

Jewelry & Watches



June 2009 US\$395



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JEWELRY & WATCHES

Supplier capability in China

EXECUTIVE SUMMARY

China's fashion jewelry and watch industry is optimistic of prospects for the rest of 2009, even while the difficult export environment is forcing the supplier base to contract.

During the past year, overseas sales grew by a marginal 5 percent to \$2.4 billion. In terms of export volume, however, shipments fell 14 percent to more than 595,000 kilograms of fashion jewelry and 550 million watches. The decline continued through the first three months of 2009, with sales registering 6 percent lower than the previous corresponding period.

Low demand from major markets is the primary reason exports are slowing. This, in turn, has pushed several plants to close. Last year, about 10 and 5 percent of jewelry and watchmakers, respectively, folded as a result of the difficult business climate.

Even so, companies are projecting year-end overseas sales gains. Among the suppliers surveyed for this report, 95 percent are optimistic of growth. About one-third of them are even projecting exports to increase more than 20 percent.

The following are some of the key developments we see in China's fashion jewelry and watch industry:

- Many companies will be reducing prices by about 5 percent in coming months, under efforts to boost sales. The majority of suppliers, however, will raise quotes 5 to 10 percent, especially since the cost of major materials has been increasing in recent months.

- Businesses are taking advantage of local government support to help improve sales. These include availing of short-term loans, B2B allowances and intensified marketing efforts.

- Companies are working together to minimize overhead, including purchasing components in bulk to negotiate discounts from suppliers.

- To improve efficiency and cut costs, makers are investing in worker training and advanced machinery.

China suppliers produce anklets, bangles, bracelets, brooches, chokers, earrings, necklaces, pendants, rings, and classic, fashion, multifunction and sports watches. These are also the scope of this report.

Each product category has its own section with details on the features and prices of low-end, midrange and high-end models. The manufacturing and QC processes are discussed for the key products as well.

The section also elaborates on the industry composition, highlighting key characteristics of the different types of companies.

The Industry Overview illustrates the effects of the current financial crisis on suppliers' export sales and growth projections. Further, it explains the measures makers are taking to minimize losses.

This section also reviews the major export and manufacturing hubs for each product category.

The jewelry and watch export manufacturing industry in China is comprised of small and midsize companies. At least 70 percent of all suppliers are private locally owned companies, and the rest have foreign participation.

The provinces of Guangdong, Zhejiang and Fujian are the main manufacturing centers for fashion jewelry and watches. Guangdong is the largest hub, contributing two-thirds of national exports. Zhejiang is the second-biggest center for fashion jewelry, accounting for 29 percent of shipments in the line. For watches, Fujian is a distant second to Guangdong, with exports making up only 3 percent of total overseas sales.

Reflecting this structure, 95 percent of suppliers profiled in this report are private local businesses. About two-thirds of featured companies come from Guangdong, 28 percent from Zhejiang and less than 1 percent from Fujian.

In this report

- 22 in-depth company profiles
- 20 additional suppliers
- 67 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that may or may not be clients of Global Sources.

The selection of suppliers is designed to reflect the composition of the industry in China in terms of geographic spread, business type and company ownership.

For in-depth company profiles, our research teams interviewed senior executives and export managers who discussed their recent performance and provided price, R&D, production and export forecasts for the next 12 months. The interviews were done in person, by phone or e-mail.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including their production and export statistics, and a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capability of each supplier.

All profiled suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry in the next 12 months. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

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INDUSTRY OVERVIEW

China makers of jewelry and watches are taking diverse steps to overcome external and internal challenges that have slowed exports and caused an industry shakeout.

Demand for the country's products was reduced significantly after the global financial crisis struck in the fourth quarter of 2008.

Jewelry shipments for the full year were down 15 percent to 595,000 kilograms. Export sales for the line, on the other hand, rose by a marginal 3 percent to touch \$1.2 billion.

Sales of watches amounted to 550 million pieces worth \$1.25 billion. Value growth was only 8 percent while the quantity was 15 percent lower.

The slowdown continued in the first quarter of 2009. Exports of jewelry during the period, equivalent to 106,725 kilograms, shrank 20 percent YoY. Likewise, the 104 million timepieces worth \$122 million sent overseas during the same span is a 17 percent decrease in both volume and value from the previous corresponding period.

The decline in overseas orders forced many factories to shut down. These were mostly small businesses that were only able to bankroll material and salary disbursements using payments from recently completed projects. The jewelry supplier base contracted by 10 percent in 2008, while the number of watchmakers diminished by 5 percent.

