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AN OUTLOOK ON THE WATCH MARKET AMID THE COVID-19 CRISIS

By A Collected Man

The international health crisis caused by COVID-19 appears to have reached every corner of the globe. Whenever something of such magnitude hits, it inevitably ripples out through society. As expected, the watch world is not immune.

As we saw today, the epidemic could also be the death knell for Baselworld, as Rolex, Patek Philippe, Chanel, Chopard and Tudor have now all pulled out of the show in favour of creating a new Geneva-based exhibition that coordinates with Watches & Wonders (formally SIHH), with [the news being broken by SJX](#).

According to many, a worldwide economic downturn seems to be approaching, and possibly faster than many imagined. It may be that those who claimed a bubble is set to burst in the vintage watch market, are about to be proven right. Yet, there's good reason not to look at things so simply.

We spoke to some of the most informed and well-connected people in the watch world today, in order to gather their insights on how this might affect the various facets of the industry and what this will mean in the short, to long term. Our aim is to draw a bit of sense from what is currently happening and if possible, add a little bit of clarity to what is an uncertain and uncomfortable time for many.

Initially, we looked to gather opinions on how the major Swiss manufacturers are likely to be impacted by the current pandemic, before touching on the world of independent watchmaking. Conscious that the effects of the crisis will extend beyond this, we also delve into the possible impact on auction houses, as well as the pre-owned and vintage watch market, more generally. We finish by looking to the future, asking our contributors where they think the dust might settle and whether the industry will ever be the same again?

MAJOR MANUFACTURERS & RETAIL

The big headlines we've all been seeing of late have concerned the closure of manufacturers, postponements (and now cancellations) of trade shows and the shuttering of some retailers. Oliver Müller, an industry veteran and former CEO of [Laurent Ferrier](#) (who now runs watch brand consultancy [LuxeConsult](#)) thinks that these troubles won't last long. "The short-term negative impact is certainly tremendous on both manufacturing and new product development. But this is temporary and cyclical, hence not the main driver for structural change." Having been involved with many watch brands through past market dips, Müller is familiar with how resilient the industry can be. This is a view partly echoed by William Massena, another industry veteran former CEO of Antiquorum, Managing Director of Timezone, and founder of [Massena LAB](#), who thinks that history is very much on the side of the larger Manufacturers:

“Every single down-market has seen Patek Philippe and Rolex coming back even stronger. The reasons are simple, they can afford to invest when nobody can, take market share and invest in premium marketing

positions. They can position themselves when the economy comes back.”

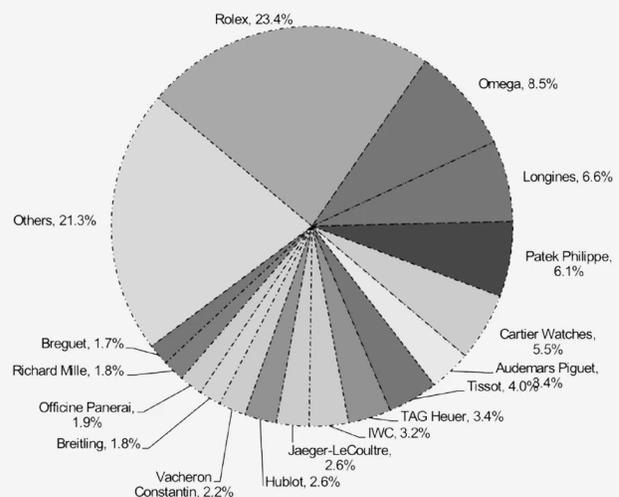
But with SJX reporting that Swiss watch exports, a major barometer for the industry as a whole, are predicted to take their biggest dip in fifty years – by as much as 25% by the end of 2020 – some find it harder to be as optimistic. Nicholas Biebuyck, the Business Development Director at Blackbird Watch Manual, who’s also been active in auction rooms for over a decade, seems to think the reason for this will be the massive drop in international travel. “The groups are in the most challenging position, as right now there will be no travel retail. People just simply aren’t going through airports” with no duty-free sales, and boutiques across Europe and the US closed for the foreseeable future, the big brands’ sales figures seem likely to suffer accordingly.

