Hong Kong Manufacturing SMEs: Preparing for the Future

Industry Situation Report

WATCHES & CLOCKS

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Trade and Industry Department

Made in PRD Research Series III
Watches can be categorised as mechanical, radio controlled, or digital. Markets exist for commercial watches, leisure and fashion watches, and sports watches. The watch and clock industry manufacturing chain comprises mould making, injection moulding, electroplating, movement manufacturing, case making, strap making, product assembly, and quality testing.

Most of the important players in the global watch industry are in Switzerland, Japan, Hong Kong, and Mainland China. Presently, Swiss manufacturers are viewed as being unbeatable in terms of producing high-end branded watches. Most of the famous brands and high value brands are Swiss. It is almost universally accepted that Swiss-made watches are of better quality than watches made elsewhere. Many retail customers will pay a premium for a Swiss-made watch, even if it is otherwise branded the same and looks the same.

Chinese firms tend to occupy the low-end of the OEM market, but an increasing number of Chinese firms have or are trying to develop their own brands. In 2007, China exported 1.38 billion watches and clock products. Electronic products with mechanical indicators account for over 70 per cent of China’s export volume. OEM customers tend to use Chinese companies if they are focused on getting the lowest possible price.

Hong Kong firms operate mostly in the mid- to low-end range of the sector. They have a dominant position in the mid-range watch segment. Most Hong Kong firms focus on OEM production, but a few have branched out into ODM and OBM. Most Hong Kong firms are experienced marketers with established distribution channels. This makes it difficult for firms from the Chinese Mainland to compete with them. Lower costs in Mainland China, and pressure from customers to compete with Chinese manufacturers, have led nearly all Hong Kong watch companies to relocate most of their production to the Chinese Mainland. In addition, it is increasingly hard to get workers in Hong Kong to work in the manufacturing sector. OEM customers tend to buy from Hong Kong manufacturers if they are after watches that are of reasonable quality and price, and if they value some of the value-added services such as design and after-sales service that Hong Kong firms can offer.

Industry participants do not expect new locations to emerge to rival Switzerland, Hong Kong, and Mainland China in watch production for at least the next decade. Watch manufacturers need to be close to factories producing cases, bracelets, hands, straps, and other components. If a watch company tried to move to a location without an established supply chain, the likely outcome would be production delays that OEM customers would find intolerable. This makes it difficult for other low-cost locations to become established and contributed to the decline of the Japanese industry, which now is dominated by Seiko, Citizen, and Casio, the OEM business having been lost due to high costs and the loss of the supply chain.

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1  www.ceu.com.cn
Basic Facts about the Industry

Gross Industrial Output (GIO) for Hong Kong was HK$1.7 billion in 2008 for the watch and clock sector. Employment for the sector in Hong Kong is relatively low with 871 persons employed with an estimated average annual wage of HK$297,359. Wages accounted for approximately 17 per cent of total costs.³ Average wages for the sector in Hong Kong are 10 times those for the sector in China as a whole. This is likely explained by general wage disparities between Hong Kong and Mainland China, the employment of more senior staff in Hong Kong, and the fact that higher value end products are produced in the sector in Hong Kong with correspondingly more costly labour inputs.

The watch industry is one of Hong Kong’s four major export industries. Hong Kong is the world’s second largest watch exporter by value after Switzerland, and the world’s second largest exporter by quantity after China. In 2009, Hong Kong exported HK$43.7 billion watches and clocks, a decrease of 20.8 per cent over the previous year. The top three markets for the export of Hong Kong watches and clocks are the US, China, and Switzerland, accounting for 42 per cent of the total value of watches and clocks exported (Exhibit 2). Total re-exports from Hong Kong of watches and clocks in 2009 were HK$43.4 billion or 1.8 per cent of total re-exports. Mainland-based processing trade companies re-exporting through Hong Kong accounted for HK$16.9 billion of this total (Exhibit 3), while Mainland-based non-processing trade companies accounted for a further HK$6.3 billion.

