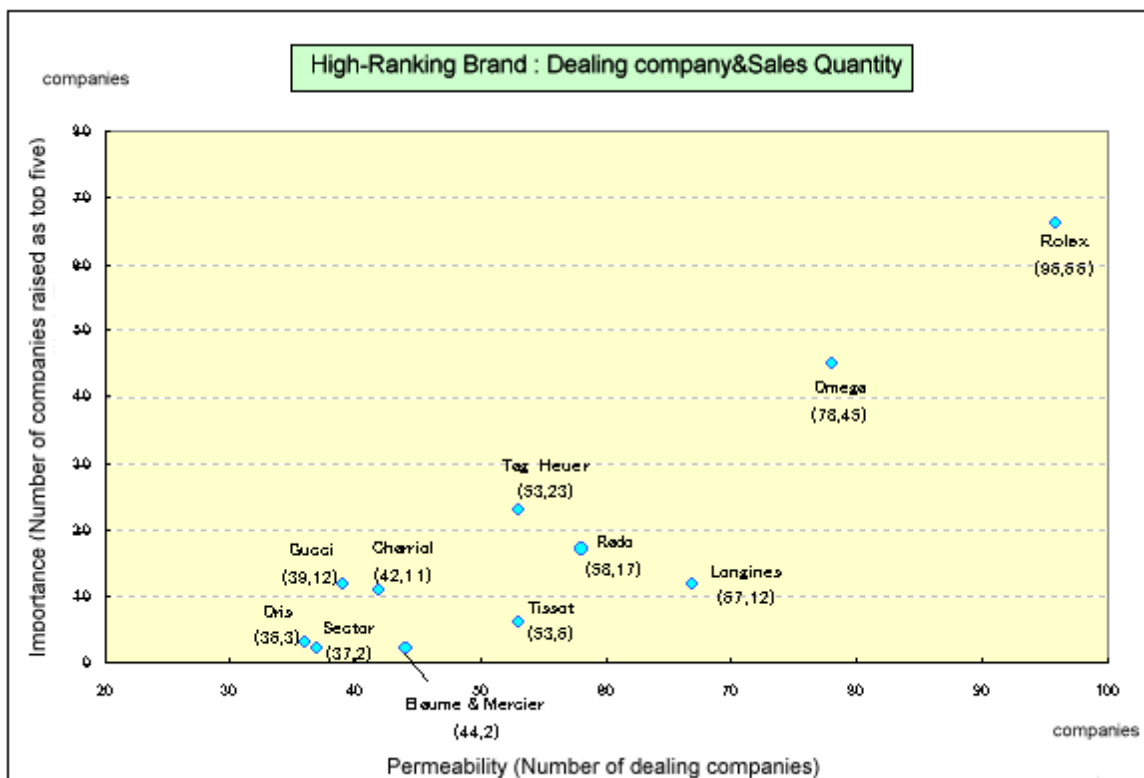
Federation of the Swiss Watch Industry FH, Tokyo Center has conducted watch market surveys together with Tokei Bijutsu Hoshoku Shinbun News, a trade news paper, since 1988, every 6 months, until March last year, which covered the period of January – December 2002. However, we decided to outsource the survey to a professional agency for research that will cover more retailers from diverse aspects. The new survey was carried out by Teikoku DataBank under the order of FH-Tokyo.

- Mailing out questionnaires to 547 companies (watch retailers/department stores) on January 23, 2004.
- Replies are requested to be back before February 9, 2004.
- 107 replies are back (19.6%)
- The survey was carried out by Teikoku DataBank.
- Original report is in Japanese. English translation by FH-Tokyo.

<Summary>

Rolex is the most popular brand

The Graphic shows the number of dealing companies in ordinates and number of companies that selected the brand as top 5 brands in sales quantity in abscissas. 96 companies out of the 107 replied companies deal Rolex and 66 companies said that Rolex is one of the top five brands in sales quantity.



Figures in () are dealing company and company that selected the brand as top 5

Average unit price - About 90% is between ¥100,000 and ¥500,000

54.0% of companies replied that their average unit price of import watches is between ¥100,000 and ¥300,000, and 33.0% replied that between ¥300,000 and ¥500,000. It is that 87.0% of companies stated the average unit price of import watches is between ¥100,000 and ¥500,000.

70% of companies are not satisfied with the sales result. Slow demand under the stagnant economy is quoted as the main reason.

In reply to questions asking growth rates of sales compared to previous year, 70% of companies comment as “unsatisfactory” both in sales value and in sales quantity. Cold consumption from depression was cited as the main reason. On the other hand, 22.7% of companies replied as “satisfactory” in sales value, and 16.0% in sales quantity. The main reason they quoted was the substantial sales promotion.

After-follow-up is regarded as important

More than 50% of companies providing customers with after-follow-up services such as guarantees of their own, free cleaning or free battery change, in addition to guarantee services offered by import agents.

Conscientious explanation about merchandises is the best way for substantial reception of customers. Internal study program is the most way of training sales staff.

91 companies said that they try to provide customers with conscientious explanation on merchandises. For this purpose, 58 companies said they organize study programs internally for sales staff.

60% have replied that the ratio of repeaters is 20%

61.6% of companies replied that 20% of their customers repeat purchases. Only 3% of companies said that the repeaters ratio is below 5%.

Standard and high status will be the mainstream in 2004

56.1% of companies think that sellable style of import watches in 2004 will be standard type with high status.

Retailers expect import watches more than domestic watches

In reply to questions about sales forecast in 2004, 45.5%(=46 companies) selected “will be worse” for domestic watches, and that for import watches was 36.6%(38 companies).

In the same way, 20.8%(21 companies) selected “will be better” for domestic watches, and 28.9%(30 companies) for import watches. Import watch sales is expected more than domestic watch sales by retailers.

Import watch around ¥500,000 for twenties

Consumer tends to search a brand that fits his own image and taste, according to the retailers. Sales targets can be the following three; “watches around ¥500,000 for customers in their twenties”, “watches more than ¥1 million for watch enthusiasts who care details of mechanism”, and “watches below ¥100,000 for young generation such as teenagers and in their twenties”.