Yet when you look at the report released recently by Morgan Stanley it would appear the gap between the bigger and smaller brands is only set to grow. In 2019, of the top fifty brands in Switzerland, only the top seven had a turnover above CHF 1bn. Furthermore, they alone accounted for all of the growth in the industry for the same year. Making that gap between them and smaller companies larger than ever before. It’s also worth noting that Rolex on its own accounted for half of this growth.

“The billion’s club” in 2019: Reported turnover by brand and implied total retail sales (CHF M)

Group	Brand	Sales (CHF M)	Implied Retail value (CHF M)
Rolex	Rolex	5,200	11,892
Swatch	Omega	2,355	4,406
Richemont	Cartier Watches	1,837	2,792
Swatch	Longines	1,650	3,323
-	Patek Philippe	1,450	3,084
-	Audemars Piguet	1,180	1,717
Swatch	Tissot	1,020	2,054

Swiss watches: Estimated market share by brand in 2019 (retail value)



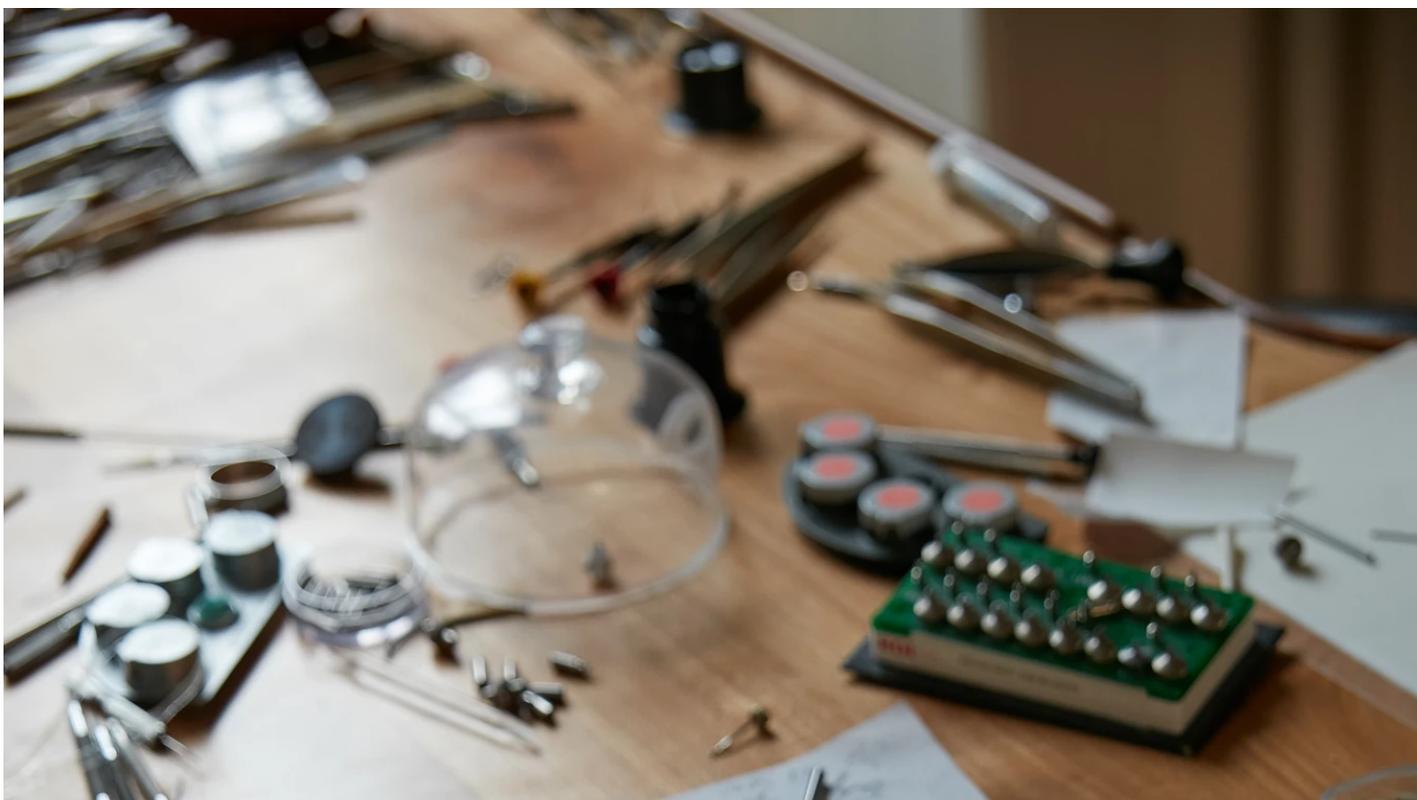
Source: LuxeConsult, Morgan Stanley Research Estimates

