



# The Swatch Group's Watch Dilemma

QUTC

# Overview

- ▶ Your current challenge
- ▶ Imagine this future...
- ▶ Industry analysis & internal capability analysis
- ▶ Options
- ▶ Recommendation & Value add
- ▶ Implementation Plan & Financial analysis

# Introductions

- ▶ QUTC Senior Consulting Team:
  - ▶ Justin Bindman
  - ▶ Arbess Balbarias
  - ▶ Sarah Goulding
  - ▶ Cameron Jones

# Current state

- ▶ Born out of quartz crisis
- ▶ Unsuccessful first mover in smartwatch – “Papparzzi”
- ▶ Doesn't pay to ignore disruptors

# Your current challenge

Should Swatch Group compete with Apple in the smartwatch game?

And if so – how?

# Issues and consequences

## ISSUES/ OPPORTUNITIES

Uptake in demand for smart watches

Technology & fashion are melding

Fluctuations in Swiss franc

Advanced mass market segment – increased competition

## CONSEQUENCES

Fewer mechanical watch sales

Customers want more functionality

Impact on financial performance

Market saturated

Fleeting opportunity

–

6 month window to change

# Imagine this future...

*Swatch maintains its iconic quality brand. Becomes a dominant player in the smartwatch industry*

2 fold profit

176% revenue increase

Future proof from disruptors



Our strategy for you

**Smarter**

**Savvier**

**Swatches**



# External Influences

# External Influences

## DRIVERS

### TECHNOLOGY

- Reduction in sensor sizes and cost
- Cross platform connectivity
- Increase in the Internet of things

### ECONOMIC

- Increase in manufacturer presence in the smart watch space
- Merging of smart watches and activity trackers
- Early adopters market

### SOCIAL

- Expanding middle & upper class in BRIC – esp. China
- Increase use of wearable devices
- Demand for multitasking technology

# External Influences – Industry Drivers

External Factor	Why is this important	Impact
<b>Limited high-end</b> brand presence in smartwatches	Mass & luxury market	✓ Potential to fill the void
High-end luxury watches dominated by Switzerland	Established brand, distribution and quality	✓ More fluid channel to target markets
<u>First mover</u> advantage incumbent is Apple	Tested market and reduction in technology cost	✓ Warmed market & low production cost
China dominates low-end watch market	Market saturation	✗ Low switching cost
<u>Fluctuations</u> in Swiss Franc	Export volumes	✗ Price points internationally change

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# Internal Capability Analysis

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## Capability Bundle

Expertise in  
manufacturing  
(incl. IP)

Brand Reputation

Vertical  
Integration

# Internal Capability Analysis

Capability Bundle	Valuable	Unique	Organised
Expertise in manufacturing (incl. IP)			
Brand Reputation			
Vertical Integration			

**2 lenses –  
mechanical  
and  
smartwatch**

# Internal Capability Analysis

## *Mechanical watch lens*

Capability Bundle	Valuable	Unique	Organised
Expertise in manufacturing (incl. IP)	✓	✓	✓
Brand Reputation	✓	-	✓
Vertical Integration	✓	✓	✓

# Internal Capability Analysis

## *Smartwatch lens*

Capability Bundle	Valuable	Unique	Organised
Expertise in manufacturing (incl. IP)	✓	-	-
Brand Reputation	-	-	✓
Vertical Integration	✓	✓	✓

# Internal Capability Analysis

## Smartwatch lens

Capability Bundle	Valuable	Unique	Organised
Expertise in manufacturing (incl. IP)	✓	-	-
Brand Reputation	-	-	✓
Vertical Integration	✓	✓	✓

Opportunities for capability growth

# Options

# Options - Overview

Option 1: Stay the  
Course

Option 2: Smart &  
affordable

Option 3: Smart &  
quality



# Options - Overview

	Option 1: Stay the Course	Option 2: Smart & affordable	Option 3: Smart & quality
<b>Description:</b>	Maintain focus on mechanical watches	Maintain focus on mechanical watches <b>AND</b> Enter <b>affordability</b> segment of smartwatch	Maintain focus on mechanical watches <b>AND</b> Enter <b>luxury</b> segment of smartwatch
<b>Rationale for consideration:</b>	Smartphones have opened up the potential for increased sales of mechanical watches	<ul style="list-style-type: none"> <li>➤ Maintains reputation in mechanical watch industry</li> <li>➤ Cost of smart watches is a major barrier to purchases</li> </ul>	<ul style="list-style-type: none"> <li>➤ Maintains reputation in mechanical watch industry</li> </ul>