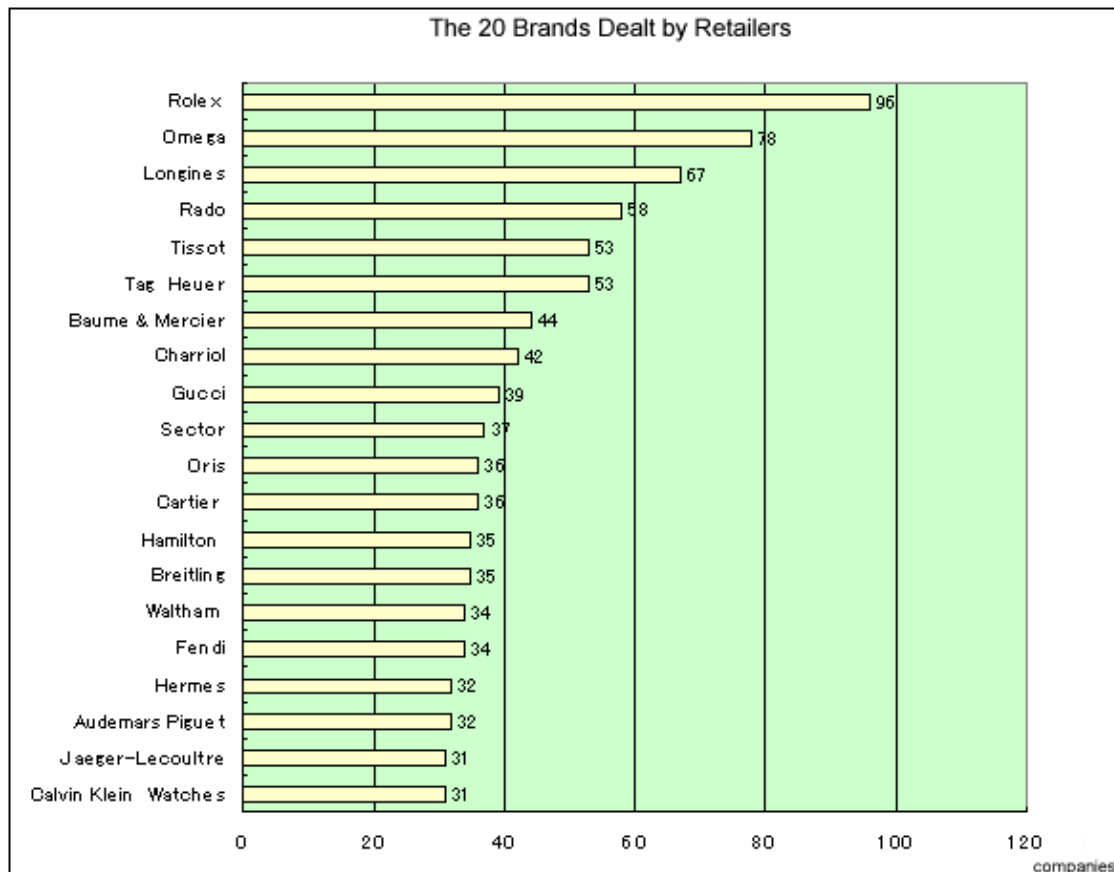
Retailer’s dissatisfaction at distribution system

Retailers are disaffected to the agency system taken by importers. Also they are suffered from sales by discount shops and parallel importers.

<Results of survey>

Dealing brands

Question: Select dealing brands from the list below



n=107

96 companies, about 90% of the total replies, are dealing Rolex and it came the top. The brand shows high penetration in the Japanese watch market. Omega came the second (78 companies) and Longines the third (67 companies).

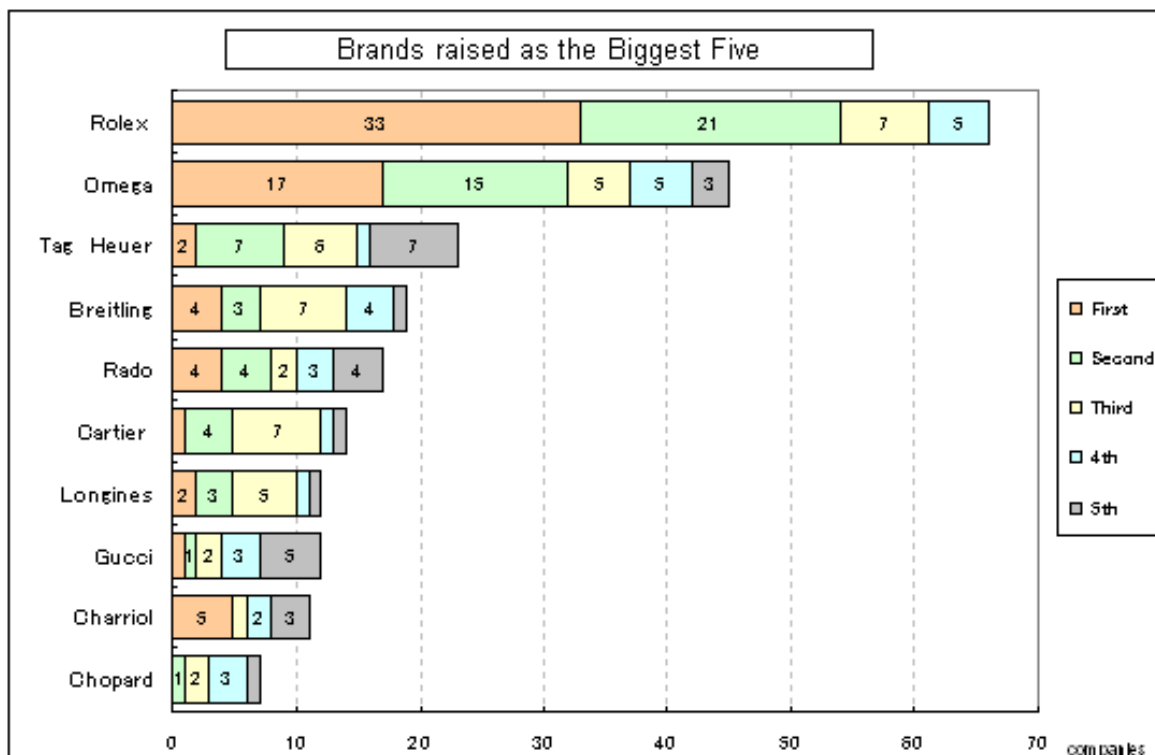
<List of Brands>

A.Lange&Sohne, Alain Silberstein, Antoine Prezioso, Arnold&Son, Audemars Piguet, Auguste Reymond, Baume&Mercier, Bedat&Co, Bell&Ross, Bertlucci, Blancpain, Boucheron, Bovet, Breguet, Breitling, Bvlgari, Calvin Klein Watches, Carlo Ferrara, Cartier, Century, Chanel, Charriol, Chaumet, Chopard, Christian Dior, Chronoswiss, Concord, Corum, Daniel Roth, Dubey&Schaldenbrand, Dunhill, Ebel,

Eberhard, Enicar, Epos, Eerna, European Company Watch, Fendi, Forget, Fortis, Franck Muller, Gerald Genta, Girard-Perregaux, Glashutte Original, Grace Fabliau, Graham, Gucci, Hamilton, Hanhart, Hermes, Hublot, Hugo Boss Watches, Ikepod, IWC, Jacques Etoile, Jaeger-Lecoultre, Jaquet Droz, Jeanrichard, Jorg Schauer Kelek, Lemania, Longines, Louis Erard, Mahara, Maurice Lacroix, Minerva, Misani, Montblanc, Movado, Nomos, Omega, Oris, Panerai, Permigiani Fleurier, Patek Philippe, Paul Picot, Perrelet, Piaget, Porsche-Design, Rado, Reposi, Revue Thommen, Roger Dubuis, Rolex, Sarcar, Sector, Sinn, Svend Andersen, Sothis, Swatch, Tag Heuer, Technomarine, Tiffany, Timex, Tissot, Tutuima, Ulysse Nardin, Vacheron Constantin, Van Cleef&Arpels, Vincent Calabrese, Vulcain, Waltham, Zenith, Zodiac, Others

Selling Brands

Question: Which are the 5 biggest brand names in sales quantity during 2003, and sales value and quantity of each brand?

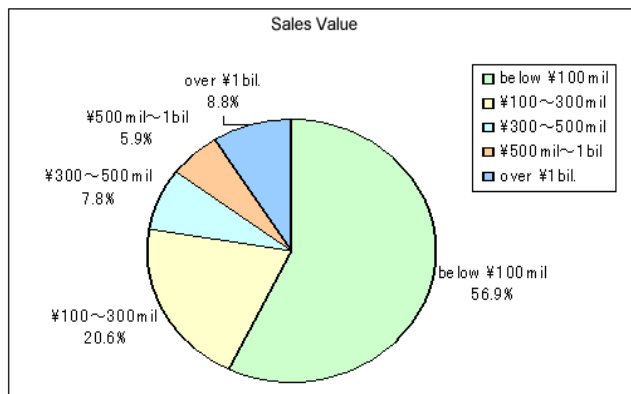


Regardless the ranking position of the five, Rolex is the most raised name (by 66 companies). Among the 66 companies, 33 companies ranked Rolex as the top in sales quantity. The average sales quantity in 2003 of the 33 companies was 980 pcs, and average sales value was ¥453,310,000, the unit price was ¥560,000. Oyster Perpetual Lady Date Just bi-color(ref.79173) and Oyster Perpetual Lady Date Just (ref.79174) were picket up as models of which sales increased favorably in 2003.