The prediction that the larger brands may be able to weather the storm more effectively is further supported by another argument: waiting lists. A collector we spoke to noted that making comparisons with previous crises, such as 2008, is overly hasty. At the time, waiting lists for the major brands such as Patek Philippe or Rolex did not span several years, as they do today for their most attractive models. Whether this will compensate for them ceasing production and pushing back new releases, and to what extent, only time will tell.

INDEPENDENTS

Many in the collector community have expressed concern for the smaller, independent watchmakers who lack the backing of a large group, and shareholders to help them through tough times. While those such as Müller foresee some shrinkage in the market, “I expect the overall Swiss watch market to be impacted as much as – 25% on average, with a lot of brands disappearing” there are those who are more positive about the prospects of independent watchmakers who have managed to secure themselves a loyal customer base inside the collecting community.

“Guys such as F. P. Journe, Rexhep Rexhepi, Kari Voutilainen or Greubel Forsey” Biebuyck tells us, “will be fine as they’re well established and innovative. They have order books and clients they can rely on.” Paradoxically, there appears to be some similarity between the larger, established brands and some of the more successful independents. Both of them share a cult-following they can come to rely on in these tougher times, whereas those who have a more middling position in the market stand to lose the most. “It’s the smaller ones such as Romain Jerome and others”, continues Biebuyck, “who we’ve already seen fall by the wayside, as they fail to differentiate themselves and they’ve been struggling for a few years now.” This sentiment is echoed by Massena, saying “for small independents, it can be a real problem for survival. I expect a few brands to not make it past 2021.”





Inside Rexhep Rexhepi's workshop in Old Town Geneva

Over the last few years, it would be hard not to notice the growing interest in independent watchmaking. The focus on craftsmanship and the desire to add something substantive and different to the field of horology, has captured the attention of an important number of the collectors. While confined at home, with more time to engage in deeper research, this may accelerate things further.

Wulf Schuetz, a notable collector, with a background in private equity, and founder of the vintage watch dealership Rare & Fine Vintage Watches, observed that “people have a lot more spare time right now, so I have a lot more requests than usual. That doesn’t mean I have more sales. But people are spending more time researching and I’m getting questions I’ve never had before. And it’s only on collectible vintage pieces” This is something that Biebuyck has found recently too, “there’s a huge increase in the interest in the independents, because people are realising that

when it comes to contemporary watchmaking if you buy from a big group, you're not really buying watchmaking. You're buying an assembly kit. It's glorified Lego in most of these scenarios."