# Options – Assessment Criteria

Assessment Criteria
<i>Brand Reputation</i>
<i>Revenue</i>
<i>Sustainable competitive advantage</i>

# Options – Option 1: Stay the Course

Assessment Criteria	Option 1: Stay the Course
<b><i>Brand Reputation</i></b>	<b><u>LOW risk</u></b> Maintain traditional brand image
<b><i>Revenue</i></b>	<b><u>MED-HIGH risk</u></b> 20% + revenue loss
<b><i>Sustainable competitive advantage</i></b>	<b><u>HIGH risk</u></b> Technology will be the industry disruptor

# Option 2 – Smart & Affordable

Assessment Criteria	Option 1: Stay the Course	Option 2: Smart & affordable
<b>Brand Reputation</b>	<u>LOW risk</u> Maintain traditional brand image	<u>MED-HIGH risk</u> May tarnish image as “luxury brand”
<b>Revenue</b>	<u>MED-HIGH risk</u> 20% + revenue loss	<u>MEDIUM risk</u> 50% revenue growth
<b>Sustainable competitive advantage</b>	<u>HIGH risk</u> Technology will be the industry disruptor	<u>MEDIUM risk</u> Embracing tech; covering two products – mechanical and smart

# Option 3 – Smart & Quality

Assessment Criteria	Option 1: Stay the Course	Option 2: Smart & affordable	Option 3: Smart & quality
<b>Brand Reputation</b>	<u>LOW risk</u> Maintain traditional brand image	<u>MED-HIGH risk</u> May tarnish image as “luxury brand”	<u>LOW risk</u> Maintains brand reputation – introduces new, innovative aspect on brand
<b>Revenue</b>	<u>MED-HIGH risk</u> 20% + revenue loss	<u>MEDIUM risk</u> 50% revenue growth	<u>LOW risk</u> <b>176% revenue growth</b>
<b>Sustainable competitive advantage</b>	<u>HIGH risk</u> Technology will be the industry disruptor	<u>MEDIUM risk</u> Embracing tech; covering two products – mechanical and smart	<u>LOW risk</u> Embracing tech; covering two products – mechanical and smart <i>AND</i> two types of smart

# Recommendation Approach

Assessment Criteria	Option 1: Stay the Course	Option 2: Smart & affordable	Option 3: Smart & quality
<b>Brand Reputation</b>	<u>LOW risk</u> Maintain traditional brand image	<u>MED-HIGH risk</u> May tarnish imagine as "luxury brand"	<u>LOW risk</u> Maintains brand reputation – introduces new, innovative aspect on brand
<b>Revenue</b>	<u>MED-HIGH risk</u> 20% + revenue loss	<u>MEDIUM risk</u> 50% revenue growth	<u>LOW risk</u> <b>176% revenue growth</b>
<b>Sustainable competitive advantage</b>	<u>HIGH risk</u> Technology will be the industry disruptor	<u>MEDIUM risk</u> Embracing tech; covering two products – mechanical and smart	<u>LOW risk</u> Embracing tech; covering two products – mechanical and smart <i>AND</i> two types of smart

# Product Offering - market positioning



# Value add for customers

- ▶ Smarter, savvier Swatch:
  - ▶ Targeting 2 customer segments with smartwatch offering
  - ▶ Works across all platforms – iOS and android
  - ▶ Better functionality – including: greater sensors; predictive health profiling
  - ▶ Introduction of an a COI – “**Centre of Innovation**” – build and embed a culture of embracing cutting edge technology
  - ▶ Targeted marketing across both mechanical and smart – staying true to the brand imagine & building innovation imagine



# Risks & Implementation Plan

# Risk Analysis

#	Risk	Initial Score	Mitigation	Residual Score
1	Swatch left behind if trend continues	20	Enter smart watch market	5

\$100k- \$1M	>\$50M	5	10	15	20	25
	\$25M- \$50M	4	8	12	16	20
	\$1M- \$25M	3	6	9	12	15
	\$100k- \$1M	2	4	6	8	10
	<\$100k	1	2	3	4	5
		Rare <5%	Unlikely 5-15%	Possible 15-50%	Likely 50-75%	Certain >75%

# Risk Analysis

#	Risk	Initial Score	Mitigation	Residual Score
1	Swatch left behind if trend continues	20	Enter smart watch market	5
2	Wearable may cannibalise mech sales	12	Different price points for different markets	4