In 2009, Hong Kong imported HK$39.2 billion watches and clocks, 18.3 per cent lower than the previous year. The top three suppliers of watches to Hong Kong by value were Switzerland (41.6 per cent), Mainland China (34.5 per cent), and Japan (11.9 per cent) (See Exhibit 4).

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³ Hong Kong Census and Statistics Department data on “Professional & scientific, measuring & controlling equipment, n.e.c.,& photographic & optical goods,” 2009.
### Exhibit 2. Exports of Watches & Clocks from Hong Kong, HK$ millions

<table>
<thead>
<tr>
<th>Destination</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Y-on-Y Change</td>
<td>Value</td>
</tr>
<tr>
<td>World</td>
<td>49,958</td>
<td>6.3%</td>
<td>55,204</td>
</tr>
<tr>
<td>US</td>
<td>9,059</td>
<td>-3.9%</td>
<td>9,490</td>
</tr>
<tr>
<td>Mainland China</td>
<td>7,033</td>
<td>11.5%</td>
<td>7,937</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5,374</td>
<td>23.9%</td>
<td>6,233</td>
</tr>
</tbody>
</table>

Source: Hong Kong Trade Statistics, Census and Statistics Department.

### Exhibit 3. Chinese Mainland Process Industry Watches and Clocks Re-exported from Hong Kong, HK$ millions

<table>
<thead>
<tr>
<th>Watches and Clocks Re-export of Processing Products Manufactured in the Chinese Mainland</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>21,240</td>
<td>21,693</td>
<td>21,765</td>
<td>16,940</td>
</tr>
</tbody>
</table>

Source: Hong Kong Census and Statistics Department.

### Exhibit 4. Imports of Watches and Clocks to Hong Kong, HK$ millions

<table>
<thead>
<tr>
<th>Source</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Y-on-Y Change</td>
<td>Value</td>
</tr>
<tr>
<td>World</td>
<td>41,204</td>
<td>21.4%</td>
<td>47,994</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15,904</td>
<td>45.7%</td>
<td>20,126</td>
</tr>
<tr>
<td>Mainland China</td>
<td>14,909</td>
<td>6.8%</td>
<td>17,382</td>
</tr>
<tr>
<td>Japan</td>
<td>5,431</td>
<td>4.8%</td>
<td>5,671</td>
</tr>
</tbody>
</table>

Source: Hong Kong Trade Statistics, Census and Statistics Department.
China accounts for 70 per cent of global production of watches and clocks by volume but only 30 per cent by Gross Industrial Output. The watch industry in China has formed a cluster development structure with small- and medium-sized enterprises at its core. Private enterprises and foreign-funded enterprises are expanding rapidly and they presently account for over 70 per cent of all the enterprises in the sector in China. In 2008, the gross output of the watch and clock industry in Shenzhen was RMB 15 billion. Shenzhen accounted for more than 50 per cent of China’s gross output and export volume for watches and clocks. Branded watches made in Shenzhen captured 63 per cent of the Mainland China market for branded watches in 2008. At the end of 2008, there were about 1,000 watch manufacturing enterprises in Shenzhen. Approximately 200 of these enterprises were either large- or medium-sized. These firms employed 200,000 people and produced 800 million watches and clocks.

By the end of 2008, there were 2,000 Hong Kong-funded watch and clock and related accessories enterprises in the PRD.

Issues for Hong Kong Watch Manufacturers

Hong Kong’s watch and clock sector is facing several issues. These include the global economic downturn, powerful buyers, tough competition, RMB appreciation, labour availability, wage increases, and increases in utility and material costs. Additionally, legal and regulatory changes regarding processing trade, labour law, the environment, and safety have also been implemented and must be managed.

The downturn in the global economy that began in force in September 2008 led to banks tightening their credit terms for manufacturers, decreased orders for watches, and increased business carrying costs for the watch and clock sector as a whole. Trade credit and other lending for the industry largely dried up for a period of time, making it very difficult to operate, particularly for firms that had not set aside sufficient cash reserves.