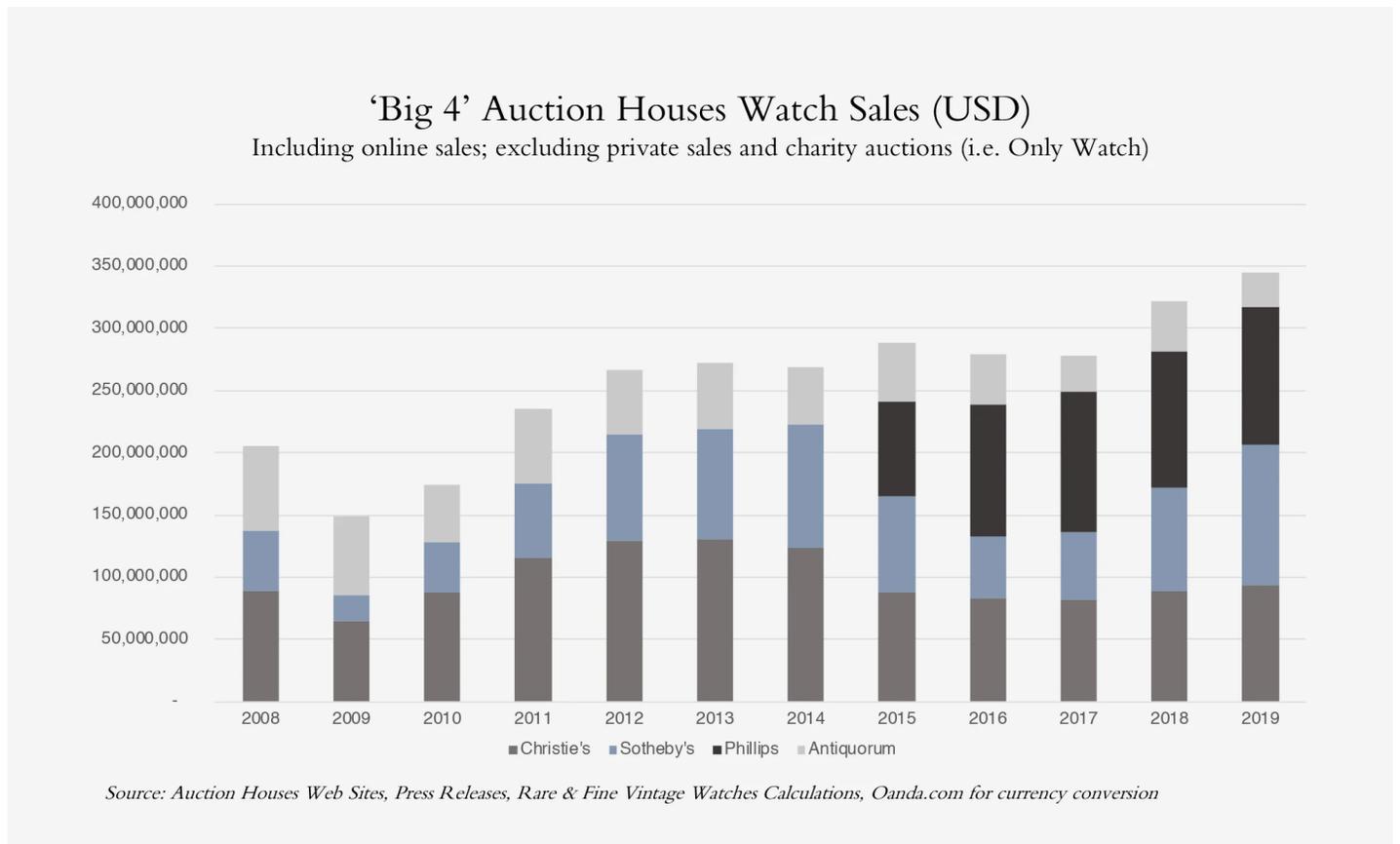




Kari Voutilainen in Geneva

AUCTION HOUSES

If there was one area that most publicly represented the accelerating interest in watches, over the past few years, it's the auction room. For many, auctions are a sort of mix between improvised theatre and the stock market, with new records being broken year-after-year and increasingly impressive sales figures. Yet the story isn't always as simple as the headlines suggest. Auctions haven't always been on the ascendancy. Crucially, auction results continue to be useful, as they are the only public benchmark for the vintage and pre-owned watch market.



The chart above gathers watch sales for the four major houses. Of course, it's not representative of the vintage market as a whole, yet it does allow us to take away a few interesting insights.