	>\$50M	\$25M- \$50M	\$1M- \$25M	\$100k- \$1M	<\$100k	
>\$50M	1	5	10	15	20	25
\$25M- \$50M	2	4	8	12	16	20
\$1M- \$25M		3	6	9	12	15
\$100k- \$1M		2	4	6	8	10
<\$100k		1	2	3	4	5
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1	Swatch left behind if trend continues	20	Enter smart watch market	5
2	Wearable may cannibalise mech sales	12	Different price points for different markets	4
3	Brand image is impacted by wearable	15	Targeted and balanced marketing	5

	<\$100k	\$100k-\$1M	\$1M-\$25M	\$25M-\$50M	>\$50M
>\$50M	1	2	3	4	5
\$25M-\$50M	2	3	4	5	6
\$1M-\$25M	3	4	5	6	7
\$100k-\$1M	4	5	6	7	8
<\$100k	5	6	7	8	9
	Rare <5%	Unlikely 5-15%	Possible 15-50%	Likely 50-75%	Certain >75%

The risk matrix shows the relationship between risk severity (rows) and probability (columns). The scores in the cells represent the product of the row and column values. For example, a risk that is 'Likely' (row 4) and 'Possible' (column 3) has a score of 12.

Three specific risks are highlighted with circled numbers and dashed arrows:

- 1**: A risk that is 'Likely' (row 4) and 'Possible' (column 3) has a score of 12. A dashed arrow points from this cell to the 'Initial Score' of 20 in the table above.
- 2**: A risk that is 'Likely' (row 4) and 'Unlikely' (column 2) has a score of 8. A dashed arrow points from this cell to the 'Initial Score' of 12 in the table above.
- 3**: A risk that is 'Possible' (row 3) and 'Possible' (column 3) has a score of 9. A dashed arrow points from this cell to the 'Initial Score' of 15 in the table above.

# Risk Analysis

#	Risk	Initial Score	Mitigation	Residual Score
1	Swatch left behind if trend continues	20	Enter smart watch market	5
2	Wearable may cannibalise mech sales	12	Different price points for different markets	4
3	Brand image is impacted by wearable	15	Targeted and balanced marketing	5
4	Technology becomes redundant	15	R&D for future innovation	3

	>\$50M	\$25M- \$50M	\$1M- \$25M	\$100k- \$1M	<\$100k
>\$50M	1 5	10	3 15	20	25
\$25M- \$50M	2 4	8	2 12	16	20
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	Rare <5%	Unlikely 5-15%	Possible 15-50%	Likely 50-75%	Certain >75%