An early sign of the slump was that there were 20 per cent fewer exhibitors from Asia at the April 2009 BASELWORLD Watch and Jewellery Show than in 2008. Exhibitors stayed away in the belief that order numbers and volumes would fall. Indeed, exports from Hong Kong and China fell by around 20 per cent from 2008 and some firms experienced even steeper declines in orders. By the fourth quarter of 2009, the situation had improved somewhat. Sales of the Hong Kong manufacturers during the Christmas period in 2009 were 15 per cent lower than in 2008, a better situation than had been envisioned just a few months earlier. A survey released by HKTDC in January 2010 shows that 47 per cent of exporters held a neutral view and 42 per cent of exporters were positive on the global watch and clock sales for the 2010 Christmas period.

The industry has estimated that demand is unlikely to return to pre-crisis levels and that the sector would not recover in a sustained manner until mid 2010. The domestic market in Mainland China seems to have been the market that was least affected by the crisis, and it is likely to recover first. It is thought that the European and American markets will bounce back before markets in South-East Asia. The Eastern European markets are expected to take the longest time to recover.
The global downturn also affected the customers of Hong Kong manufacturing SMEs, particularly those in the OEM segment. These customers put even more pressure on watch and clock manufacturers to reduce prices while at the same time improving the quality and design of their products. OEM customers know the costs of all the producers and use this knowledge to effectively push for lower and lower prices.

The OEM customers are able to bargain aggressively due to tough competition among watch manufacturers. Industry participants indicate that competition has grown more intense in the industry in recent years, particularly in the OEM segment. With relatively low entry costs, particularly in China, more and more players are entering the industry. New entrants mainly enter the OEM segment because it is much more costly to set up a branded watch company than it is to do high volume contract manufacturing. Some companies enter the industry by subcontracting space in a factory owned by other parties and don’t incur any capital costs preferring instead to focus their efforts and capital on establishing customer relationships. Hong Kong SMEs operating in the Chinese Mainland generally face cost disadvantages versus Chinese competitors due to higher salaries for managers, compliance costs and design costs (many Chinese firms do no design themselves).

Hong Kong watch and clock manufacturers with factories in the Chinese Mainland have also been affected by policies in Guangdong and China in general. Current export processing policies in the Chinese Mainland do not affect watch assembly or the sourcing of component inputs such as movements (electronic and mechanical), watch and clock cases (metal, plastic and wood), finished watch glasses, and straps. However, the import of raw materials that would go into the domestic manufacture of these inputs may come under the policies. While watch assembly is not considered polluting, the electroplating process necessary for most watch components is. Thus the watch supply chain is coming under pressure from environmental regulations.

The Labour Contract Law applies across all industries and firms. Watch companies operating in China report that the Law has raised administrative and worker benefit costs significantly and has made it more difficult to deal with seasonal fluctuations in demand through overtime and seasonal work. While in theory the Law should affect all firms equally, and since industry participants believe that it is unlikely production would leave China, eventually such costs should result in higher prices. However, individual firms (particularly SMEs) find it difficult to pass on cost increases in the face of powerful buyers, as SMEs find it more difficult to take on the added administrative burden than larger firms, and some Hong Kong companies believe that Mainland Chinese firms are able (or willing) to skirt the Law. As a result, the Hong Kong SMEs are disproportionately disadvantaged by its implementation. Since the impact should be greatest for the most labour intensive industries, the impact of the Law on Hong Kong’s watch and clock companies is likely to be middling compared to other industries, with more labour-intensive industries like garment and toy more affected, and less labour-intensive industries like mould and die less affected.
The watch and clock industry has been subject to pressure to move out of the Pearl River Delta or out of Guangdong completely under the Ministry of Commerce’s “Opinion on Supporting the Middle and Western Regions’ Reception of Processing Trade Relocation” (November 2007) and Guangdong’s “Decision on Promoting the Relocations of Industries and Labour Force.” Such relocation is problematic because watch production depends on a dense supply network. Hong Kong watch firms are attracted to the PRD due to the presence of a complete network of suppliers of parts, components, and services such as electroplating. In an effort to encourage relocation, Heping County (Heyuan, Guangdong) and Shenzhen jointly established a watch industry relocation park in 2006 with an investment of RMB 8 billion. The park, which aims to attract 200 firms and to provide 100,000 jobs, has planned a centralised testing centre and a centralised electroplating facility (most watch components need to be electroplated) to minimise pollution. As of mid-2009, 41 watch firms were located in the Park, but relocations had slowed due to the financial crisis. It is yet to be seen whether the park will result in large scale movement of the industry from Shenzhen, or whether it will result in consolidation of the industry, but it is clear that the overall policy direction is to move watch production out of the core areas of the PRD.

