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2014

Bachelor of Commerce Best Business Research Papers

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Original citation:

Desrochers, J. (2014). Smartwatches: How they could impact the largest Swiss watch company, Swatch Group. *Bachelor of Commerce Best Business Research Papers, 7*, 15–33.

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Smartwatches:

How They Could Impact the Largest Swiss Watch Company, Swatch Group

Jeremy Desrochers
Fall 2013

ABSTRACT

Swatch Group is the largest watch producer in Switzerland and one of the largest in the world. The group was formed during the Quartz crisis when the Swiss watch industry nearly collapsed in the face of a market flooded with cheap Japanese Quartz watches. Nick Hayek was hired to save ASUAG and SSIH, the two largest watch groups at the time. He combined both companies and saved them by introducing the brand Swatch, a low-end watch line that produced a product that was emotional, high quality and had a great brand. He designed a watch that could be produced as cheaply in Switzerland as in China and this is what led to their success. Today the company is called Swatch Group and owns 18 brands including Omega and Tissot, and is highly vertically integrated, being able to produce and sell its watches independently. Ever since the introduction of the Swatch, the company has been innovative having introduced a smartwatch in 1999 and in 2004. Today, new technologies like Bluetooth, Wi-Fi and smartphones have given rise to new smartwatches from giant-tech companies like Samsung and smaller start-ups like the Pebble. Many Swiss watch makers deny that the smartwatch is a threat but with changing consumer behavior among the younger generation this could lead to another crisis. Swatch Group is in the best position to turn this threat into an opportunity having expertise in producing watches and brands.

INTRODUCTION

Facing near death during the Quartz crisis in the 1970s, Swatch Group has become one of largest watch manufacturer and distributor on the planet (Marketline, 2013). Swatch Group's diverse portfolio covering basic to prestige, strong brands from Swatch to Omega, as well as quality and innovation have all made the company successful. This paper will analyze Swatch Group as a watch producer and will look at how it became so successful in a highly competitive industry. In addition, I will be debating the resiliency of the Swatch Group in the face of new fierce competition, the Smartwatch. To complete this analysis I will be using Porter's Five Forces model, and examining the major Smartwatch competitors. Furthermore, I will be identifying the company's strengths, weaknesses, opportunities and threats by performing a SWOT analysis. Finally, I will be discussing how Swatch Group can take on this emerging threat using their competitive advantages and how it will be able to succeed in the future.

SWISS WATCH INDUSTRY

The Swiss Watch Industry produces only 2.5% of the total global watch production which is equivalent to 29.3 million units. China produced twenty-three times more watches at 678.5 million. The surprising difference is that Switzerland generated USD 22.9 billion in total sales whereas China sold USD 5.1 billion. Switzerland dominates the luxury segment of the industry and on average a Swiss watch is sold for USD 737 versus USD 3 for a Chinese watch. Three major Swiss watch producers account for 45% of global watch sales, and 94% of Swiss watch export sales. The three companies are Swatch Group, Richemont, and Rolex (Credit Suisse, 2013).

Swatch Group

In response to the threat of new watches emerging with small batteries, the Swiss Watch industry formed a research group Centre Electronique Horloger (CEH) in 1962. Its purpose was to invent the next generation of wrist watches. In 1967, CEH created the first Quartz wrist watch in Neuchatel Switzerland called the Beta 1. Similarly the Japanese watch giant Seiko also had its eyes set on producing a Quartz watch. It created the first commercially available Quartz watch in 1969 called the Astron. Soon after in 1970 sixteen Swiss watch producers launched a Quartz watch based on the newest Beta 21 model from CEH. The watch was discontinued after only selling 6000 units and Seiko gained momentum from there (Frei, Armin 2009). For the Swiss Watch industry, the Quartz Crisis had begun.

In the 1970s and early 1980s the Swiss watch industry was in trouble. It had lost 35% of its worldwide market share, decreasing from 50% to 15%, and the Swiss industry workforce decreased from 90,000 to 25,000 employees. The Japanese watch manufacturers had successfully created a Quartz electronic watch that was much more accurate than the traditional mechanical watches, the specialty of the Swiss. Asian Quartz watches were mass produced and sold for a cheaper price and as a result overtook the mass market putting many Swiss and American watch companies out of business (Swatch Group).

A government appointed group of Swiss Banks hired Nicolas G. Hayek as an advisor to save the Swiss Watch industry in the early 1980s. Hayek, who owned his own successful consulting company, merged the two of the largest Watch Groups in Switzerland, ASUAG and SSIH, to form the Société Suisse de Microélectronique et d'Horlogerie (SMH) in 1983. He later bought a majority stake in SMH and became CEO (Taylor, 1993).

Hayek was a visionary and believed firmly that Switzerland needed to produce its watches in Switzerland, which was an unconventional management strategy. Most companies were sourcing their manufacturing to China but Hayek thought differently. He was going to drive innovation by only allowing his engineers to design watches that cost less than 10% in direct labour to manufacture, cutting current cost from 30%. This forced SMH to innovate its manufacturing process to produce watches as cheaply as China. This decision proved to be crucial as the company was able brand the watches as "Swiss Made" giving them a more luxurious appeal. Hayek also doubled the price of his premium brands which had lost their exclusivity and reduced the watch product line from 2000 to 130 to cut costs (Taylor, 2010).