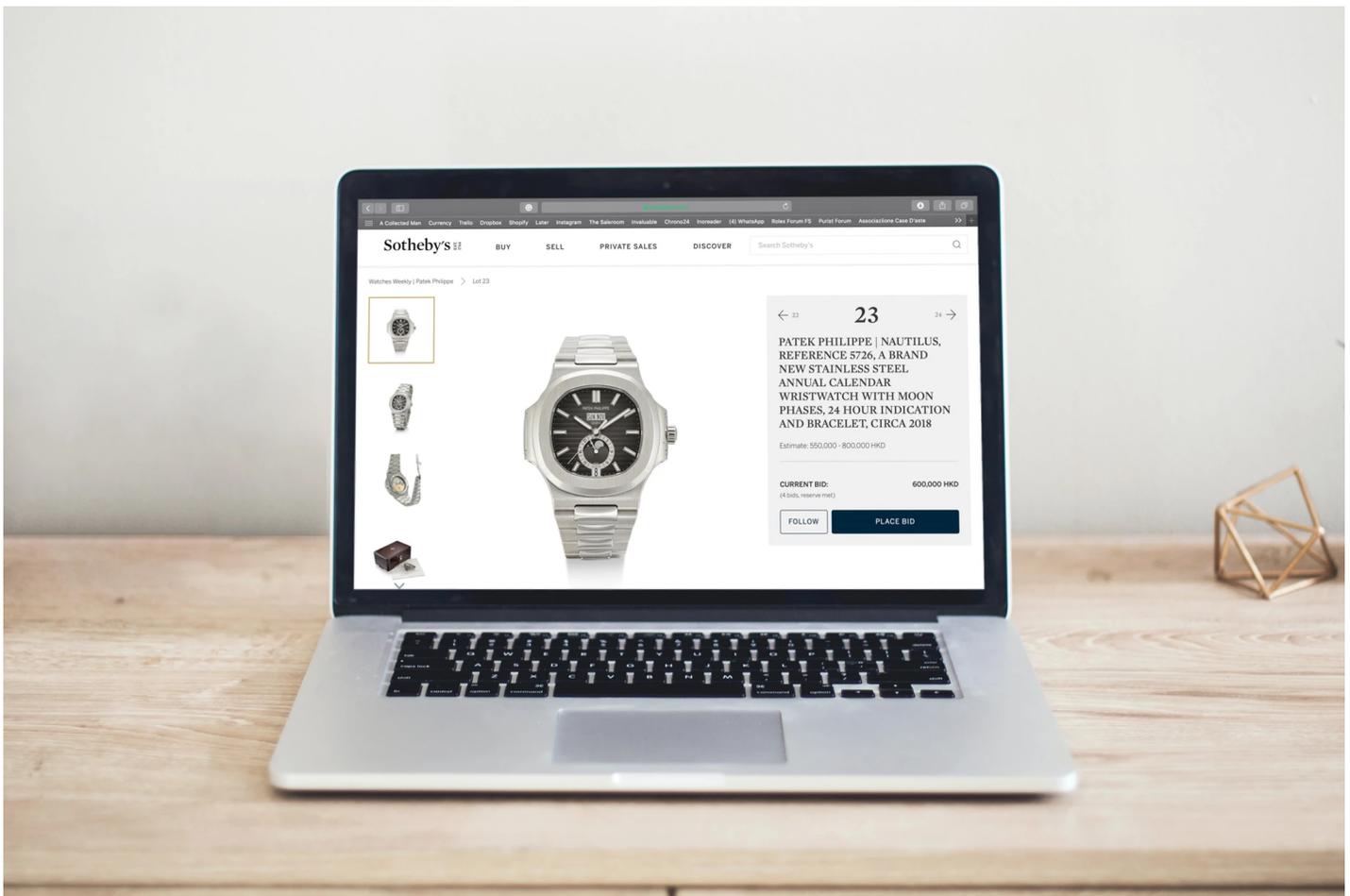
Firstly, it reminds us that the collectable watch market is relatively young. The fact that the volume of sales increased by 43% between 2008 and 2019 is indicative of a market which is still in the early phases of its growth,

and therefore making any cyclical predictions can be difficult. It's already a complicated and delicate exercise in the financial arena, where the data and trends go much further back.

Moreover, cautionary tales about the 2008 crisis are useful, but should be taken with a pinch of salt. Indeed, during the recession, sales slumped in 2009 and 2010, picking back up in 2011. This slump is interesting to note, but it would be hasty to assume that things will play out in the same way. The causes of the 2008 financial crisis are different to those that we're facing today, and vintage watches were much less of a focus back then. Drawing any conclusions from the previous recession should be done with caution.