Response Strategies of Hong Kong SMEs
Hong Kong watch and clock manufacturers have undertaken a variety of strategies to deal with recent pressures. In general, Hong Kong watch and clock manufacturers are attempting to maintain their presence in traditional OEM manufacturing while at the same time trying to add value to existing products, develop new high value adding products, develop their own brands, find new markets for their products, and work out their sales plans so as to achieve sustainable development. We note the following:

- The downturn in traditional markets has led many Hong Kong firms to seek markets elsewhere, including Mainland China and the Middle East. For example, a 2008 survey by the HKTDC showed that 89 per cent of respondents were optimistic about the sales of watches to Mainland China. Developing new markets takes time, however, and the scale of potential new markets even if deeply penetrated does not currently compare to that of the existing European and American markets.

- Penetrating the China market will be difficult for many Hong Kong SMEs, because export processing and OEM business is very different from distributing and selling within China. Hong Kong SMEs tend to be good at controlling costs, but are less knowledgeable about consumers, marketing, and distribution. Thus they may encounter difficulties in building a business around domestic sales in China unless they reconfigure their business model.

12 www.gov.cn  
13 www.gdsme.com.cn  
Contract manufacturing is a commodity business and companies that only do OEM are likely to have a limited life or limited profits and limited growth unless they can provide superior or additional services to their customers. Companies in the OEM segment must either face difficult price competition or look to develop by adding value through other means as well.

One area in which Hong Kong firms have traditionally distinguished themselves from Mainland Chinese firms is in design and ODM business. Many Hong Kong SMEs are investing in design capabilities in an effort to build sustainable relations with key customers. This may be difficult and costly to do, but is one way to try to stay away from competition based totally on cost.

Entering the branded watch business (OBM) is also viewed as a potential strategy, but this involves a large investment and long lead times, with uncertain chance of success. Building a branded business is hard for export processing firms, especially for SMEs that may lack the financial scale, managerial resources, and geographic reach required to be a successful branded watch company.

Other options that have been explored include subcontracting production to others, becoming a subcontractor to larger companies, relocating to the Heping County Park, moving into retailing, and -when all else fails- exiting the business.

Case Study – Renley Watch Manufacturing Company Limited

Renley Watch Manufacturing Company Limited (Renley) is a Hong Kong based watch company engaged in OEM, ODM, and OBM watch production as well as watch retailing. Renley produces 80,000 to 100,000 watches per month in facilities in Hong Kong and Switzerland for OEM customers (and an unspecified number for its own branded production), has a watch components factory in Dongguan, and has watch retail outlets in Hong Kong (4) and the Chinese Mainland (8).

Renley was established by Mr Stanley Lau in 1983 after he had spent 10 years working for other firms in the industry. Renley was started with an investment of HK$200,000, 1,800 square feet of space in Tsuen Wan, 10 employees, and two customers (one from the US and one from Japan). Renley got into watch design when a company that held the licence for Asian markets for a well-known French watch brand asked Renley to create a watch collection that was stylish yet reasonably priced. Renley manufactured the watches and the company holding the licence handled the sales and marketing of the watches. When this business faced a downturn, Renley decided to reduce its dependence on a single customer and participated in trade fairs and exhibitions in various countries to make new contacts, find new customers, and develop the company’s reputation.
In the early 1990s, when most Hong Kong watch manufacturers shifted production to the Chinese Mainland, Renley decided to retain production in Hong Kong, acquired three Swiss watch brands, and opened a factory in Switzerland to manufacture premium quality Swiss-made watches. In 1999, Renley established a retail business, Global Timepieces, to sell its own brands as well as other brands such as Tissot, Cartier and Omega direct to end consumers. The retail outlets in China are named “IN-Style” and sell style watches such as Gucci, Burberry, Armani, as well as Renley’s own brands, though the merchandise mix in the Chinese Mainland shops is focused on brands lower priced than the Hong Kong shops due to differences in local demand.