Next Hayek realized that the Swiss Watch industry was being dominated in the lower-end segment with a 0% cut in what was now a 450 million unit industry. Switzerland dominated the high-end producing 97% of the 8 million watches sold but were allowing their competitor to slowly attack them from below. Hayek then suggested that they produce a low-cost, high-tech, artistic and emotional watch. The current competitors were producing very cheap watches that weren't reliable and he saw an opportunity (Taylor, 1993). In 1983, he introduced a new entry level brand "Swatch" (Swatch Group). Swatch created a Quartz watch that had 51 parts, a hundred fewer than their Japanese rivals. This new design enabled Swatch to save on manufacturing costs. As a result, Swatch was able to sell the watches at a low cost (Clerizo, 2010). They produced many variations and refreshed the models semi-annually to keep the brand new and exciting. These were watches that people could afford and many consumers bought 2 or 3 at a time. The watches were designed to be non-repairable so that they would get turnover (Stephens, 2000).

Hayek leveraged Swiss branding, quality and the emotional aspect of jewelry in his favor which his competitors had failed to do. In 1983 Swatch had sold 1.1 million units and a few years later in 1986 12 million were sold. Swatch changed the way people think about watches; the artistic designs of the swatch, the variety and their affordable price made them addictive. After the success of the Swatch, SMH was renamed Swatch Group in 1998 (Clerizo, 2010).

Hayek didn't stop at just making his company better; he wanted to improve the health of the Swiss watch industry. In 2002 he sent a letter to customers of his unassembled movements from his company ETA, stating he would no longer be supplying them. All of the Swiss Watch companies were buying his parts to make their watches and he felt that in order to protect the Swiss watch market, he would force them to innovate and supply their own parts (Clerizo, 2010). The competition bureau didn't like this at first but compromised that they could stop selling after 2020 (Thompson, 2013). This forced companies to become more vertically integrated and develop more expertise in watch making while preventing new entrants from entering the market.

Swatch also diversified its company and started producing cars with the formation of Swatchmobile. This produced what is today the Smart Car manufactured by Mercedes. The company continues to invest in developing new energy sources through the new venture "Belenise Clean Power" which is working on bringing hydrogen fuelled cars to market (Clerizo, 2010).

Today Swatch Group is the world's largest manufacturer of finished watches in terms of dollar sales with a 44% share in the Swiss market (Euromonitor Switzerland, 2012). The company employs 31,000 employees in 37 countries (Swatch Group). In 2012, gross sales of the Swatch Group were CHF 8.14 billion, up 14% from 2011. The company is highly profitable, earning a net profit of CHF 1.6 billion in 2012 with 20.6% profit margin. Today, the Swiss Watch industry is the 3rd highest exporter for Switzerland at CHF 21.4 Billion (Credit Suisse)

Swatch Group major products and services

Swatch Group is a highly diversified company, owning 18 watch brands from the low-end to the high segments. It is also vertically integrated owning 14 watch and watch part manufacturing brands (Appendix 1 for brands). In addition it also owns 5 electronic systems companies that help them produce micro-batteries and accurate timing systems for sports events among others. The company produces everything in its 156 production plants. Swatch Group owns their value chain from the watch parts production to the final assembly of the watches (Swatch Group).

Not only is Swatch Group vertically integrated backwards, it is becoming even more frontward vertically integrated with the continual addition of Swatch Group retail locations. Most of its watches are sold at 15,000 retail stores worldwide, but Swatch is increasing its mono-brand store presence. Swatch Group has over 900 Swatch boutiques, over 1,000 shop-in-shops and around 140 kiosks (Yahoo Finance, 2013). Swatch recently increased its stake in a retail partner Rivoli from 40% to 58% giving it control of the 360 stores in the Middle East. The increase in Swatch Group controlled stores allows the company to have control over the customer buying experience and gain knowledge of regional consumer tastes (Koltrowitz November, 2013).

PORTER'S FIVE FORCES MODEL

In order to analyse the watch industry, Michael Porter's Five Forces Model (1979) will be used as a framework. The five forces are: Bargaining Power of Buyers, Bargaining Power of Suppliers, Threat of New Entrants, Threat of Substitutes, and Intensity of Competitive Rivalry.

Bargaining power of buyers

The bargaining power of buyers is quite high in the watch industry. High-end watches are sold through specialized watch stores, department stores and mono-brand stores. In Switzerland 88% of luxury watches were sold at jewellery and speciality shops (Credit Suisse). When consuming durable goods that are very expensive, customers are risk-averse and feel more comfortable buying directly from the seller. In China this is especially true where counterfeit watches are plentiful (Passport China). In addition, these high-end stores offer better customer service and knowledge of the product.

On the other hand, low-end watches are sold everywhere from the internet to a general retail shop. Watches are sold through retailers and the internet but most high-end watches are sold by specialty shops. For this reason, jewellers have some bargaining power with suppliers but big brand names can mitigate that. For an established brand like Omega, the supplier has power due to the consumer demand for its product. Similarly, a large watch producer like Swatch Group can threaten to pull away their high selling products if the jeweller decides to distribute a new entrant's product. They also have the advantage of having multiple brands giving them even more leverage. In addition, the industry's big watch groups like Swatch are increasing their mono-brand stores. 47% are likely to open a new mono-brand store in the next 12 months (Deloitte, 2013). This move will further reduce the buying power of retailers.

A new entrant will be more vulnerable to the consumer buying power due to the intense rivalry between established firms. End consumers have a very high bargaining power as they can choose different venues to gain information on products, check prices and ultimately purchase the product. For low-end watches the internet is a competitor to traditional distribution channels but for high-end watches jewellers remain the dominant source for sales in order to mitigate the risk of buying counterfeit goods (Passport China).