Finally, the chart above reminds us of just how unique the auction scene can be. It seemingly operates with its own rules. We see a slowing-down of growth between 2014 and 2017. Schuetz, who compiled this data from the auction houses, is quick to point out that in 2014, [Aurel Bacs](#) who left his position as Head of Watches at Christie's at the end of 2013, wasn't active as an auctioneer. He then started working with Phillips in 2015, helping them gain importance in the auction space. Biebuyck also points out that, among other factors, the slowdown in auctions between 2014 and 2017 was further aggravated by the corruption crackdown in China. In any case, the fact that one man, leaving one house and resuscitating the watch department of another, can have a tangible effect on the market, shows how unique the collectable vintage watch market is. Another important caveat, to any general prediction-making.

With all that in mind, some early trends might possibly be emerging. While new watch sales have understandably been hit hard by the closure of manufacturing sites and retail spaces, the auction world has been hit especially hard by travel restrictions, bans on large gatherings and a dip in the global economy. This has led to all the big auction houses closing sites and pushing back sales, though there does still seem to be some resilience, with this crisis proving to be a catalyst for a swing towards online sales. In fact, Biebuyck has seen this coming for a while, "I can remember sitting at dinners in Hong Kong where three or four of us would have iPads propped up next to us, bidding on an auction taking place at Philips."



Sotheby's has decided to introduce weekly online sales

And this trend looks set to continue as Sotheby's weekly auctions, taking place as we write, showing reasonably healthy numbers. A modern Patek Philippe sale closing on April 7, had modern Nautilus watches, understandably bemoaned by many as fairly commoditised models primed for adjustment, still hitting pre-Coronavirus figures. Sam Hines, the Head of Watches at Sotheby's commented, "our online auctions have been going ahead and performing exceptionally well." The most recent Geneva online sale saw a Paul Newman "Panda" ref. 6241 set a record at Sotheby's for a watch sold in an online-only sale. It sold for HKD 2,375,000 including fees (or approximately USD 306,400) and in his opinion "shows that there is still a huge appetite amongst collectors."

While it might be too early to confirm trends or draw full conclusions from these sales, Schuetz observes that it could cause a shift in the industry, "You can do some simple maths. Let's say that they do one sale every other week. Let's assume they make 1m per sale – which sounds reasonable to me. That would bring in 24m per year – compared to 22.5m which they made with three auctions in Geneva last year. Now, take into account the different costs associated with that. I expect this crisis will reshape some business models even more into digital."

What stands out from the figures, is the resilience of the auction houses, but it will mean continuing to adapt. Embracing online sales feels more important than ever. If they do so, auctions will probably continue to play an important role. As Massena puts it "the auction business is cyclical so they will rebound with the economy." Which could suggest a period where collectors feel reticent to consign watches to the big houses, whilst they wait for the industry to bounce back.

VINTAGE AND PRE-OWNED MARKET

If auction houses are a good indicator of how the vintage and pre-owned market is doing, they don't tell the whole story. Private sales are happening constantly and to get a sense of whether these are heating-up, or cooling-off can provide further insight into the market as a whole. Whilst public data for this is understandably difficult to find, we've spoken to some of those in the middle of it all, to get their take on things.

One of the main problems facing dealers and their clients at the moment is the inability to travel and see pieces. "The biggest issue for me is that I can't travel. So, I can't show people watches and I can't look at a watch before I buy it", Schuetz explains to us. He needs to look at a watch and assess its condition before buying it and many of his customers like to do the same prior to buying from him. But with the current restrictions in place, it can slightly dampen collectors' willingness to reach into their pockets without seeing the watch first.

This struggle might not have put Schuetz out of business but Beibuyck has heard tell of others less well off:

“Plenty of bedroom brokers were living month-to-month and now they’ve got no way of liquidating stock. They’re finding themselves in some really tricky situations.”

