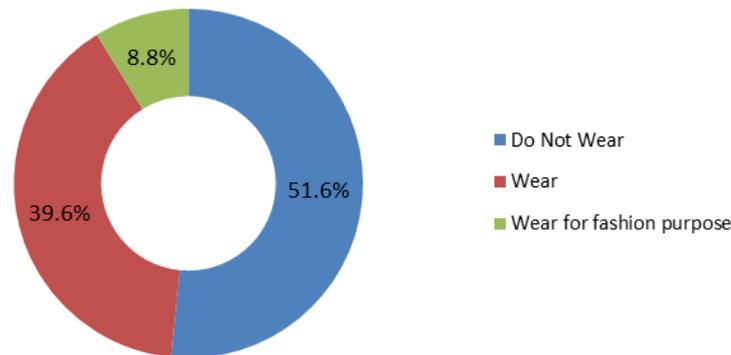


Introduction: How to Tell Time in the Modern Age

When smartphones came out, it became common practice to check one's phone to tell time. Eventually, wearable watches emerged, and now traditional watches are no longer the first option for people to tell time. According to a Japanese online poll conducted by Sirabee.com, a Japanese online survey website, 51.6 % answered that they do not wear a wristwatch as of October, 2015; while 39.6% said they wear one, and 8.8% noted that they wear a watch as an accessory and not to tell time.

Figure 1. Percentage of Individuals Who Wear Wristwatch in Japan



Source: Sirabee.com

The Must Have Item no more?

At the same time, other surveys also support the trend that the Japanese are becoming less interested in wristwatches. While it used to be very common for Japanese businessmen to purchase a wristwatch on special occasions such as when one achieved business goals, received a promotion, or secured a bonus. True to this practice, every year, right before bonus season (usually early summer and/or winter), several magazines and online websites feature useful and suitable wristwatches for the Japanese businessmen. In November 2015, “@DIME,” a Japanese men’s website that covers various topics from popular smartphone apps to brand new luxury cars, listed 13 wristwatches that would be worth spending one’s bonus for. The list included watches that ranged from approximately 60,000 JPY to 360,000 JPY (571 USD to 3,429 USD, exchange rate of 1 USD = 105 JPY).

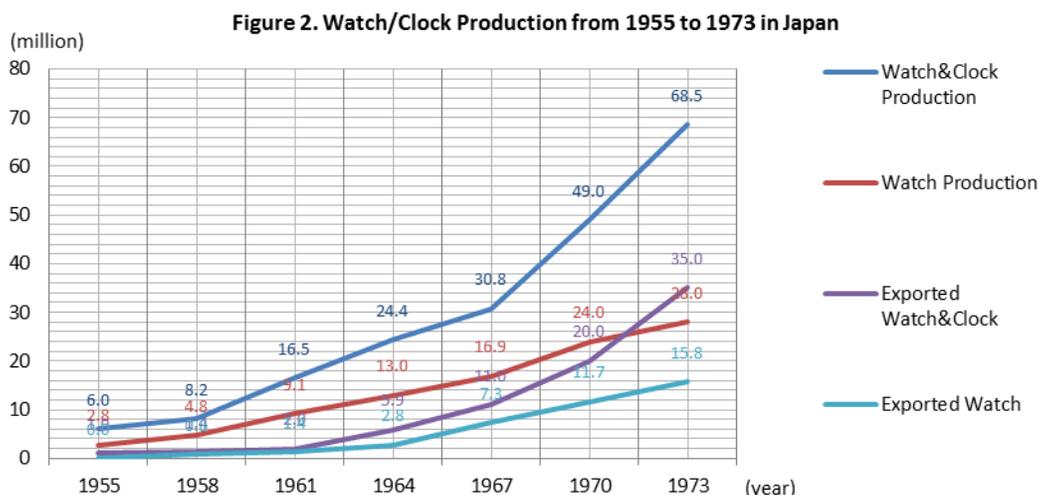
However, while magazines may try and push for such old habits, another survey showed a different result. Prior to @DIME’s list, Kakaku.com, a Japanese popular website for price comparisons and online shopping, conducted research on what people spent their bonus for. According to the study, 16.6% answered they would use their bonus for clothes, and only 4.5% answered they would purchase wristwatches and other accessories.

As individuals use their disposable incomes for wearable devices, phones, tablets, and video game devices that all tell time, the role of the wristwatch and how much one is willing to spend on it has changed. Individuals still enjoy the idea of a luxury watch. However, as trends demonstrate, the market has been losing steam. This report will focus on the current state of Japan's wristwatch market to provide U.S. companies with an idea of the trends and opportunities that exist in Japan.

The History of the Watch in Japan and its transformation from a luxury to a common product

The popularity of the watch is closely tied to Japan's resurgence following World War Two. After the war, Japan was economically devastated, and having a watch was considered one of the ultimate luxuries and symbols of social status. A watch was a true luxury and one was lucky to even be able to have one such watch during his/her lifetime. Similar to other luxury goods, function and quality mattered more than visual appearance.