Bargaining power of suppliers

In the watch industry the bargaining power of suppliers is medium. Swatch Group is among a select few watch producers that are able to independently produce their product across the value chain. Swatch Group in particular is a very important supplier of mechanical watch parts. In fact, they own ETA which produces 70% of the Swiss watch brand's movements (The Economist, 2013). To give you a better idea, Andrea Ornelas from swissinfo.ch points out that: "In 2012 Swatch will produce some 5.5 billion of the eight billion internal watch components required by the watch industry for its annual output."

In addition, Swatch has a monopoly on producing balance springs. Their subsidiary Nivarox-FAR produces 90% of the balance springs sold in Switzerland (The Economist, 2013). In the luxury segment in particular, the bargaining power of suppliers is quite high for this reason.

In Switzerland, a major factor that affects the bargaining power of suppliers is the "Swissness" legislation. This legislation only allows Swiss watch producers to put "Swiss Made" on their watches if 60% of the cost of manufacturing is incurred in Switzerland (Credit Suisse, 2013). According to a survey of Swiss watch executives by Deloitte, 92% support even higher "Swiss Made" regulations.

By 2020 Swatch group will no longer be obligated to sell its parts to its competitors therefore increasing the likelihood of vertical integration within the industry. In the last three years, 40 watch component manufacturers have been acquired (Revill, 2013). Seventy-nine percent of watch executives interviewed by Deloitte believe that brands acquiring suppliers is most likely to continue (Deloitte, 2013). Once companies have become more vertically integrated this will reduce the bargaining power of suppliers.

The production of watch parts also requires a large investment in the training of watchmakers. The decrease in supply from Swatch Group has put pressure on competitors to manufacture their own parts. The most highly perceived risk among executives interviewed by Deloitte was the scarcity of qualified labour (Deloitte, 2013). The problem is that there are not a lot of skilled workers as they all work for a few companies, namely Swatch. As a result, they are forced to acquire other companies with those skilled workers or train new people. Smaller companies are especially vulnerable, as they do not have the resources to attract top talent (Deloitte, 2013).

Threat of new entrant

The threat of new entrants in the watch industry is low because of high capital costs, the importance of brand recognition, and the difficulty in obtaining distribution. In order to compete with established brands, a new entrant must have significant capital. Sixty brands in 2012 spent over 1 million dollars in advertising their product. In 2012, nearly 400 million dollars was spent by the watch industry on advertisements in the U.S. alone (Thompson, 2013). Brand recognition is essential in the watch industry. People pay a premium on watches because of their social value. A new entrant has to spend a lot of resources to increase their brand awareness. Even in the lower-end generic no-name watch segment, a new entrant will have to face Chinese competitors who have huge economies of scale.

The value of a brand is built over a significant period of time. Swatch Group has been very successful in building up its brand equity throughout its history. One of Swatch Group's most well-known brands, Omega, has been producing watches since 1848. The Omega Speedmaster was the first watch on the moon and since then has been nicknamed "the Moonwatch". Omega has also utilized product placement in the latest James Bond movie Skyfall, giving the watch even more emotional appeal (Omega). Furthermore, Omega is the official timekeeper for the Olympics until 2020 (Marketline, 2013). To build a strong brand identity like Omega takes significant time, capital and know-how.

A brand that is well known is more easily sold to distributors. Relationships between buyer and sellers are strong in the high-end segment of the watch industry. It is crucial for stores to create the right atmosphere to sell watches. Buyers want a great experience and want to be assured that the watch is not a counterfeit. It is also important for watch brands to maintain control over how their brand is sold to its customer. So much so that some brands opt to have some mono-brand stores to build strong brand relationships and to have total control over the end-to-end sale. Another factor pushing watch companies to open mono-brand stores is that some partner stores discount their products. If a seller discounts their watches too frequently and by too much it diminishes the luxury brands exclusivity (Credit Suisse, 2013).

Threat of substitute

The threat of substitutes is low at the moment but could increase in the future. The three most prominent substitutes are counterfeit watches, other luxury goods, and smartwatches. Every year, 40 million counterfeit watches are produced. In comparison, there are close to 30 million Swiss watches made each year. This illegal sale of the substitute watches costs the industry 1 billion francs annually. Fake watches also negatively affect consumer trust in purchasing luxury and brand-name watches (Jaberg, 2012).

An expensive watch is normally not bought for its utilitarian purposes but rather as a jewellery item. Jewellery is as much of a substitute to Rolex as other luxury items. The consumer has a choice of how to allocate their money within the luxury segment. A high-end watch as gift can be substituted for a high-end Louis Vuitton bag for example. Luxury items are statements of social status and therefore each luxury segment is competing for a share of the luxury market.

In the lower end segment, smartwatches are new substitutes to watches. A Pebble smartwatch performs all of the functions of a watch with the downside being that it looks unfashionable and that the battery needs recharging. The companies like Samsung that are producing these smartwatches have considerable financial resources to push such a product. The younger generation is increasingly used to digital displays and immediate responses, a smartwatch fits those needs. The biggest threat is large technology companies who have the resources to change consumer behaviour and cut into sales of the wrist watch industry.

Intensity of competitive rivalry

In the watch industry there is an increasing degree of competitive rivalry. Firms primarily distinguish themselves through differentiation, requiring a lot of advertising. The competition is fierce in advertising spending. In 2012 Swatch brand increased its spending from half a million in 2011 to nearly 5 million in 2012, a 1,000 percent increase. Six brands spent over 20 million dollars on ad spending in the US alone. Overall in the U.S., advertising spending has increased for three consecutive years with a 9.3% increase in 2012 (Thompson, 2013).

The watch industry is a very crowded market with 584 companies in Switzerland alone. Despite there being numerous competitors, not all are equally matched with Swatch group, Rolex and Richemont accounting for 45% of global watch dollar sales, and 94% of Swiss watch export sales (Credit Suisse). This factor decreases the intensity of rivalry.