Companies raised Omega as one of the 5 biggest brands was 45. Among the 45 companies, 17 companies ranked Omega as the top, 15 ranked as the second. The average sales quantity of the 17 companies was 225 pcs. and average sales value was ¥44.910,000, the unit price was ¥200,000. Popular models were Speed Master and Sea Master.

Gucci is the only boutique brands came both in the “Brands Raised as the Biggest Five” and also in the “20 Brands Dealt by Retailers”.

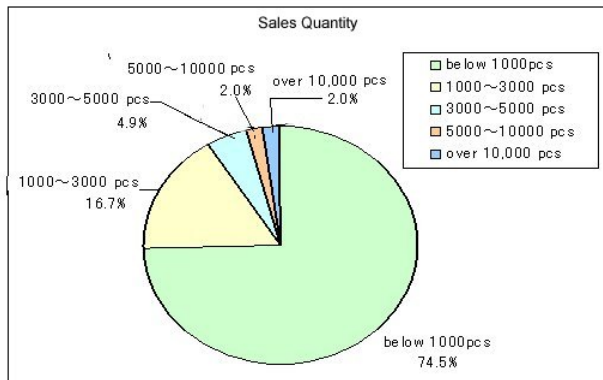
Sales Value in 2003



Sales Value	n	%
below ¥100mil	58	56.9
¥100~300mil	21	20.6
¥300~500mil	8	7.8
¥500mil~1bil	6	5.9
over ¥1bil.	9	8.8
Total	102	100.0

Sales value in 2003 of 58 companies (56.9% of total replies) is below ¥100,000,000, and that of 21 companies (20.6%) is between ¥100,000,000 and ¥300,000,000. Sales value below ¥300,000,000 occupied 77.5%(79 companies) of the total replies.

Sales Quantity in 2003

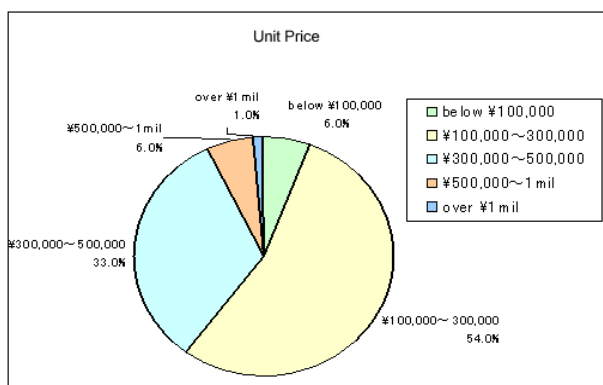


Sales Quantity	n	%
below 1000 pcs	76	74.5
1000~3000 pcs	17	16.7
3000~5000 pcs	5	4.9
5000~10000 pcs	2	2.0
over 10,000 pcs	2	2.0
Total	102	100.0

76 companies (74.5%) replied that the sales quantity in 2003 was below 1,000 pcs.

Average Unit Price in 2003

Price range between ¥100,000 and ¥300,000 is the biggest zone of import watches.



Unit Price	n	%
below ¥100,000	6	6.0
¥100,000~300,000	54	54.0
¥300,000~500,000	33	33.0
¥500,000~1mil	6	6.0
over ¥1mil	1	1.0
Total	100	100.0

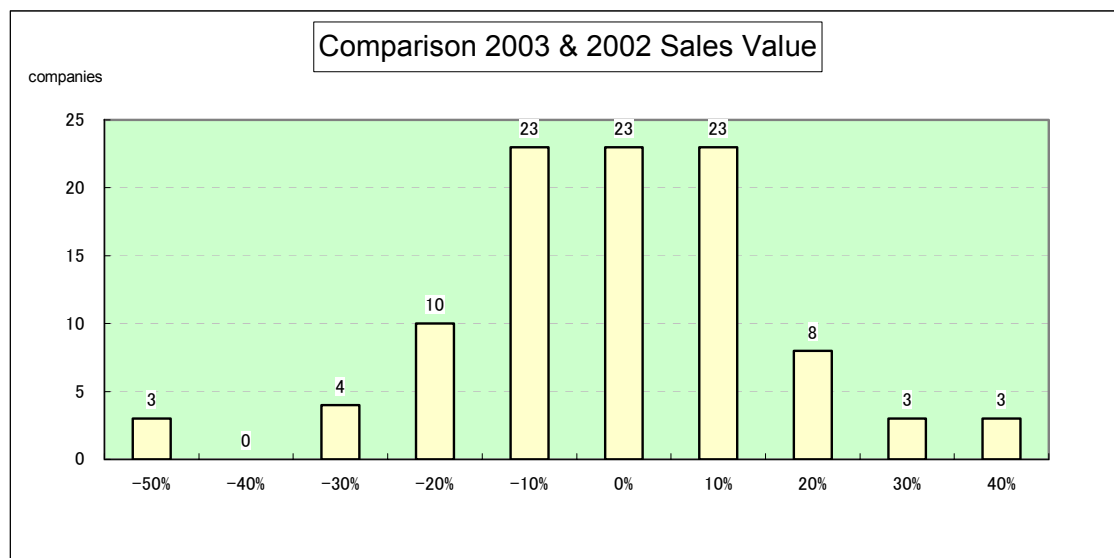
Sales Value and Unit Price

Combining the result of sales value and unit price as the table below, it shows that 70% of companies with less than ¥100 million annual turnover sell watches between ¥100,000-¥300,000. On the other hand, companies with more than ¥1 billion annual turnover sell relatively higher priced range watches.

		Total	Average Unit Price				
			Below ¥100,000	¥100,000 – ¥300,000	¥300,000 – ¥500,000	¥500,000 – 1mil	over ¥1mil
Total		100 companies 100.0%	6 6.0%	54 54.0%	33 33.0%	6 6.0%	1 1.0%
S a l e s V a l u e	below ¥100mil	58 companies 100.0%	5 8.6%	41 70.7%	12 20.7%	0 0.0%	0 0.0%
	¥100mil–300mil	21 companies 100.0%	0 0.0%	10 47.6%	9 42.9%	2 9.5%	0 0.0%
	¥300mil–500mil	8 companies 100.0%	1 12.5%	1 12.5%	4 50.0%	1 12.5%	1 12.5%
	¥500mil–1bil	4 companies 100.0%	0 0.0%	1 25.0%	2 50.0%	1 25.0%	0 0.0%
	over ¥1bil	9 companies 100.0%	0 0.0%	1 11.1%	6 66.7%	2 22.2%	0 0.0%