During the Korean War, as Japan needed to produce military supplies, engineers came from the U.S. to the Japanese industry and taught quality and production control. Through such exchanges, Japan learned how to produce products in mass quantities while maintaining quality. Such exchanges helped fuel Japan towards economic growth as the population became focused on improving and perfecting, and then exporting. Japan's economic success naturally benefited the watch industry as more Japanese could afford to buy watches.



Source: Japan Clock and Watch Association

Quality and production control boosted Japanese watch/clock production. The number of watch exports reached 15.8 million units in 1973, while it was only less than two million units in 1955. In the same year, Seiko, one of the most long-established watch and clock manufacturers in Japan, produced the very first digital wristwatch with LSI, liquid silicon infiltration, which retailed at 13,5000 JPY (1,286 USD). This development allowed the Japanese wristwatch industry to advance into a new stage. The following year, two other companies, Citizen and Casio, also produced their first digital watches retailing at 98,000 JPY (933 USD) and 58,000

JPY (552 USD). Digital watches allowed for collaboration across industry lines, with new players such as electric manufacturers and department stores. To produce the digital watches, electric parts such as microchip and digital screen were necessary. Thus, the emergence of digital watches expanded the market for the producers of such parts, fueling success across industry lines. Similarly, department stores around Japan also entered the market to sell the increasing number of both digital and traditional watches. Formerly, watches were handcrafted and sold in small watch-stores before mass production, but due to development and quality control, the production process shifted to large scale factories. Larger quantities of products ended up at department stores to be sold along with imported watches that the newly rich Japanese could now afford. Watches became a non-luxury good, in fact a necessity and symbol of social status. Japanese could now buy several watches throughout their lives, changing based on age and economic status. (Exchange rate: \$1=105 yen)

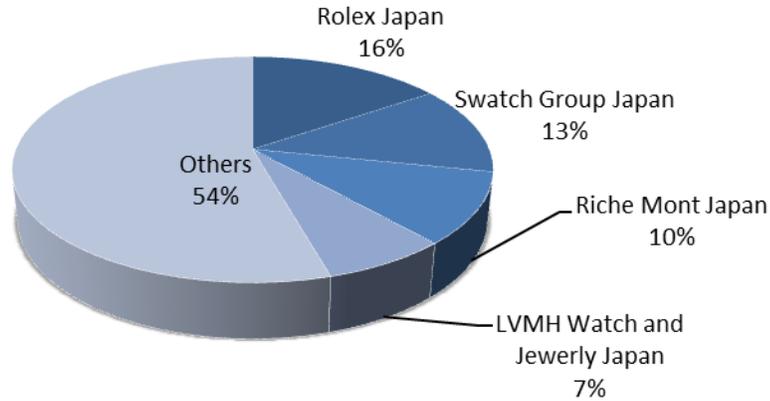
Market Distribution and National Brands

While many now make purchases on the internet, the Japanese still prefer physically visiting stores to find and purchase wristwatches. To cater to such consumer preferences, department stores and retail shops usually have one floor dedicated to watches. Companies face bitter competition for floor space to display their products in prominent department stores. Brands such as Rolex, Omega, and Cartier join the likes of domestic brands Seiko, Citizen, and Casio in stores such as Isetan, Mitsukoshi, Takashimaya, and Hankyu. Generally speaking, domestic brands are more affordable and are advertised by local Japanese celebrities. Luxury brands are ones that tend to be well established globally.

When one decides to purchase a luxury watch, there is a strong tendency to select from premium international brands that are well known. For the committed Japanese consumer who has the ability to purchase a luxury watch, well known foreign brands tend to be the first choice. It is unlikely that such a consumer would opt for an unknown brand, no matter the quality or price. New market players would need to invest significant resources in marketing to be able to gain interest from Japanese consumers.

However, while luxury watches still tend to be imports, price conscious Japanese consumers are also now focused on quality domestic lines that have expanded their luxury options. A good example is Casio that has the affordable G-Shock watch while also having the Sheen and Oceanus luxury lines. Similarly, Citizen has the casual Drive line while also having the Signature collections. Seiko has the Prospex line in addition to the Grand Seiko lines.

Figure 3. Distribution of Imported-Watches in Japan



Source: Yano Library

Types of Stores in which watches are sold	%
Department store	35.7%
Retail shop	41.1%
Mass retailer	7.8%
Other (online stores, mail order, etc.,)	15.5%

Source: Yano Library

Figure 5. International Brands Recognized by Japanese

	Brand		Brand		Brand		Brand
1	BVLGARI	6	CHANEL	11	LOUIS VUITTON	16	DUNHILL
2	CARTIER	7	HERMES	12	TIFFANY	17	TAG HEUER
3	Rolex	8	BURBERRY	13	FRANK MULLER	18	CK. CALVIN KLEIN
4	Omega	9	COACH	14	SWATCH	19	FENDI
5	GUCCI	10	Agnes. b	15	DIOR	20	DIESEL

Source: Wristwatch Consumer Awareness Survey 2014

Fashion watches are also popular in Japan, and are often sold in casual clothing stores that are popular among the young generations, such as BEAMS, SHIPS, and United Arrows. Such stores sell less expensive watches ranging from about 13,000 JPY (124 USD) to 30,000 JPY (286 USD), exchange rate of 1 USD = 105 JPY, and the main target consumers are the Japanese teenagers and young professionals in their 20’s/30’s.