In the future, vertical integration will increase as ETA will cut off its supply of movements. Already it increased acquisitions of manufacturing firms and leading to fewer firms in the market (Revill, 2013). Increased fixed costs from manufacturing plants will increase barriers to exit. Small high-end watch manufacturers are likely to go out of business as they won't be able to produce those parts at the same cost. Large luxury-watch manufacturers will become more powerful as a result.



Overall, the intensity of rivalry in the watch industry is medium to high. Big jewellery companies who have financial capital can easily enter the high-end market. There continues to be growth in the highly profitable industry, making it even more attractive. Swatch's protectionist measures of cutting off its part supplies in the high-end segment will make it costlier to enter the high market though. Rivalry is most intense in the low-end segment where there are much more competitors. Watches are not very difficult to produce, and parts can be easily acquired in the low-end segment. It is however very difficult to be a prominent brand in the industry with very high advertising costs.

OVERVIEW OF THE MARKET AND ITS COMPETITORS

Companies repeatedly tried to popularize smartwatches since the 1980s. One of the first smartwatches was the Pulsar NL C01 produced by Seiko which could store 24 digits of information and cost nearly \$4000 (Marshall, 2013). In 1999, Swatch Group introduced a smartwatch to market called "Swatch Talk" that could be used as a phone (Argusdesmontres, 2013). The product failed, but Swatch tried again in 2004 when it partnered with Microsoft to launch another iteration of the smartwatch, the Paparazzi. The watch used FM broadcasts to receive data like stock market numbers, weather and MSN (Microsoft 2004). It was ahead of its time, and without the prominence of smartphones, Wifi and Bluetooth technology, it was unsuccessful and was discontinued in 2008 (Tofel, 2013). Countless versions of smartwatch have failed to garner any success over the past 30 years. Most of the watches then catered to a small crowd of geeky tech lovers. Today with the advancement of Wifi, smartphones and Bluetooth technology companies have a better chance than ever to make smartwatches a mainstream item.

In 2012, Pebble smartwatch launched a kick-starter campaign asking for \$100,000 to produce its smartwatch. The demand was overwhelming and they raised \$10 million dollars shattering the previous kickstarter campaign record of \$3.3 million (Chang, 2012). The media caught track of this and the smartwatch became highly publicised for the first time. Since then, there has been a significant increase in kickstarter watch launches like Cookoo. Established electronic firms like Sony and Samsung have also launched new smartwatches.

Overview of smartwatch competitor products**Table 1: Smartwatch Pictures**

<p>1) Cookoo</p> 	<p>2) Citizen Eco-Drive Proximity</p> 
<p>3) Samsung Galaxy Gear</p> 	<p>4) Pebble</p> 

Picture Sources: Cookoo: www.connecteddevices.com Citizen: www.gq-magazine.co.uk
 Samsung: www.techradar.com Pebble: www.kickstarter.com

1) Cookoo

Price: \$130 Battery Life: 274 days

Good: The Cookoo is closest thing between a smartwatch and a normal wrist watch. It doesn't compromise on battery life with 247 days of life and has unique features like location-tagging that enables you to tell others where you are. Another great feature of the watch is that the battery is replaceable unlike most competitors. Overall, the Cookoo enables you to receive all of the important notifications from your phone without taking it out, and still retains the functionality of a normal wristwatch.

Bad: With the Cookoo smartwatch you are unable to respond to messages or view messages. In addition, Cookoo has no touchscreen capability (Find The Best).

2) Citizen Eco-Drive Proximity

Price: \$400 Battery life: 1095 days

Good: The best thing about the Citizen Eco-Drive Proximity is that it looks fashionable and wouldn't be considered a smartwatch at first glance. In addition, the watch has amazing battery life, utilizing solar power to recharge it.

Bad: There is no display to view messages, or send messages on this watch. The Citizen watch simply notifies you that you've received an email or text (Find The Best).

3) Samsung Galaxy Gear

Price: \$299 Battery life: 24 hours

Good: The Samsung Galaxy Gear has the most features out of all of the smartwatches. It can receive and send notifications as well as tell you the weather, make or answer calls, allow voice commands through S voice and be used as a pedometer. It is also compatible with some Android applications for more functionality. There is 512mb of storage space and there is a camera on the watch for capturing videos or photos.

Bad: The Gear is not very fashionable, and people will know immediately that it's a smartwatch. The Gear has the worst battery life out of all smartwatches. It is overpriced and has no social network integration (Find The Best).

4) Pebble

Price: \$150 Battery life: 7 days

Good: Most appropriately priced watch for its features. You can view notifications and control music. It has the best application eco-system. You are able to reject calls from your wrist and it is easy to read in direct sunlight.

Bad: The watch has limited functionality with no ability to send messages and no touchscreen capability. Overall, it's an upgraded digital watch with very limited battery life (Find The Best).

Out of all of the available smartwatches, there is no complete smartwatch. The Cookoo and Citizen Eco-Drive Proximity are nice looking watches and offer very long battery life but lack features. In comparison, the Pebble and Galaxy Gear offer better app selection but have short battery lives. The Pebble is not very discrete in its styling and would not appeal to a large audience. The Samsung Galaxy Gear is too expensive and needs more stand-alone functionality to justify its price. All in all, each smartwatch is dependent on a smartphone for most of its added functionalities to work. The current smartwatch selection either offers too little functionality or too many small tools that aren't really useful. A smartwatch needs to be smart, and currently it's just a notification center. All of the watches don't really know what the consumer wants out of a watch and fail to deliver any real value.