Consolidation is more intensive in the jewelry sector because of China's new national standard for fashion jewelry. The law, which was enforced at the start of 2009, details the maximum allowable limit of harmful substances in export models, as well as approved testing methods and labeling requirements. Offending makers are obliged to close for four months so that products can be brought to compliance. Since implementation, an estimated 5 percent of factories have been penalized, with 90 percent reopening.

Apart from closures and mergers, weak consumer demand triggered a slump in material costs late last year. From a high of \$147 per barrel in July 2008, petroleum plunged to \$30 in December. Plastic and metal prices quickly followed suit.

Additionally, in the first few months of 2009, labor expenditure decreased as unemployed workers from factory closures settled for lower wages just to be rehired elsewhere. Average salaries in the Yangtze River Delta region dropped by 10 to 20 percent after the Chinese New Year.

Consequently, makers were able to reduce product prices in order to enhance competitiveness. The strategy directly addressed the fact that clients also tightened their buying budgets.

Manufacturing input, however, is again on the rise. At the time of this writing, crude oil was \$59 per barrel. PP, which traded at \$670 per metric ton at the beginning of the year, is currently \$1,020. The latest rate for LDPE is \$1,060 per metric ton compared with \$770 in January.

Metal is headed in the same direction, with zinc and tin costs up about 20 percent from the start of 2009.

Some watchmakers are also contending with elevated ebauche prices. This is because Swiss timepiece company ETA started to reduce production of movement blanks in 2008. The move is part of a two-year program that aims to eliminate distribution of the component outside of the Swatch Group. The limited supply is significantly driving up the cost of Swiss movements, with some models being sold at five times late-2007 quotes.

Despite higher costs, many suppliers intend to keep product prices stable in order to retain existing clients.

Besides upholding quotes, the two priorities for suppliers of jewelry and watches are stimulating demand and maintaining sufficient cash flow.

Supplier summary

Suppliers surveyed	22
Export sales	\$154.1mn
Export ratio	86%
OEM business	49%
Capacity utilized	78%
Annual R&D spending	\$5.7mn
Full-time employees	8,995

Data: All surveyed suppliers

Exporters are intensifying marketing efforts with the help of local authorities. For example, companies in Qingdao, Shandong province, can avail of a maximum allowance of \$2,940 for B2B media promotions.

Likewise, government agencies in Zhangzhou, Fujian province, are pooling resources to help makers attend overseas trade shows. Moreover, organizers of such events are pouring funds into inviting buyers from emerging markets such as South America, Russia and the Middle East.

Further, to entice new clients, suppliers are reducing their MOQ. Some are accepting orders of just 24 pieces per style, with a different minimum number of models per transaction. Prices are not as low as in large runs, but buyers avoid the risk of having excess stock of designs that are unpopular at retail.

The downside for makers in this situation is that outlay is higher when processing multiple varieties. This is because of tooling fees and frequent reorganization of assembly lines. A few companies have even said they do not profit when operating in this manner. They prefer, however, to keep the factory busy and break even than forego orders and consequently shut down.

In terms of sustaining liquidity, the national government is offering support to manufacturers through higher export tax rebates. In November 2008, the rate for watches was raised from 11 to 13 percent, while that for jewelry was elevated by 4 percentage points to 9 percent in April 2009.

Allor Industrial Ltd

ISO 9001:2000-certified Allor is a private locally owned supplier of bracelets, bangles, anklets, brooches, pendants, chokers, necklaces, earrings and rings. The company was established in 2003.

Annual revenue for all products totals \$3 million, 83 percent of which is for jewelry. The rest represents mobile phone straps.

All output in the featured line is shipped to North and South America, Europe, the Asia-Pacific region, and the Middle East, mostly on an OEM basis. One fifth of exports carry the in-house

brand. Disney is one of its major clients.

About \$30,000 is allocated for product development annually. This represents 1 percent of total sales.

The company has a 1,800sqm factory in Shenzhen, Guangdong province. It utilizes 100 percent of its 80,000-piece monthly capacity.

There are 246 employees, four of whom are R&D specialists and 25 are QC inspectors.

Exports are expected to increase more than 20 percent in the next 12 months, during which the EU will be the company's target market.