Today, Renley’s activities include design, production, sales, and after-sales service of watches. Renley produces a range of watch styles including classic, sporty, dressy, jewellery, character, and fashion. Most of the watches that Renley manufactures are priced in the range of HK$1,000 to HK$50,000 with some watches priced much higher, particularly the watches produced in the Swiss factory. Renley has 25,000 square feet of manufacturing space in Hong Kong, including a 20,000 square foot factory in Cheung Sha Wan. The company opened a components factory in Dongguan in 2003, but does all of its watch assembly in Hong Kong and Switzerland. The company has 150 employees in Hong Kong, 400 employees in Mainland China, and 25 employees in Switzerland. Roughly 40 per cent of revenues come from the OEM business, 20 per cent from the OBM business, and 40 per cent from retailing. The OEM business is 30 per cent from the US, 30 per cent from Europe, and 40 per cent from the rest of the world. In the period 1983 to 2010, Renley’s revenues increased more than twentyfold.

**Issues and Challenges**

Renley has faced a number of significant challenges in the course of its history. One has been a series of economic downturns. The global economic downturn associated with the dot com collapse and the 9/11 attacks affected markets worldwide. During the SARS period in 2003, suddenly there were no customers and no business, but the costs for rent and staff still needed to be covered. Similar issues arose during the global economic downturn of 2008-2009, with business down sharply and uncertain prospects. Fortunately business rebounded in 2010 to more normal levels.

Another major issue has been competitive pressures. In the branded watch business, Swiss and Japanese companies are the main competitors, but in general Hong Kong companies can do reasonably well in moderately-priced branded watches. In the OEM business, however, strong competitive pressure comes from companies that are manufacturing in the Chinese Mainland. Customers use quotations for contract manufacturing in China to try to obtain lower prices. While producing in Hong Kong means that Renley has not had to face rapidly rising wages in the Pearl River Delta to a great extent, its Hong Kong workforce receives wages on the order of three times that received in the PRD, which has heightened the competitive pressures in the OEM business.

In addition to wages, even finding the right workers in Hong Kong has been a challenge at times in spite of the fact that Renley pays comparatively high wages for the industry. This is due to a general shortage of workers in the industry in Hong Kong. Not having sufficient workers has made it difficult to expand as quickly as Renley might like and may eventually make it difficult to continue to produce watches in Hong Kong if a sufficient number of workers cannot be found.
Managing cash flow was an early issue for the company. As a small factory, Renley struggled to collect cash quickly from its customers in order to be able to pay suppliers and staff in a timely manner. In its first months of operation, Renley focused on developing the documentation and banking relations in order to ensure that its trade finance, payments, and receipt system was in place so that the company could meet its cash commitments.

Another challenge in Renley’s early history was when a customer that accounted for 60 per cent of Renley’s business ran into difficulty. Renley suddenly had to fill the gap that was left as their largest source of revenue retreated.

Expanding into branded watches and retailing also presented challenges. The branded watch business was unfamiliar to Renley’s management. Renley’s team knew how to make watches, but not how to manage a brand. Similar difficulties were encountered when Renley moved into retailing. Some of the retail outlets that were set up in the early days were in poor locations and the company ended up having to close them. The sharp increase in rent in some locations was also unexpected and created difficulties. Renley estimates it took three to five years to work out issues associated with its initial forays into branded goods and retailing.