The Real Consumers moving the Japanese Watch Market

There is still demand for high-end wristwatches in Japan. Surprisingly, however, the demand actually is from external sources. The Japanese inbound tourism surge has been fueled by Chinese tourists who are going on massive shopping tours in Japan. The Japanese call this “bakugai”, translated as “explosive buying.” While this surge has been welcomed in terms of economic impact, the view is that it is not sustainable long term.

In 2015, the number of Chinese visitors to Japan was 4,993,800, which was more than twice 2014 figures. Such tourists have been a huge stimulus to the economic through explosive buying patterns. Demand has been so great that Japanese department stores have opened special spaces for high-end watches in addition to expanding Chinese speaking staff and duty free procedures. Mitsukoshi Ginza, an internationally successful department store chain, has opened a 3,550 square feet area called “Time Vallee” for the high-end wristwatches in March, 2016. Products were selected based on brands favored by Chinese tourists including: IWC, Piaget, and Cartier. Nihonbashi Takashimaya, another major department store chain founded in 1831, launched a flagship store “Takashimaya Watch Maison” in a shopping area that is popular among the high class Japanese and wealthy tourists.

While the Japanese welcome such explosive spending and the watch industry has benefited, past lessons indicate that such purchasing will not be sustainable. Previously, Chinese tourists had traveled to Switzerland to purchase luxury watches. It was said that more than a half of sales of Carl F. Bucherer in Lucerne, Switzerland could be attributed to Chinese tourists. According to Radio France International, however, the Swiss watch market is facing a decrease in sales for the first time in 2016 due to the decreasing number of Chinese tourists. One can say that this could also happen in Japan.

Consumption Tax Hike and its effects on the market

TYPE of Wristwatch	Units Sold in 2015	Compared to 2014	Ratio to the Total Production	Sales of 2015 (hundred million)	Compared to 2014	Ratio to the Total Production
National brands/manufacturers	9.3 (million)	+16%	25%	2,064 JPY	+21%	23%
				17 USD		
Imported brands	27.6 (million)	-5%	75%	6,938 JPY	+17%	77%
				57USD		
Total	36.9 (million)	-1%	100%	9,002 JPY	+18%	100%
				74 USD		

Exchange rate of 1 USD = 121.05 JPY

Source: Japan Clock and Watch Association

Japan implemented the first increase in consumption tax since 1997 through Abenomics reforms that took place in April 2014. As demonstrated in the table above, the effect of the hike can be seen emerging. Although sales of 2015 imported brands increased over the previous year, the number of units sold was less than 2014. The tax hike from 5% to 8% surely contributed to this. Since many also rushed to purchase luxury goods before the hike, sales figures can be expected to decrease over the next few years, especially with another expected tax hike around the corner. Japan is a different country from the Bubble era and while there is still nostalgia for brand name goods, consumer preferences are shifting towards economic options. The fact that department stores have relented to give space to fast fashion brands signals this trend. A negative interest

rate, a stagnant economy, and anticipated tax hikes will likely continue to push consumers towards domestic brands with a small niche group fueling the imported luxury watch market.

Recommended Next Steps

There always will be a niche market for imported luxury brands. However, this market will be niche, and demand will fluctuate based on the continued presence of Chinese consumers. Furthermore, new brands will need to invest significant time and financial resources in order to break into the market. An unknown imported brand, which will likely be more expensive than well-known domestic options, will struggle to attest its worth and image. Getting space in a department store will likely be a several year process unless there is exceptional interest in the products from the Japanese side. Business negotiations will be time consuming, and frequent visits to Japan, a designated Japanese hire, and Japanese marketing materials are a must. Enlisting a Japanese celebrity for promotional efforts or attending a trade show to show commitment to the Japanese market could be effective. Seeking space in magazine feature articles around bonus season is also recommended. It should be known that print media is still the favored promotional platform in Japan and that a two page article in a consumer goods magazine could run at \$32,000. Luxury companies continue to purchase such platforms prior to bonus season in effort to demonstrate market commitment and entice consumers.

It should be known that Japanese department store buyers have plenty of options to choose from. They do not respond well to matchmaking introductions and prefer to look for new products at specific shows they traditionally attend. Companies participating in such shows demonstrate commitment to the market.

CS Japan suggested the following shows as options.

Fashion World Tokyo (April/November)

<http://www.fashion-tokyo.jp/en/>

Tokyo Men's Fashion Expo (November)

http://www.mfs-expo.jp/en/home_autumn/

International Jewellery Tokyo (January, October)

http://www.ijt-aki.jp/en/home_autumn/

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