Comparison of Sales Value 2003 and 2002

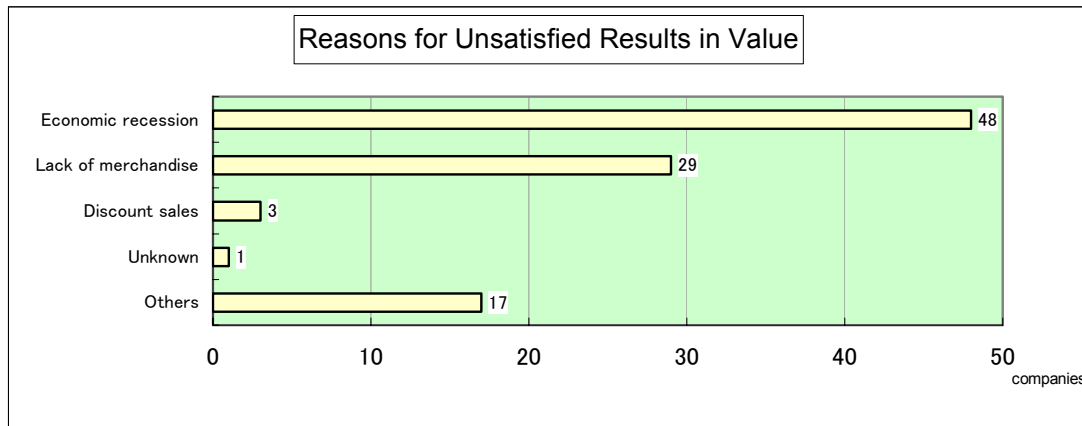
Question: which was the comparison ratio of the 2003 sales value to 2002



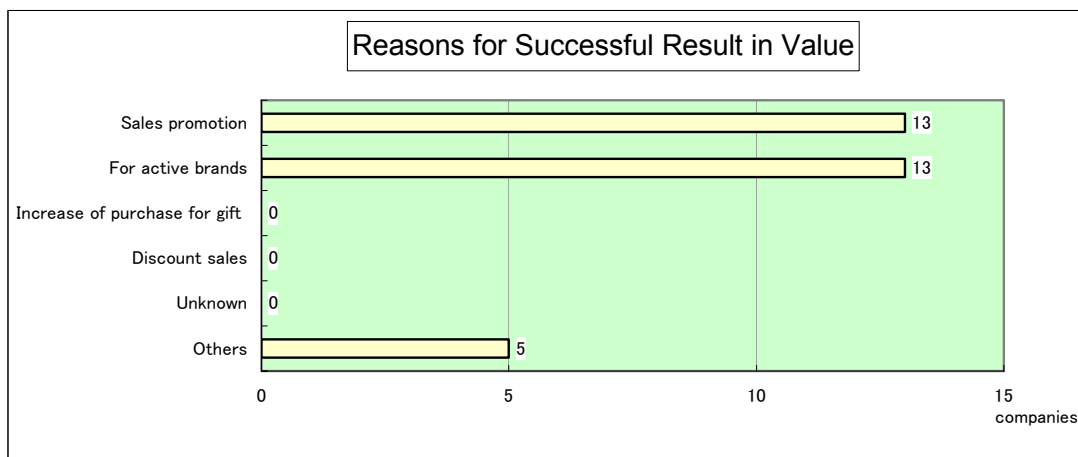
n=100

Replies for “-20%”, “even”, and “+20%” are the same and 23 companies respectively. But, total of minus replies is slightly more than plus replies.

As to the reason for unsatisfied results in value, “Economic recession” is mostly raised. “Lack of merchandise” means “Lack of merchandises to meet consumers need”.



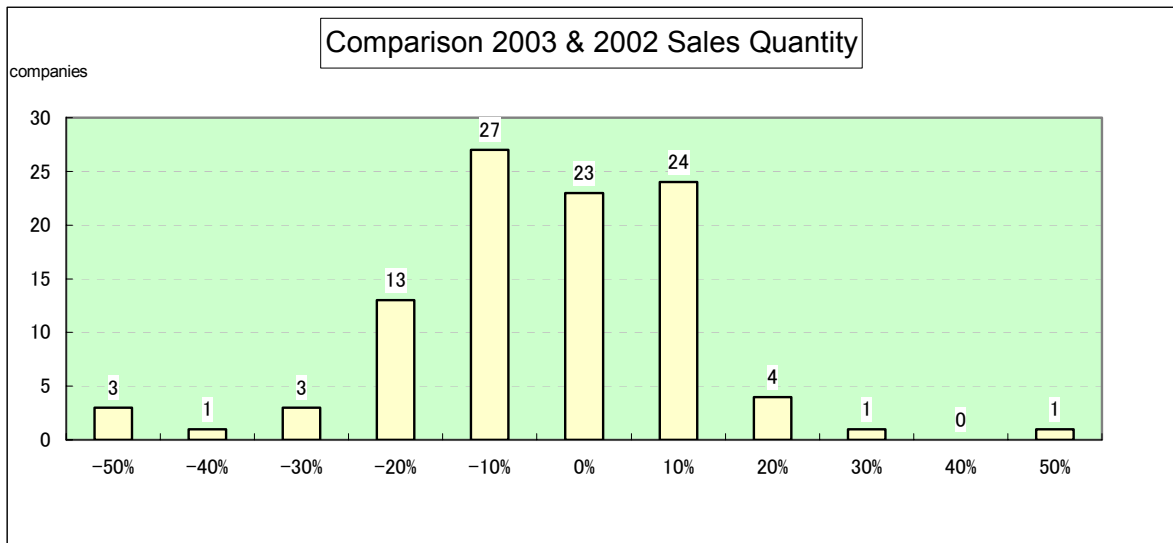
n=64



n=22

Comparison of Sales Quantity 2003 and 2002

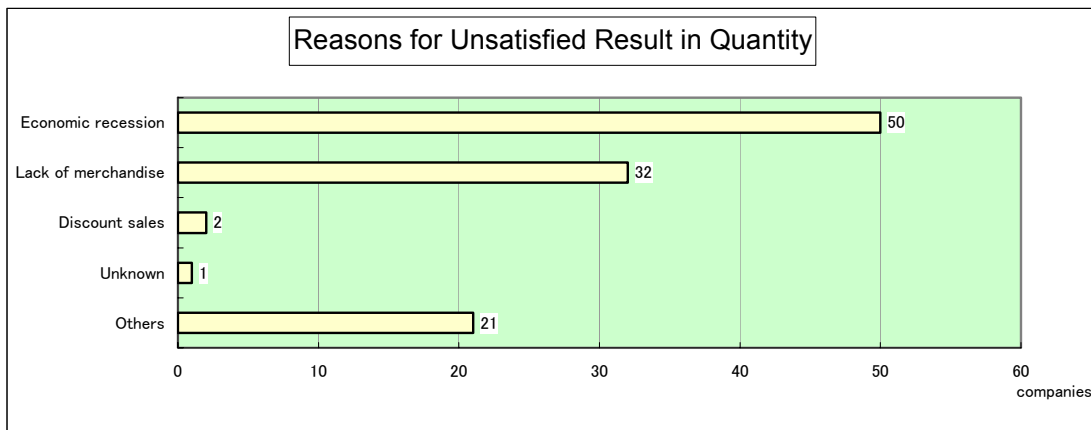
Question: which was the comparison ratio of the 2003 sales quantity to 2002