Renley has faced no major regulatory issues and the company’s experience in Hong Kong and Switzerland has been similar with both locations being transparent in terms of what is required of companies. In China, the regulatory environment is more challenging. Government officials take a more active interest in the business and it is likely that companies will be visited by the Labour Bureau, the Tax office, and Customs officials, who are likely to tour the company’s factories. Cooperating with these officials takes time and costs money. In general terms, doing business in Switzerland and Hong Kong is far simpler than doing business in China.

**Company Strategy**

While Mr Lau doesn’t view Renley as being all that successful and comments that the company is “still learning,” the reality is that Renley has survived and grown through some difficult periods. Mr Lau attributes this record in part to foresight. He believes that whatever the industry, a company’s management should forecast for the next 10 years. In the case of Renley he points out that “nowadays everybody is talking about branding, but we were doing research and development in Switzerland and started a branded watch business long before it was a very popular strategy. Friends took the view that our OEM business was good and that we should just focus on that, but I could see that just doing OEM had limited potential. Some of the companies that we used to compete with in doing OEM are now out of business.”

As other Hong Kong watch manufacturers were moving production to the Chinese Mainland in the early 1990s, Renley decided to differentiate itself from the competition by staying in Hong Kong and obtaining facilities in Switzerland to make higher-value watches. At around the same time, Renley acquired three Swiss watch brands, including brands, technology, stores, and in one case a factory. Renley’s manufacturing and branded businesses in Switzerland keep it in close contact with the Swiss market, resulting in good contacts with other industry players, bankers and other professionals that work with watchmakers. In recent years, Renley has been more active in selling its branded products into the Chinese Mainland. Renley finds that some Chinese customers prefer a Hong Kong-made watch because they are generally better quality than watches made in Mainland China.
Although Renley produces some of its own components, it is principally an assembler with key components purchased from Switzerland, Japan, Taiwan, Thailand, Korea, and China. The company has decided not to relocate its main manufacturing to the Chinese Mainland. It sees merit in continuing to do most of its manufacturing in Switzerland and Hong Kong. This is due in significant part to the fact that Swiss-made watches and to a less extent Hong Kong-made watches can command a price premium versus other watches. An advantage of manufacturing in Hong Kong is the flexibility to source components from different supply locations such as Japan and the PRD, which allows Renley to focus more on design.

Renley’s strategy is not to chase other companies in trying to make cheaper and cheaper watches, it is to make better quality watches in Switzerland and Hong Kong that will sell at a higher price. The strategy is to carve out a niche in making watches that are innovative and well designed, and to follow up with good service. This approach is supported by a research and development staff of 10 and the ability to make watch samples in a controlled environment that minimises the risk that designs will be appropriated by others.

Renley’s retailing activities began in 1999. A subsidiary, “Global Timepieces,” was set up as a separate company that would sell a range of watch brands such as Cartier, Omega, Piaget, and others, not just Renley-owned brands. In Mr Lau’s view, this made Global Timepieces more competitive as a watch retailer. The opening of the watch retailing business resulted in Renley being diversified across the watch sector as an OEM, ODM, and OBM company, giving the company greater depth and strength.

Renley focuses a good deal of attention on staff training. Its Hong Kong production staff is trained by its Swiss technicians in traditional Swiss assembly methods for producing high quality watches. This gives the company a standard of quality assurance that many other companies cannot emulate. In 1994, Renley was the first watch manufacturer in Hong Kong to obtain ISO9001 certification and all its operating procedures are based on the ISO9001 standard for quality assurance. Renley has received quality awards from the Hong Kong Productivity Council, the Hong Kong Industry Department, and from others.

On other operational issues, in terms of cash management Renley has established a good relationship with its bank and has set aside a cash reserve to act as a buffer against short- to medium-term issues such as SARS and economic downturns. To overcome overdependence on one customer, Renley decided to expand its marketing activities and participate in more trade fairs and exhibitions. The company also focused on diversifying to include ODM and OBM to move beyond price-competitive OEM operations.