The future of the smartwatch

Sales figures for the Pebble smartwatch are 275,000 to date (Etherington, 2013) and the Samsung Galaxy Gear watch has sold 800,000 units (Kim, 2013). Despite the promising sales figures, the smartwatch still remains a niche product that hasn't made it past the early adopters on the product life cycle. If the smartwatch is to pass the chasm and reach the early adopters it will need to have a better price, battery life, functionality, and style.

A typical smartwatch is priced between \$130 to \$400 dollars. Smartphones are decreasing in price and to expect someone to pay \$300 dollars for a smartwatch that has less functionality than a smartphone is a stretch. The battery power is an issue as well with most smartwatches, most only lasting a few days. A typical wrist watch's battery lasts over 2 years. The function of a watch is to tell the time, and if both your smartphone and smartwatch run out of power, you are out of luck. The smartwatch is also highly dependent on the smartphone for its "smart" functionalities and will need to offer more stand-alone functionality to attract buyers. A watch is a very personal and emotional product as it is something that is highly visible and worn on the body. In a survey I conducted, 77.5% of respondents aged 18 to 30 said that the main reason for purchasing a watch was because it was a fashion accessory (Appendix 2). The current styling of smartwatches is unappealing and makes consumers look geeky.

In China, smartphones are affecting low-end watch sales as young people currently use them as watches (Euromonitor 2013 China). My survey confirms this finding. Seventy-five percent of respondents aged 18-30 used their smartphones most often when outside their homes to tell the time. In addition, 70% of respondents said that "most often" they only brought a smartphone when leaving home whereas only 27.5% brought both a watch and smartphone (Appendix 2). The New York Times suggests that wristwatch sales have increased among older consumers but have decreased among 18 to 24 year olds by 29% from 2008 to 2010 (Smart Advantage 2011). This data points to a change in consumer taste among the younger generation. A smartwatch could be a serious opportunity to reconnect with a generation who is accustomed to using smartphones. In fact, the market research company Harris Interactive interviewed 2,577 adults in the U.S. and found that among those aged 18-35, 63% were at least a little interested in owning a smartwatch (2013). In comparison, Baby Boomers were less likely, with only 37% of respondents a little interested in buying a smartwatch. Coincidentally, 63% of respondents in my survey were at least a little interested in purchasing a smartwatch (Appendix 2).

Tech-giants like Google, Microsoft and Apple are very likely to enter the smartwatch segment. Google acquired a smartwatch company called WIMM in 2012 (Lomas, 2013) and is very likely to launch this product. Microsoft is likely to launch another smartwatch to complement its newly acquired Nokia phone division (Tofel, 2013). Furthermore, there have been rumors that Apple will launch a smartwatch having trademarked the iWatch name in Japan (Amano & Fujimura, 2013) and having consulted Swatch on the subject. With the entrance of these multi-national corporations, the smartwatch has a good chance of being adopted by the market with increased advertising and features. Many market research firms predict strong growth in the sale of smartwatches. Juniper Research predicts sales of 1 million in 2013 and 36 million by 2018 (Koltrowitz, September 2013). In the first year of the launch of an iWatch, Bernstein Research forecasts revenue between \$2.3 billion to \$5.7 billion (Cruz, October 2013).

SWOT ANALYSIS

The following Strengths, Weaknesses, Opportunities and Threats analysis of the Swatch Group was based on interpretations of this research and study.

Strengths

- Operational control and efficiency through vertical integration (lower transaction costs)
- Strong branding through high advertising spending and “Swiss Made” legislation
- Produces high quality, reliable and aesthetically pleasing watches
- Expertise in manufacturing watch parts and R&D
- Highly profitable, even during the financial crisis in 2008
- Diversified brand portfolio and diversified market portfolio

Weaknesses

- Higher than average manufacturing costs in watch industry due to the supplying of parts to the industry
- Less money to spend on advertising do to manufacturing R&D expenses

Opportunities

- Emerging smartwatch segment
- Entering emerging markets

Threats

- Counterfeit watches
- Entrance of tech-giants in smartwatch segment
- Increasing cost of production due to the increasing value of the Swiss Franc
- Changing consumer tastes and behaviour
- Increasing raw material prices, especially gold
- Possible economic downturn

RECOMMENDATIONS

The smartwatch will only be a threat to the Swiss Watch Industry if it fails to recognize the opportunity that it presents to grow the watch market. The smartwatch is a new segment forming within the entry-level priced watches. Since the smartwatch price is similar to a Swatch or Tissot watch, Swatch Group in particular needs to be vigilant. Nick Hayek Jr. the CEO of Swatch Group, has dismissed the threat of smartwatches when he said to Bloomberg “Personally, I don’t believe it’s the next revolution”. He then says that the smartwatch can’t replace a smartphone since the display isn’t large enough (Clover, 2013). This is true. A smartwatch is not going to replace a smartphone anytime soon. But, just like a modern day watch is an accessory to an outfit, a smartwatch can be an

accessory to complement your smartphone. Therein lies the potential to get young people buying watches again and using them again. If the majority of young people own smartphones, why not sell them a watch that will complement that product? The majority of smartwatches on the market today fails to understand what a watch is, a portable device that tells the time. Swatch Group is in the best position to make a major move into the smartwatch arena since it understands the industry having saved the Swiss Watch industry during the Quartz crisis. In the face of the threat of the smartwatch, Swatch Group has four choices it can make:

- 1) It can develop its own smartwatch
- 2) Acquire a smartwatch start-up
- 3) Partner with a giant-tech company or
- 4) Not do anything and take its chances.