One thing that many were expecting to see at this time was a cooling-off on certain “overhyped” watches in the pre-owned space, namely certain steel sports watches, that could lose a sizable percentage of their value as the economy weakens and the demand dries up. Eric Ku, [an influential dealer](#) and collector of rare independents, echoes this “we have already seen so far a significant softening on the hype pieces, for example, Patek Philippe 5711 (all Nautilus in general), Rolex sports models (GMTs, Submariners and Daytonas).” As we pointed out above, this hasn't fully played-out in the auction house sales yet, but Ku's insights could potentially be the first drops of a storm.

A softening in the appetite for the once fashionable modern steel sports watches has also been noticed by Schuetz, who was approached by a new client that recently wanted to trade-in a collection of modern steel sports models for some vintage pieces. “I asked him what kind of watches he was looking for, and he said he wanted rare vintage watches with price range starting at about €100,000 per watch.” While this does not constitute statistically significant data, it may go to show how certain people are now sensing a fragility in certain pockets of the modern pre-owned market. After all, prices for current production “hyped” steel sport watches appear to be driven by overwhelming demand more than anything else. A softening of this demand, due to the important number of pieces out there, could result in a decrease in their market value. It appears some collectors are choosing instead to spend their time and money on certain vintage pieces, where the limited production number and historical significance of certain watches seem to translate into longer-term financial certainty in uncertain times.



Often spoken of as a "blue chip" piece - the ref. 2499. This rose gold example, with Trucchi signature, sold for CHF1.58m at Phillips in November 2019.

We would never recommend buying a watch solely for investment purposes either, as Massena puts it “if you think your Rolex, Patek Philippe, or whatever, will put food in your family’s mouth, pay the mortgage, and the kids’ tuition, now and forever. Bless your heart!”. However, when we start discussing watches where the value is up in the six figures, this is an aspect that is often considered by collectors.

Rightly or wrongly, over the last decade or so, some “blue chip” models have come to be thought of as sound investments. Müller is hesitant about them, “the real “blue-chips” will always retain value. How much? No one knows.” But when we asked Hines if he thought they would be safe assets during a time like now, he was positive.

“Yes, like we saw in 2008 and 2009, some people prefer to invest in tangible assets and not a volatile stock market or complex and risky investments.”

This view is echoed by Davide Parmegiani, unquestionably one of the most important watch specialists and dealers on the planet. For context, this is the man who has handled all four of the legendary Patek Philippe 1518s in steel. As Davide tells us, it’s not the first time he’s gone through an event such as this, “I have already experienced many important economic crises: the first Gulf War of 1991, the second, the 2008 crisis, and so on”. Armed with this

experience, Davide seems somewhat positive about the future of the collectable vintage watch market, “I can tell you that collector's watches have never been significantly affected by these crises. Indeed, I would venture to say that after normal periods of settling that usually sweep away short-term speculators, the market has always come out stronger and stronger than before. The average value of the pieces in the last 30 years is valid testimony.” Of course, he’s quick to point out that this crisis is unparalleled in its nature, yet his confidence remains absolute.

Regardless, those who are collecting for the love of watches are not going anywhere. According to Parmegiani, “the collector's watch is above all passion! A visceral passion that means that even if you are confined to home in absurd and grotesque situations of compulsory quarantine, when you open a box of watches where you keep your little treasures, the emotion is always great and the mood of the day takes a substantially different fold. This is the real reason why I think that the world of collectible watches will resist and will always exist”. This view is shared by Hines, who states, “the desire to collect watches during a crisis is typically at its highest because, in order to escape reality, collectors prefer to dig further into their beloved passion of watch collecting and come together as a community.” Indeed, it may be that in times like these, that collectors worry less about financial speculation, which seems to have grown in importance over the last few years, and focus more on what they connect with emotionally.

While this will be a difficult time for most and potentially a cause for readjustment, it's clear that the watch market has the ability to bounce back. Where one might be inclined to speculate and guess, Biebuyck put it best when he said, “there’s no point in mulling-on what the effects are going to be in six months’ time because, at this point, we simply don’t know.” Only time will tell...

We would like to thank [Wulf Schuetz](#), [Davide Parmegiani](#), [Eric Ku](#), [Sam Hines](#), [William Massena](#), [Nicholas Biebuyck](#) and [Oliver Müller](#) for helping us put this together.

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