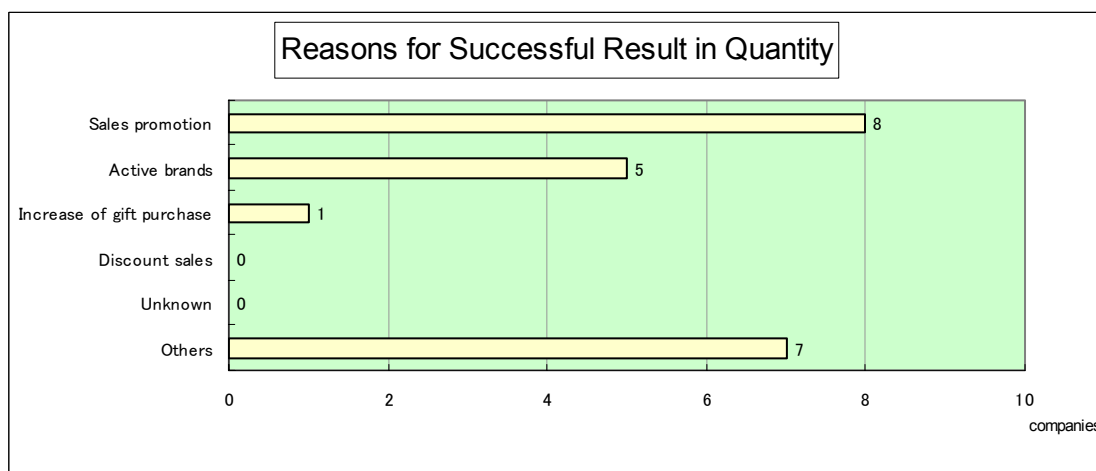
n=100

Concerning the 2003 sales quantity compared to 2002, “minus 10%” is the most answer, and they are 27 companies (27%). Total of plus answer was 30 and total of minus answer was 47. Compared to the replies for value, minus replies are more concerning quantity.

As to the reason for unsatisfied results in sales quantity, 50 companies selected “slow sales under economic recession”. 32 companies selected “lack of merchandise to meet consumers needs”.



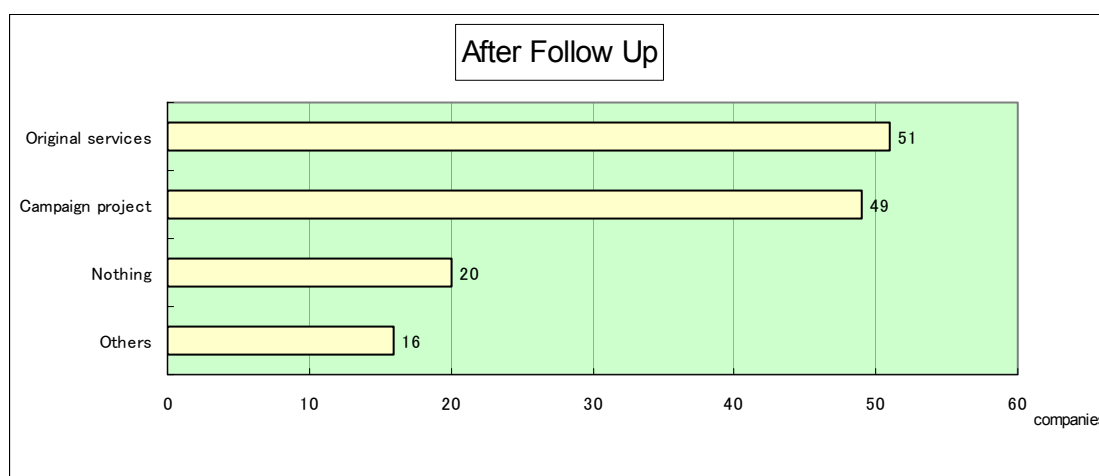
n=70



n=15

Competition with discount shops and parallel import dealers was raised as a reason for unsatisfied sales both for value and quantity in “others” (by 14 companies). Retailer’s disaffection is extended to importers complaining that they do not take any efficient countermeasures against such discount sales. Consumers can check prices at other shops and also abroad easily by internet nowadays, and it is difficult for retailers to explain consumers the big price differs. Family-sales carried by importers was also raised as a reason by two companies. In “Lack of merchandise to meet consumers need”, retailers quoted that “*popular models are not supplied*”(8 companies), “*not many new models which are attractive enough for consumers*”(7 companies).

After Follow Up



n-101

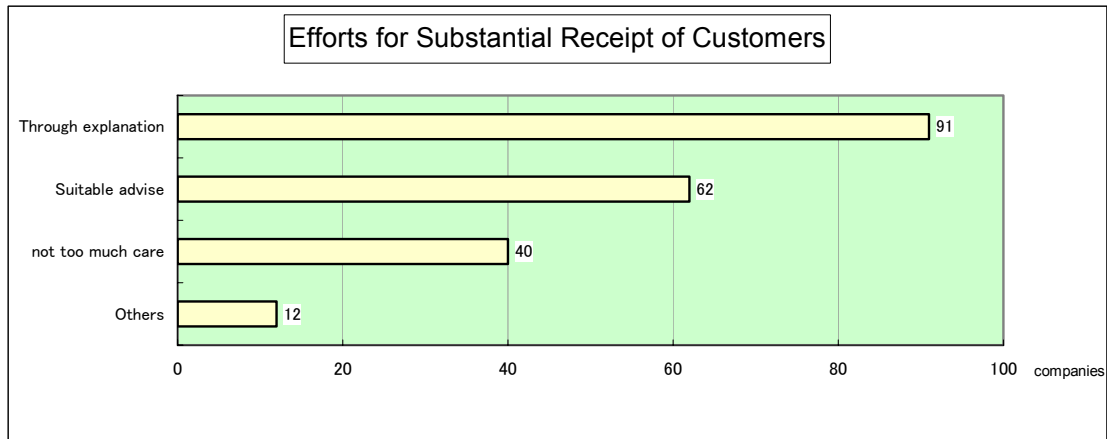
51 companies offer their original services besides guaranty services by importers. ;

Details of their original services are as follows;	Company
Repair guarantee of their own	14
Cleaning services for free of charge	11
Battery change for free of charge	11
Permanent availability of experienced watchmaker(s) at shop	5
Thanks letter after purchase and information offer by website	5
Free check up	4
Notice of expiry of guarantee period	2
Discount of repair charge	2
Free-dial for inquiries	1
Discount for repeat purchases	1

Campaign projects are;	Company
Planning of fairs, watch clinic, repair service period	6
Organizing of a circle of customers	2
Giving away of Swiss calendars	1
Installment payments without interest	1
Sending direct mails to customers	1

Reception of customers

Most of companies try to provide customers with through explanation on merchandise individually.

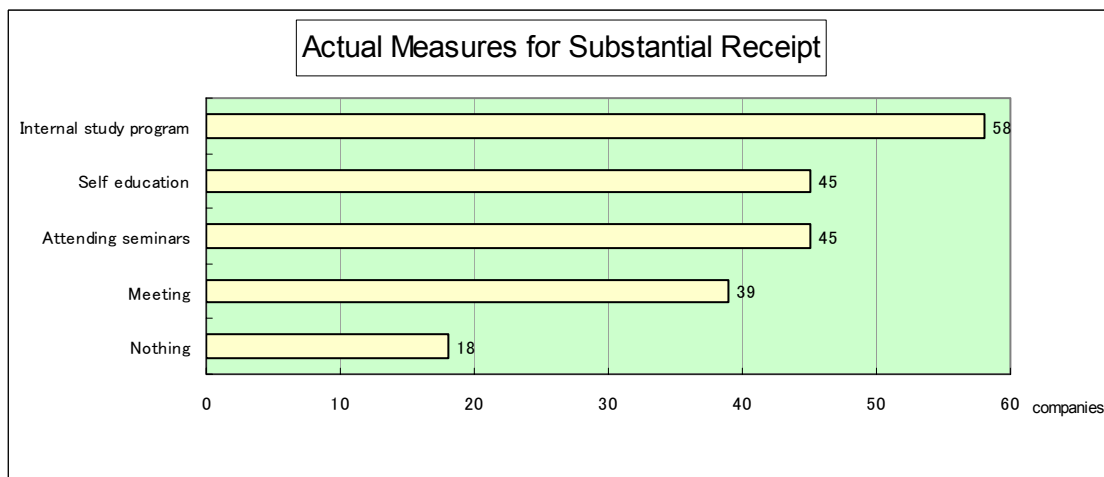


“Through explanation” = Giving through explanation on merchandises to individual customer