# Implementation Strategy

Build It

Sell It

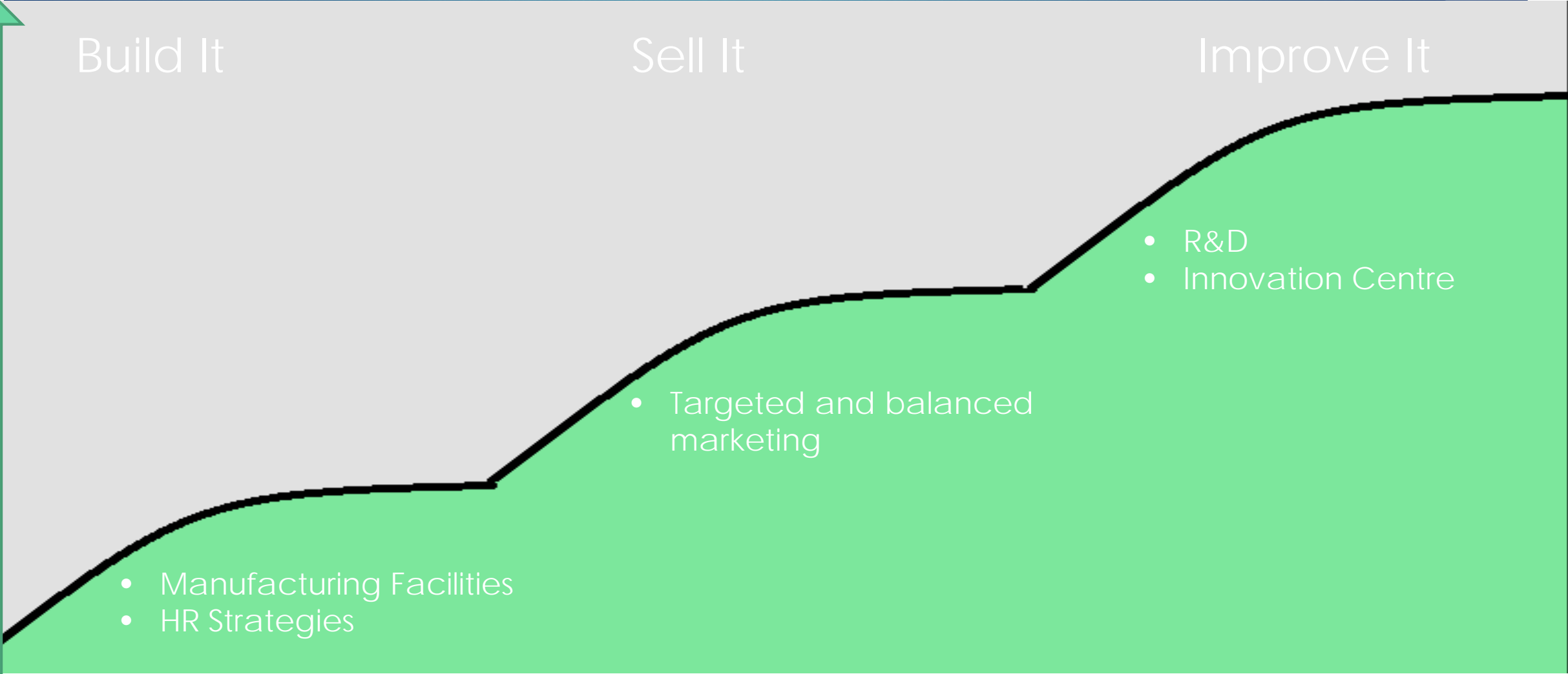
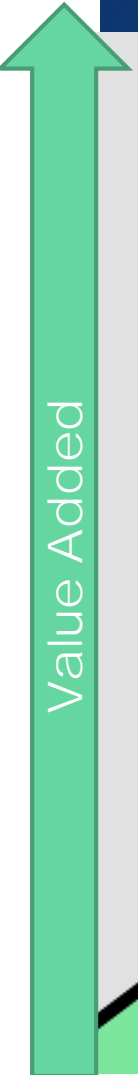
Improve It

- Manufacturing Facilities
- HR Strategies

- Targeted and balanced marketing

- R&D
- Innovation Centre

Value Added



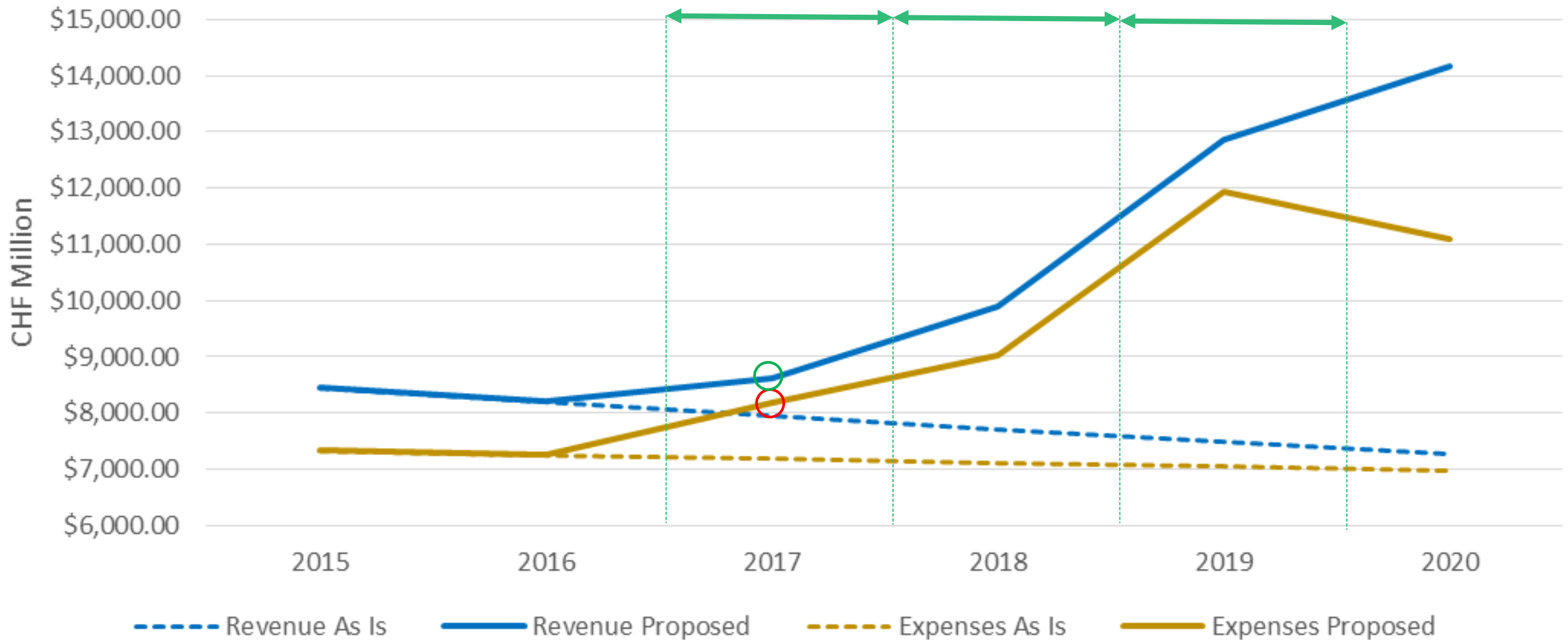
Strategy Element	Tactic	Phase I - Build It	Phase II - Sell It	Phase III - Improve it	Tactic Cost	Strategy Cost
		2017	2018	2019		
Enter Smart Watch Market	HRM Strategy for production	\$15,000			\$15,000	
	Develop Engineering Project team	\$225,000			\$225,000	
	Retool production facilities	\$2,250,000			\$2,250,000	
	Develop distribution channels for materials	\$8,000			\$8,000	\$2,498,000