Company facts

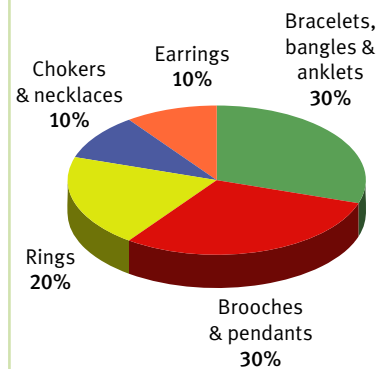
Year established	2003
Business type	Manufacturer
Company ownership	Mainland China-owned
Head office location	Shenzhen (Guangdong)
Number of factories	1
Factory location(s)	Shenzhen (Guangdong)
Total factory area	1,800sqm
No. of full-time employees	246
No. of R&D/design staff	4
No. of QC staff	25
Annual sales (all products)	\$3.0mn
Annual R&D spending	\$30,000
ISO certification	Yes

Sales & output: Jewelry & watches

Annual sales	\$2.5mn
Share of total sales	83%
Annual export sales	\$2.5mn
Total monthly capacity	80,000 pieces
Average monthly output	80,000 pieces
Capacity utilized	100%
Average monthly exports	80,000 pieces
Export ratio	100%
OEM % of exports	50%
ODM % of exports	30%
OBM % of exports	20%
Major customers	Disney (US)
Other products made	Mobile phone straps

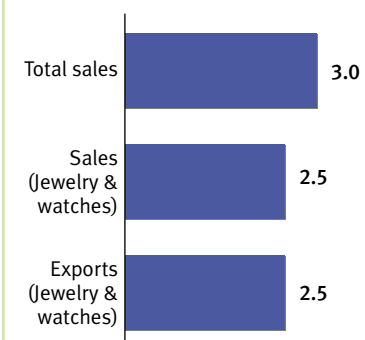
Profile

Products made



Sales

\$mn/year



Contact details

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Capability

Production checklist

Assembly lines	4
Faceting machines	2
In-house electroplating	No
In-house material testing	Yes
Makes digital modules in-house	No
Makes mechanical movements in-house	No
Makes molds in-house	Yes
Polishing machines	—
Watch analyzers/ timing machines	—
Water-resistance testers	—

Exports by product

Bracelets, bangles & anklets	30%
Brooches & pendants	30%
Chokers & necklaces	10%
Earrings	10%
Rings	20%
Children's watches	—
Classic watches	—
Fashion watches	—
Sports watches	—
Multifunction watches	—

Exports by market

North America	30%
European Union	30%
Europe (non-EU)	10%
Asia-Pacific	10%
Middle East	10%
South America	10%

Outlook

- **Export prices**
Increase
- **Export price increase**
Less than 5%
- **Export sales**
Increase more than 20%
- **Target market**
European Union
- **Capital expenditure**
Increase up to 50%
- **Major challenge**
Price competition
- **Export capability**
Widen product range

Popular export models



Description: 316L stainless steel pendant; genuine leather cord; lobster clasp; handmade; 54cm

Necklace

Model	NE08019
Minimum order	100 pieces
Packaging type:	OPP bag
Delivery time	30 days
Indicated price	•



Description: Braided PU leather band; 316L stainless steel beads; lobster clasp; handmade; 21cm

Bracelet

Model	BR08123
Minimum order	100 pieces
Packaging type	OPP bag
Delivery time	30 days
Indicated price	•



Description: Braided genuine leather band; 316L stainless steel ornament; handmade; 21x3.5x0.4cm

Bracelet

Model	BA08018
Minimum order	100 pieces
Packaging type	OPP bag
Delivery time	30 days
Indicated price	•

• Information not disclosed

PRODUCT GALLERY

Bracelets, bangles & anklets



Allor
(profile page 36)
Model: BR08123
Minimum order: 100 pieces
Packaging type: OPP bag
Delivery time: 30 days
Indicated price: •
Description: Bracelet; braided PU leather band; 316L stainless steel beads; lobster clasp; handmade; 21cm



Allor
(profile page 36)
Model: BA08018
Minimum order: 100 pieces
Packaging type: OPP bag
Delivery time: 30 days
Indicated price: •
Description: Bracelet; braided genuine leather band; 316L stainless steel ornament; handmade; 21x3.5x0.4cm



Dandear
(profile page 42)
Model: SLT-277B
Minimum order: 600 pieces
Packaging type: OPP bag
Delivery time: 20 days
Indicated price: •
Description: Bracelet; acrylic, glass, faux pearl, CCB beads on elastic cord; various colors, sizes



Galaxy
(profile page 46)
Model: 19418BB
Minimum order: 600 pieces
Packaging type: Card, OPP bag
Delivery time: 20 days
Indicated price: \$4.20
Description: Elastic bracelet; zinc alloy settings; hematite plating; rhinestone inlays; 7.5in long



Link World
(profile page 50)
Model: LK-D816
Minimum order: 100 pieces
Packaging type: Plastic bag
Delivery time: 10 days
Indicated price: •
Description: Bracelet; brass links; polished finish; logo option



Link World
(profile page 50)
Model: LK-D808
Minimum order: 100 pieces
Packaging type: Plastic bag
Delivery time: 10 days
Indicated price: •
Description: Bracelet; brass links; 210mm; logo option

• Information not disclosed

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