“Suitable advise” = Trying to find out customer’s demand and give suitable advice

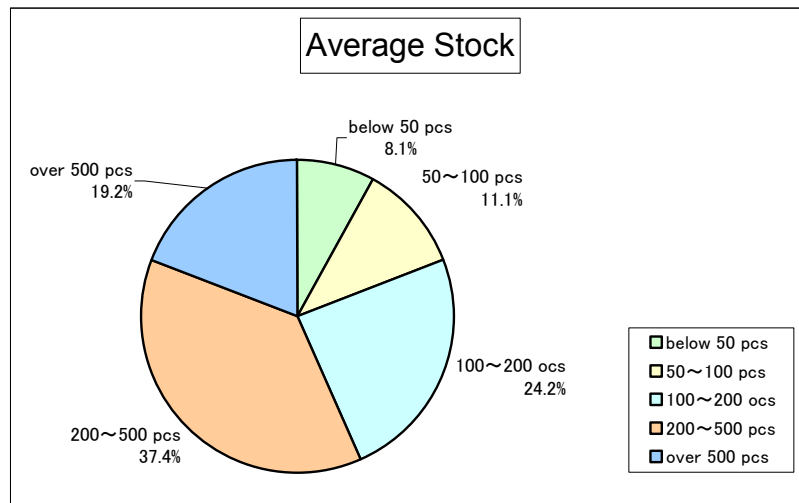
“not too much care” = Paying attention not to take too much care

Actual Measures Taken for the above



Internal study program came the first. They ask suppliers (wholesalers/importers) for specific information on merchandises so that they can give detailed explanation to customers. Concerning the “Self education”, “to nominate Brand meister(s) to create an incentive among staff”, “to train staff in daily activities” are mentioned. However, 18 companies take “nothing”, and do not have any actual activities for enlightenment of their staff.

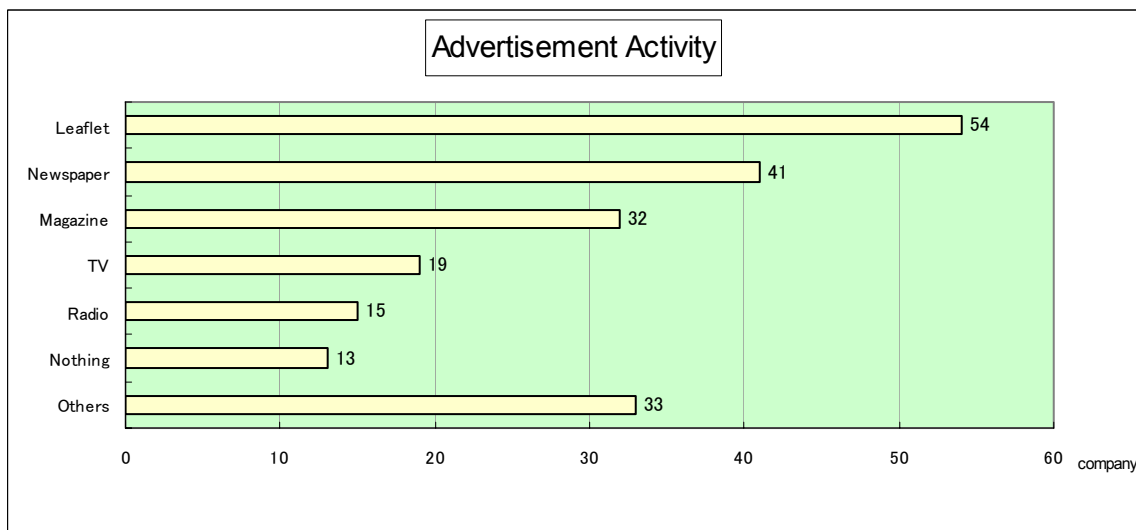
Average Size of Stock



n=93

Majority of replies is for “200 – 500 pcs” as average quantity of stocks, and they are 37 companies (37.4%).

Advertisement Activity



n=105

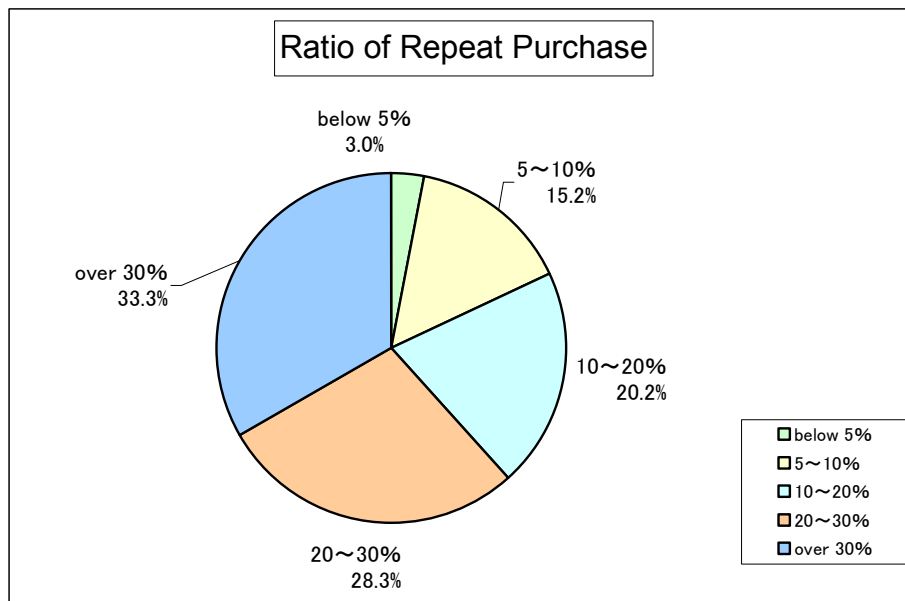
As activities of advertisement, leaflet or fly sheet is mostly used, and selected by 54 companies. Placing advertisement on newspapers is the second most. 32 companies use magazines for placing advertisement.

The names of magazines are as follows;	company
World Wrist Watch (by World Photo Press)	8
Town magazines of the area	8
TokeiBegin (by Sekai Bunka Publishing)	7
Watch aGoGo (by World Photo Press)	4
Xexi (by Recruit Inc)	2
Time Scine	2
GetNavi (by Gakken Co.,Ltd)	1
Seven Seas (by Sevenses&Co)	1
International Wrist Watch (Nigensha Publishing Co)	1
Wink	1
Dime (Shogakukan Publishing Co)	1
Nile's Nile (NILE's Basics Co)	1
President (President Inc)	1
Economic Report	1
Good Press Honkaku Wristwatch (Tokuma Shoten Co)	1

Concerning replies mentioned in "Others", 21 companies employ direct-mail. Replies that employ internet was only three, but it will increase in the near future, as more retailers are going to open their web site.