1) Swatch Group has the expertise to make a smartwatch having already done so in both 1999 and 2004. Since 1999 Swatch has had touch-screen technology and even today offers an entry-level touchscreen watch called the “Swatch Touch” (Swatch Group). Producing a smartwatch would also fit within the company’s brand as well; Nick Hayek Jr. even acknowledges this saying that “Technology has always been an intrinsic part of Swatch Group’s lower-priced brands”. For this reason, Swatch is perfectly positioned to launch a smartwatch both in terms of culture and expertise. Financially, Swatch Group is highly profitable and decreasing manufacturing costs associated with not supplying parts to the whole industry will further increase profits. The company also has the advantage of being vertically integrated and being able to produce its own parts as well as distribute it to the market.

On the other hand, competitors in the smartwatch industry already have the expertise in producing touchscreen products like Swatch Group; however they fail to understand the most important function of a watch is to tell the time. A watch can’t tell the time if the battery runs out within 24 hours like the Samsung Galaxy Gear smartwatch. The smartwatch has to move forward and not backwards. It is mandatory for the smartwatch to have a good battery life and Swatch Group knows this.

Current smartwatches look unappealing and don’t get people emotional attached. A watch is a very personal item as it is visible to everyone. The general population doesn’t want to appear geeky while wearing a smartwatch. Swatch is aware of this, and has exploited that weakness before when facing the Japanese in the Quartz crisis. Former CEO Nick Hayek sold emotion through creating a watch that exuded personality, practicality and quality.

In addition, Swatch Group has proven to be able to create strong brands like Omega or Swatch. The company will have more capital to invest in advertising as it starts to reduce its manufacturing costs associated with supplying watch parts for the industry. Most importantly, Swatch Group has the advantage of putting “Swiss Made” on their watches which portrays elegance unlike “Made in China”.

- 2) Swatch Group has sufficient capital to acquire a start-up smartwatch brand. The smartwatch Cookoo would make sense to acquire since the watch takes into account the importance of long battery life and style. Cookoo would provide knowledge to the company on the software side and Swatch Group would be able to perfect it on the design side.
- 3) Swatch Group has partnered with a tech-giant before, namely Microsoft and it would make sense to do it again. Swatch Group is an expert in selling watches and not software. Apple would be a great company for Swatch Group to partner with as they both understand the importance of design and marketing. Apple also has the largest selection of apps and has a large product eco-system that the smartwatch could utilize. Nick Hayek Jr. has already advised Apple on some of the troubles they are having with their smartwatch pointing to a possible partnership in the future.

- 4) The last option would be to do nothing and see if the smartwatch disappears like the calculator watch did. This is however very unlikely since companies have been trying to produce a commercial smartwatch for over 30 years. The cost of not doing anything is too high for Swatch Group. If a company is successful, it could disrupt its low-end business.

CONCLUSION

All in all, of these four options, the first and the third are the most viable. Swatch group could create a watch on its own that has smartwatch features like notifications and the core characteristics that people desire in a normal watch, namely long battery life and an appealing design. It could also partner with an established tech giant. The most favorable option for Swatch Group is to collaborate with Apple because of its expertise in software and because of its common strength in design and marketing. This partnership will ultimately ensure that Swatch Group remains a market leader in the wristwatch industry.

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APPENDICES

Appendix 1

Watches & Jewelry

Basic Range

- Swatch (1983)
- Flik Flak (1987)

Middle Range

- Tissot (1853)
- Balmain (1945)
- Certina (1888)
- Mido (1918)
- Hamilton (1919)
- ck watch & jewelry (1997)

High Range

- Longines (1832)
- Rado (1957)
- Union Glashutte (1893)

Prestige and Luxury Range

- Breguet (1775)
- Blancpain (1735)
- Glashutte Original (1845)
- Jaquet Droz (1721)
- Leon Hatot (1883)
- Omega (1848)
- Harry Winston (1932)

Private label

- Endura (1966)

Jewelry

- Dress Your Body (2000)

Production

- ETA (1793) – Watch and movement manufacturer
- Meco (1921) – Watch crown manufacturer
- François Golay (1855) – A watch wheel manufacturer
- Novarox-FAR (1984) – Oscillating and escapement part manufacturer
- Comadur – Innovates the transformation of material for watches
- Rubattel & Weyermann (1890) – Watch dial manufacturer
- Mom Le Prélet (1895) – Watch dial manufacturer
- Universo (1909) – Watch hand manufacturer
- Ruedin (1926) – Watch case manufacturer
- Lascor – Watch case, bracelet, and metal composite manufacturer
- Simon Et Membrez (1975) – High-end watch case manufacturer
- Novi (1987) – Movement assembly and watch finishing
- Swatch Group Assembly (2006) – Watch Assembly
- Dress Your Body (2000) – Design and gem-setting among others