In terms of management, Mr Lau manages the company very closely. He thinks that the way to deal with challenges and issues that often are unforeseen is to be informed and “hands on.” To this end, Mr Lau gets daily reports from his top-line managers, and speaks to them either in person or via telephone during most working days. During discussions with his management team, Mr Lau remains open-minded and receptive to their ideas. Once Mr Lau has considered the thoughts of his managers, conclusions are drawn and decisions are made and implemented together as a team. Mr Lau has found that this approach motivates staff and results in a happier and more productive workplace.
Renley has overcome most of its challenges by focusing on niche market opportunities, by doing things differently, and not blindly following the pack of other companies in the watch industry, and by focusing on value adding activities such as research and development, innovation, design, and branding.

**Future Plans**

Renley’s goal over the next decade is to become a leader in watch manufacturing and in operating a branded watch business in Hong Kong. In addition, Renley plans to grow its retail network, mainly in China but also in Hong Kong, as well as focusing on the development of its watch brands. Expanding the OEM business will be a lower priority given the commodity nature of that business.

Renley will keep manufacturing in Switzerland because the company still has a lot of customers who want Swiss-made watches. Renley will also continue manufacturing in Hong Kong because it is easy for Mr Lau to manage and because many members of Renley’s Hong Kong staff have been with the company for up to 25 years and are very experienced in making watches. However, Mr Lau feels that the Hong Kong factory may get smaller as some of his Hong Kong based staff retire, noting that it is quite difficult to find new staff in Hong Kong who have the skills that Renley needs. For the time being, Renley is still reluctant to do large scale manufacturing in China because of uncertainty in labour markets and regulation.

**Lessons from the Renley Case**

There are a number of lessons that can be learned from the Renley case.

- While the challenges facing entrepreneurs in Hong Kong’s manufacturing SMEs are greater than before, in some ways the opportunities are also greater as new markets and sources of supply become available.
- Risks are always present in business. The key is to identify and manage these risks to the extent possible.
- To be successful, SME managers must be motivated and focused on the needs of the business.
- Even SMEs need to forecast what their industry will look like in five to 10 years and to identify potential market opportunities that will develop.
- SMEs should focus on businesses the owner-manager knows. Renley was founded after Mr Lau had worked in the watch industry for ten years.
- Aggressive cash management and developing good relations with banks can be critical, particularly in the early years for SMEs.
- Thinking ahead to where the business should be in five to 10 years is important if a firm is going to stay ahead of the curve.
- While the vast majority of Hong Kong watch manufacturers have moved watch production into the Chinese Mainland, it is possible to succeed while retaining production in Hong Kong, and even in producing in a more expensive location (Switzerland).
- It is important to match production location with different segments of the market and customers’ willingness to pay for production in different locations.
- It is possible for Hong Kong manufacturers to move beyond OEM production to ODM and OBM production, and even into retailing. In order to move beyond OEM production, firms must invest in design capabilities, must take the time to learn to manage brands, and / or learn to serve customers directly. While these things may be difficult to do, it is certainly possible.
• It is also possible for Hong Kong manufacturers to simultaneously engage in OEM, ODM, OBM, and retail activities.
• Providing high-quality service can lead to positive long-term relationships with key customers.
• Acquisition of foreign brands can be an effective means of entering OBM businesses. Even so, it can take five years to learn how to manage brands effectively.
• The Chinese Mainland offers an unprecedented opportunity for Hong Kong SMEs to develop and sell their own brands and to get into retailing.
• Worker training is key to producing high quality products and Hong Kong Productivity Council programmes can help companies develop their quality systems.
• Quality certification helps ensure quality standards within the company and also signal quality to buyers.
• Overreliance on a single buyer can result in difficulties for the firm. Thus it is important to diversify the customer base as early as possible. Trade fairs can be useful vehicles for expanding the customer base.
• For many SMEs, senior management needs to be involved in the business on a daily basis to ensure the company keeps moving in the right direction.
• Managers should listen to their employees and talk to them in an open and honest way. Senior managers should share their vision with their team and discuss openly with them what the company needs to do to succeed. This approach can motivate staff and result in a more pleasant and productive workplace.
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