Ratio of Repeat Purchase

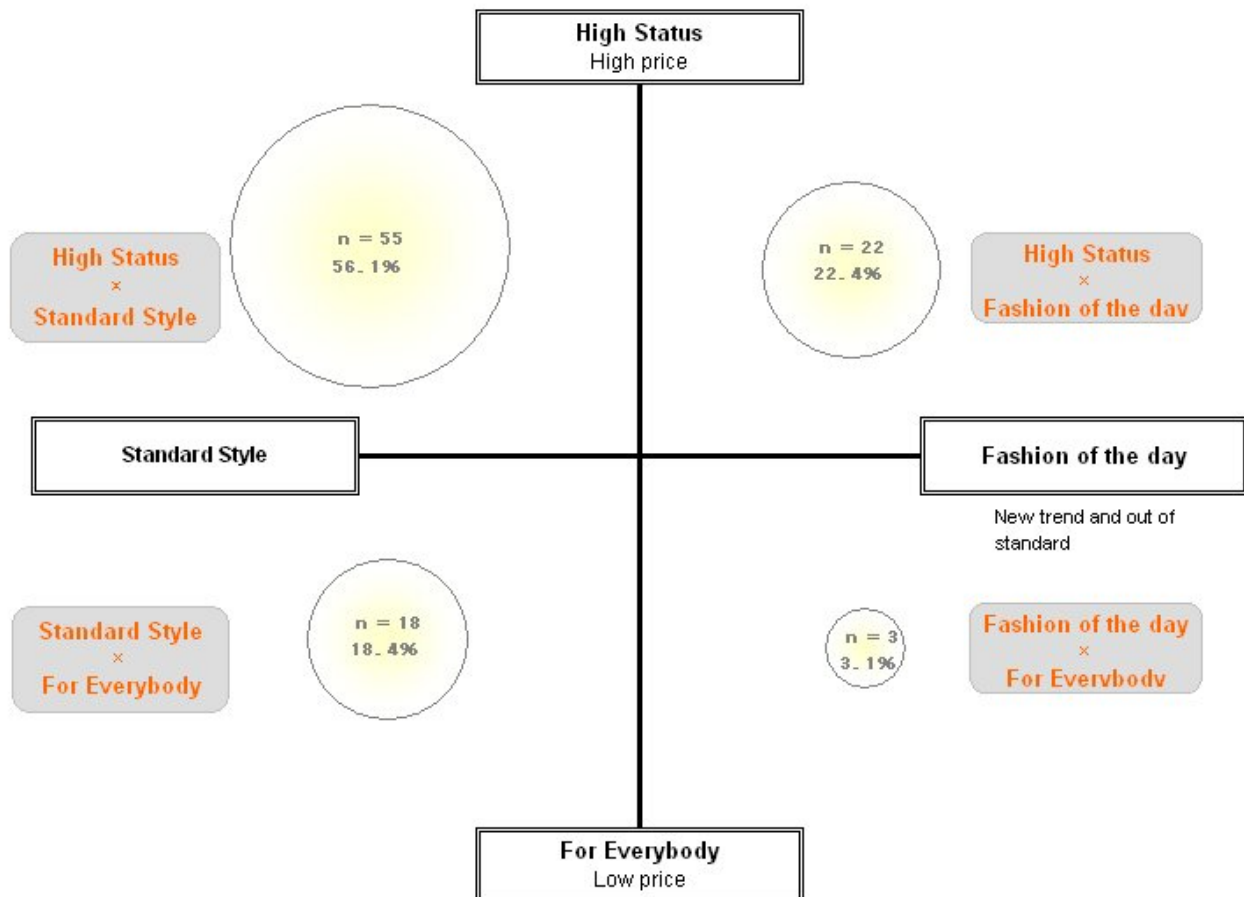
Concerning a question asking how many customers repeat purchase, the most answer was “more than 30%”. In total, 60% of companies has answered that more than 20% of customers come back and repeat purchases. Companies who answered “below 5%” were only 3 companies.



n=99

Watch Target in 2004

Retailers are requested to select from the following image zone of import watch which will be sellable or get popularity this year.



n=92

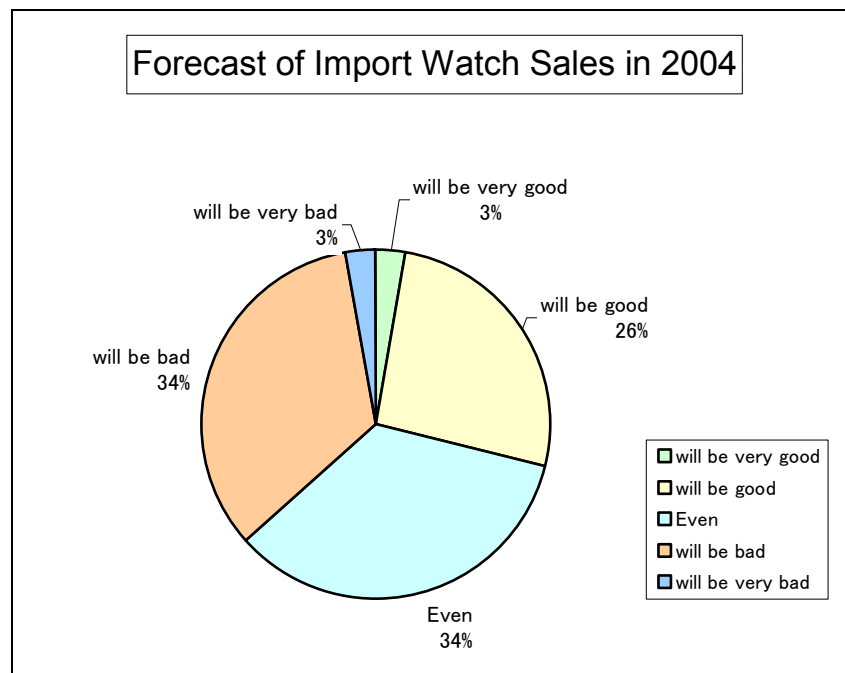
The most answers (55 companies=56.1%) centered in the area of standard style watches with high status. The next was watches with high status and in the fashion of the day (22 companies=22.4%). High status is made great account of sales by retailers. *“Trying to sell high quality watch which can be used long”, “want to recommend watches which will not be out of fashion and can be used from generation to generation”, “want to aim sales increase by raising unit price”,* retailers said.

As detailed names which will sell this year, 7 companies raised Rolex. The main reasons are because *“design is identical”*; *“supply is getting stable”*; *“increasing demand by consumers”*, according to them. The next name raised were Jaeger Lecourt, Panerai, Patek Philippe and Zenith each by 4 companies respectively. The reasons are because *“they are simple but having real watch history and an image of fundamental”*; *“policy of the importer is reliable”*; *“Inquiries from new customers is increasing”*; *“brand strategy meets the trend of the times”*, they stated.

Retailers think that stability, reliability and strong existence are necessary for brands, as consumers are more and more stick to select her or his watch less influenced by popularity among people, or brand names or prices. Retailers stated that they *“will deal brands which are not sold at discount shops”*, *“going to sell watches with reliable services that is different from discounters”*, *“try to create differentiation from other shops by fixing target of customers”*. New brands, such as Pierre Kunz, or Roger Dubuis, and brands developing ladies models are also expected.

Forecast of Import Watch Sales in 2004

36 companies(34.6% of total replies) forecasted the sales in 2004 will be “even”. The total of “will be bad” and “will be bad very much” reached 38 companies (36.6%), and the total of “will be good” and “will be good very much” was 30 companies (28.9%). Retailers forecasted sales of this year as “bad” more than “good”.