Electronic Systems

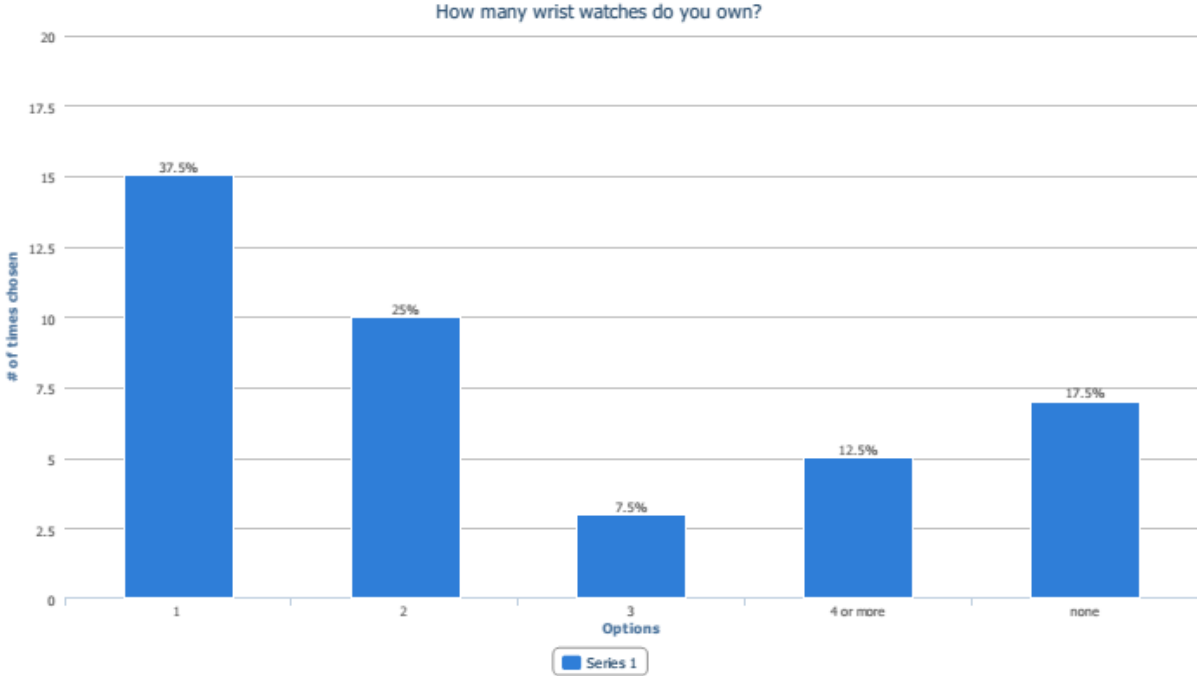
- EM Microelectronic (1975) – Watch microchip and electronic circuits manufacturer
- Renata (1952) – Micro-battery manufacturer
- Micro Crystal (1978) – Quartz crystal and oscillator manufacturer
- Oscilloquartz (1949) – Expert in time and frequency field
- Swiss Timing – Timing systems for sports events

(Source: swatchgroup.com)

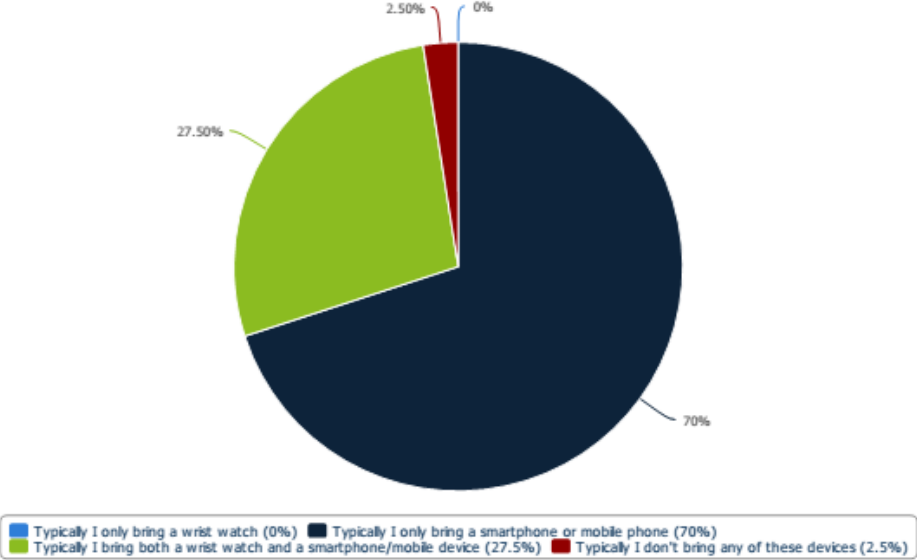
Appendix 2

Sample Size is 40, conducted through an online survey

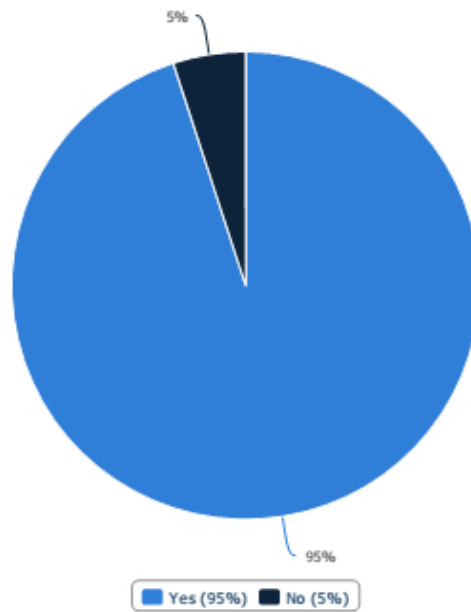
Smartwatch Survey: Questions and Results