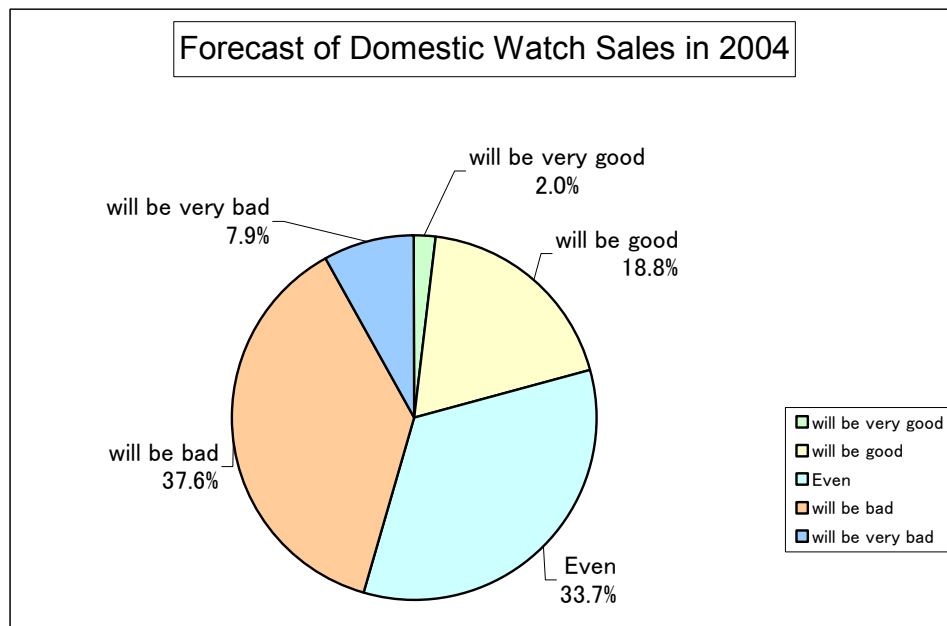


n-104

Reasons of their forecast about import watch sales are as follows;

For “Good”	
More consumers want quality watches can be used long	1
Expectation to new brands	1
Economic situation will not affect much	1
New sales target will be concrete depend on new models from Spring	1
Plan to enlarge sales space and enrich collections, also planning advertising activities	1
Ladies watches in high price rang is expectable	1
For “even”	
Not many models which attract consumers	3
Around ¥100,000 will be good, but around ¥500,000 will be difficult	1
Raise of watch price	1
Difficulties to develop new customers	1
Consumers have already watches	1
General situation will be more difficult	1
By strong efforts to achieve sales strategy	1
Depression	1
For “Bad”	
Depression	7
Increase of discount shops	2
Stronger polarization of high end and low priced range	2
Domestic watches will be more active	1
Young consumers do not mind purchasing parallel import watches	1
Difficult general situation	1
Outcome of competitors (other retailers)	1

Forecast of Domestic Watch Sales in 2004



n=101

45.5% (46 companies) of the total replies are for “will be bad” and “will be bad very much”, while that for import watch was 36.6% (46 companies). At the same time, total of positive forecast for import watch was 28.9% (30 companies), while that for domestic watch was 20.8% (21 companies).

, they hold much expectation of radio controlled watches, exclusive models more than ¥200,000, active advertisement by domestic manufacturers.

Reasons of their forecast for domestic watch are as follows

For “Good”	
Much expectation in radio controlled watch	6
Shops are open for everybody	2
Exclusive models such as Credor, Grand Seiko will be better	2
More than ¥200,000 will be active	2
Price range of ¥50,000-150,000 will be active	1
Less competition as shops dealing domestic watch are less	1
More consumers will buy higher priced watches	1

For “even”	
Much expectation in radio controlled watch	2
Attractive models are not many	2
Sales is strongly depends on sales of Credor and Grand Seiko	1
Efficient advertisement will change image of domestic watch	1
Prices are affordable	1
Sales space is limited	1
For “Bad”	
Attractive models are not many	7
Economic recession	3
Mobile phone keep young people from wearing watches	2
Discount shops	1
Manufacturers are quiet	1
Price raise	1
Import watch has advantage	1
No reason to recommend domestic watches to consumers	1

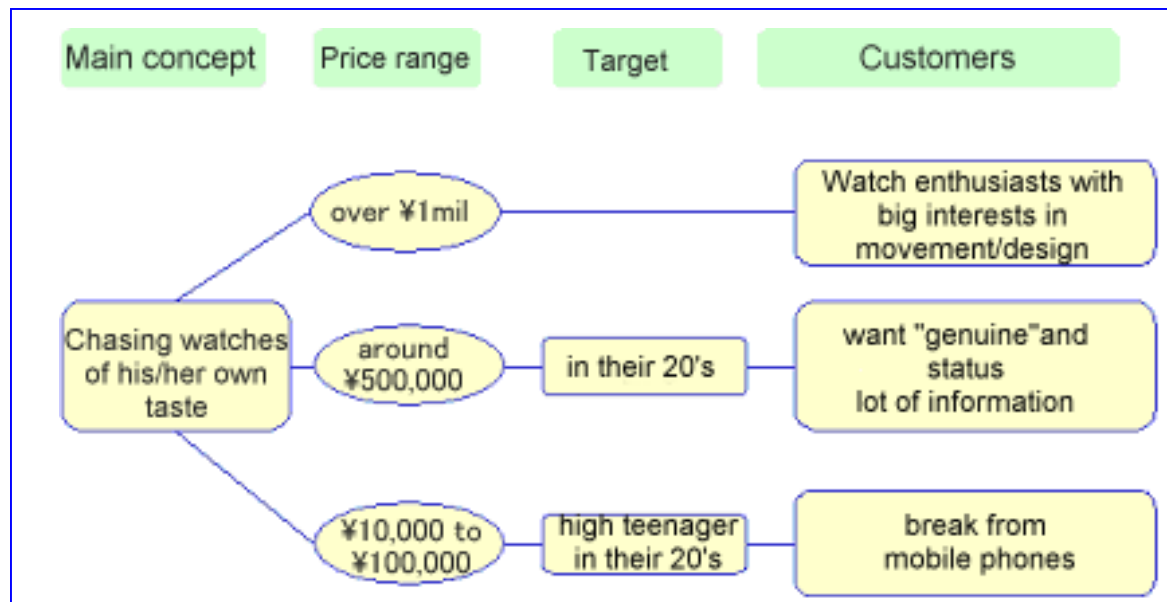
Import Watch market

Consumers are more conscious of their taste. They study a lot of information before purchase and try to select one watch which can satisfy her or his demand. They tend not to pay much attention brand name or price and make selection according to their interests in movements or design. Brand name seems to be considered as a part of reliability. The so-called “big three”, Rolex, Cartier and Omega, are active but not as before, they stated.

Polarization is getting stronger, but watch around ¥500,000 keep strong demand. The target consumers will be the gollowings; more than ¥1mil. Watches for watch enthusiasts or watch lovers who have strong interests in mechanism of movements and personal cares in watch design. Watches around ¥500,000 will be strong for consumers in their 20s. They are spurred by information offered by various magazines, and tend to own “genuine” items from youth.

Lower priced range between ¥10,000 and ¥100,000 will be for high teenagers and

in their 20s. Demand by those young generation for watches is less than before because of penetration of mobile phones keep them away from wearing wristwatches to know the time. But, they still wear watches as a fashion item. Thus, lower priced range will keep certain demands in the category.



On the other hand, disaffections concerning the actual distribution are stated by many companies. Retailers have to be authorized by the importers of the brands to be supplied, but, in fact, they cannot afford to have requested size of stock from several brands. *“Condition to be authorized is too severe”, “to have a lot of stock from several brands can deteriorate the management of shop”*; they mentioned. *“Such a floating over stock in the market could destroy the total distribution system”*, one company expressed his fear.

Concerning the parallel import, they are suffered much by big discount, for example 30%, by parallel import dealers. They are requesting strongly that importers should take certain countermeasures against parallel imports sales. They have a distrust of brands that not yet cleared the price differences from abroad, or brands that are distributed to discount shops.

(March 31, 2004)