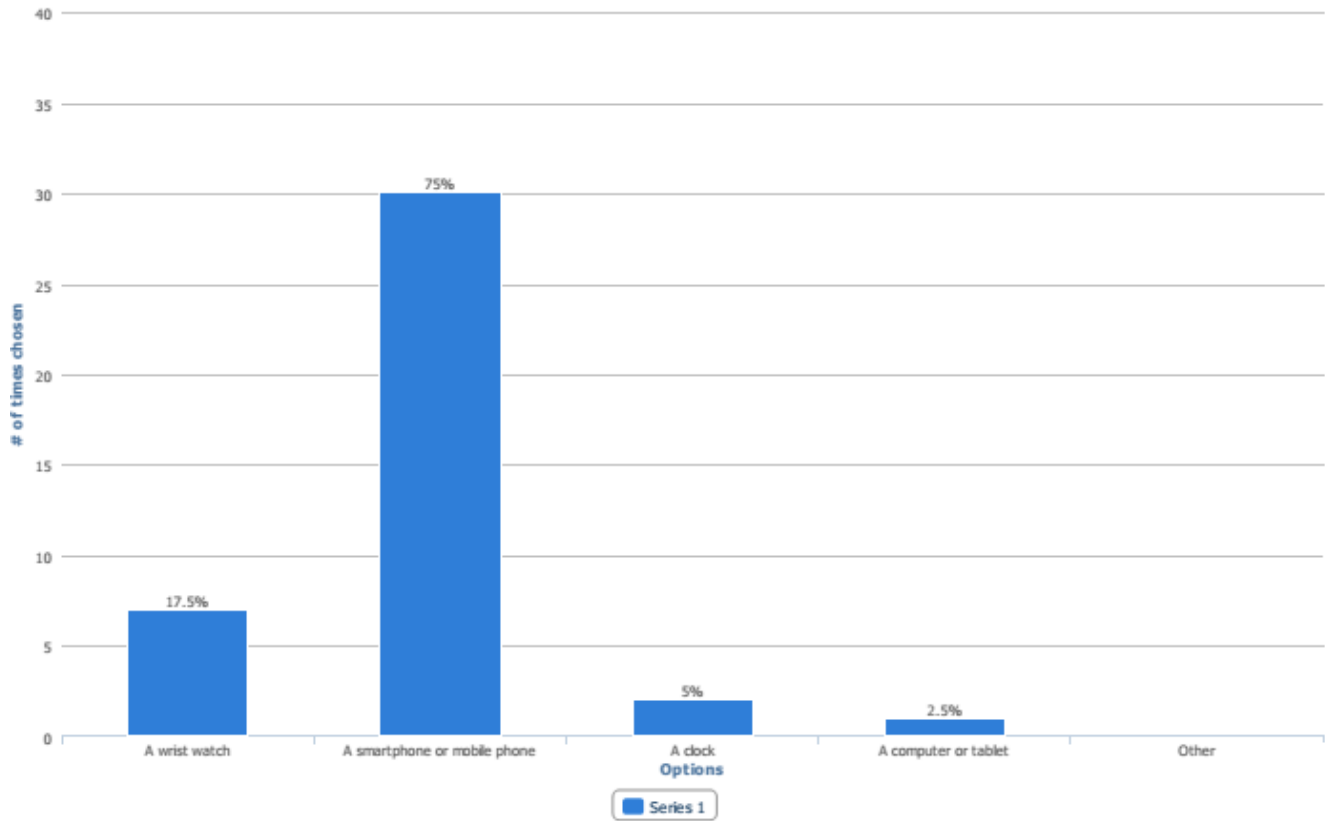
When you leave your home, what devices do you bring most often?



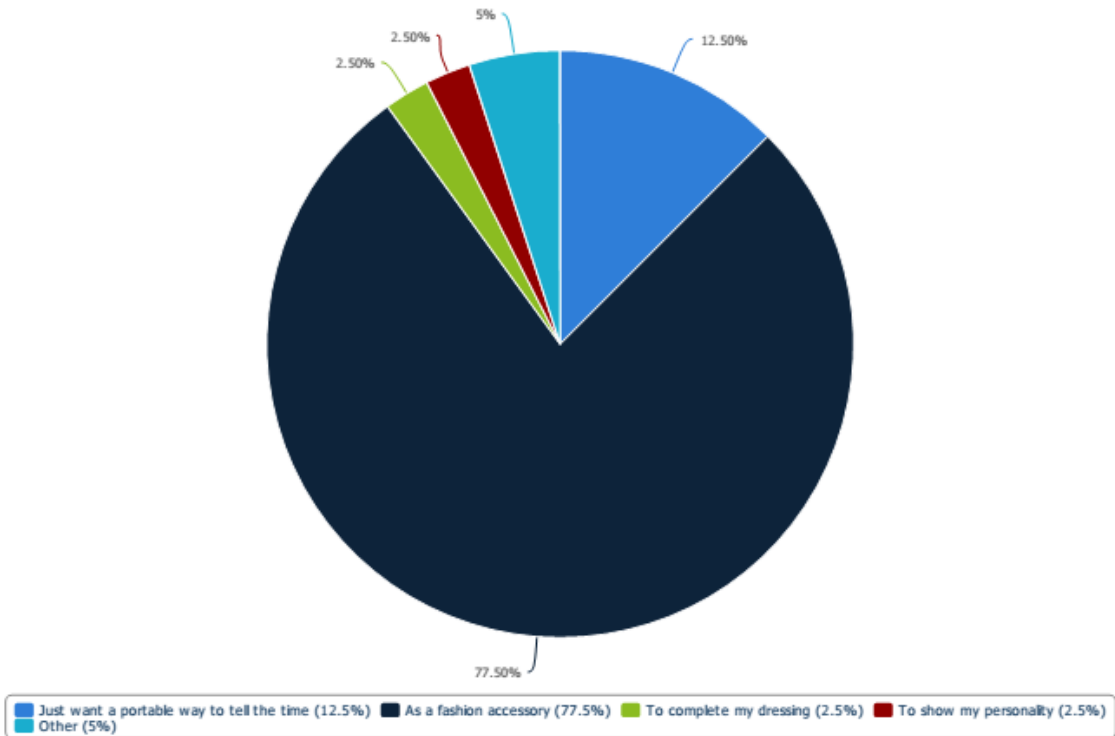
Do you own a smartphone or mobile phone?



Which device do you use most often to tell the time outside of your home?



What is the main objective for buying a wrist watch? Please select one.



Are you interested in owning a smartwatch?