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Targeted and balanced marketing	HRM Strategy for marketing	\$15,000			\$15,000	
	Develop targeted marketing team	\$145,000			\$145,000	
	Continue Mechanical Watch marketing	\$450,000	\$400,000	\$400,000	\$1,250,000	
	Recruit ambassadors for different country		\$750,000		\$750,000	
	Advertising	\$250,000	\$750,000	\$400,000	\$1,400,000	
	Billboards		\$225,000	\$125,000	\$350,000	
	Launch Events		\$350,000		\$350,000	\$4,260,000

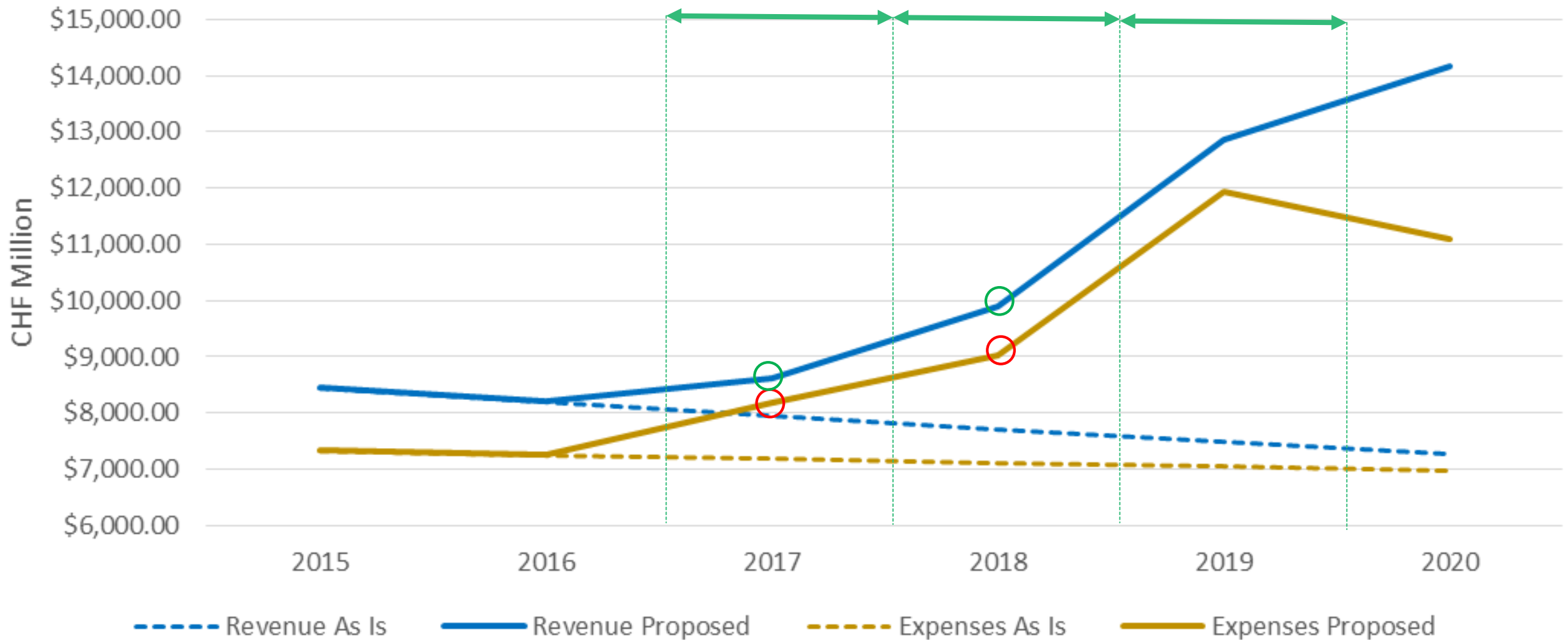


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	Billboards		\$225,000	\$125,000	\$350,000	
	Launch Events		\$350,000		\$350,000	\$4,260,000
Future Developments	R&D and patents	\$50,000	\$100,000	\$1,250,000	\$1,400,000	
	Centre of Innovation development			\$225,000	\$225,000	\$1,625,000
Totals		\$3,408,000	\$2,575,000	\$2,400,000		\$8,383,000

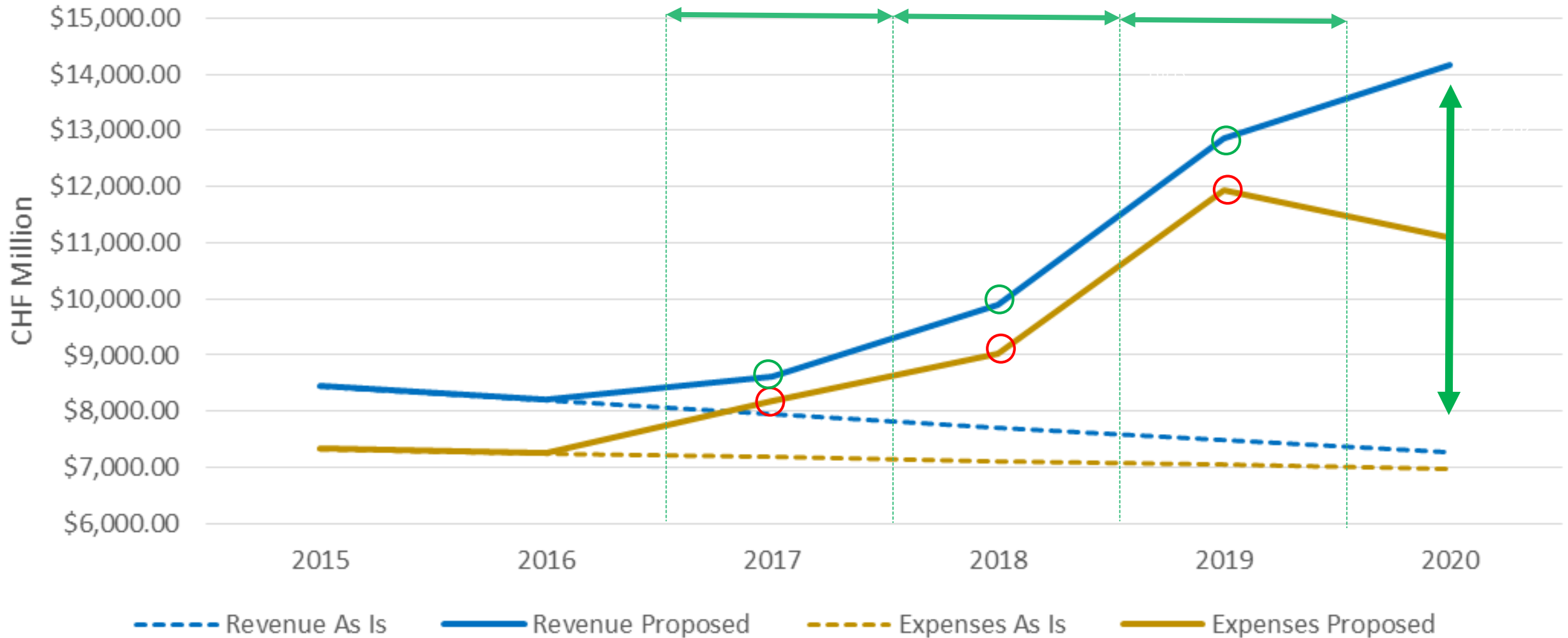
# Financial Analysis – Revenue & Expenses



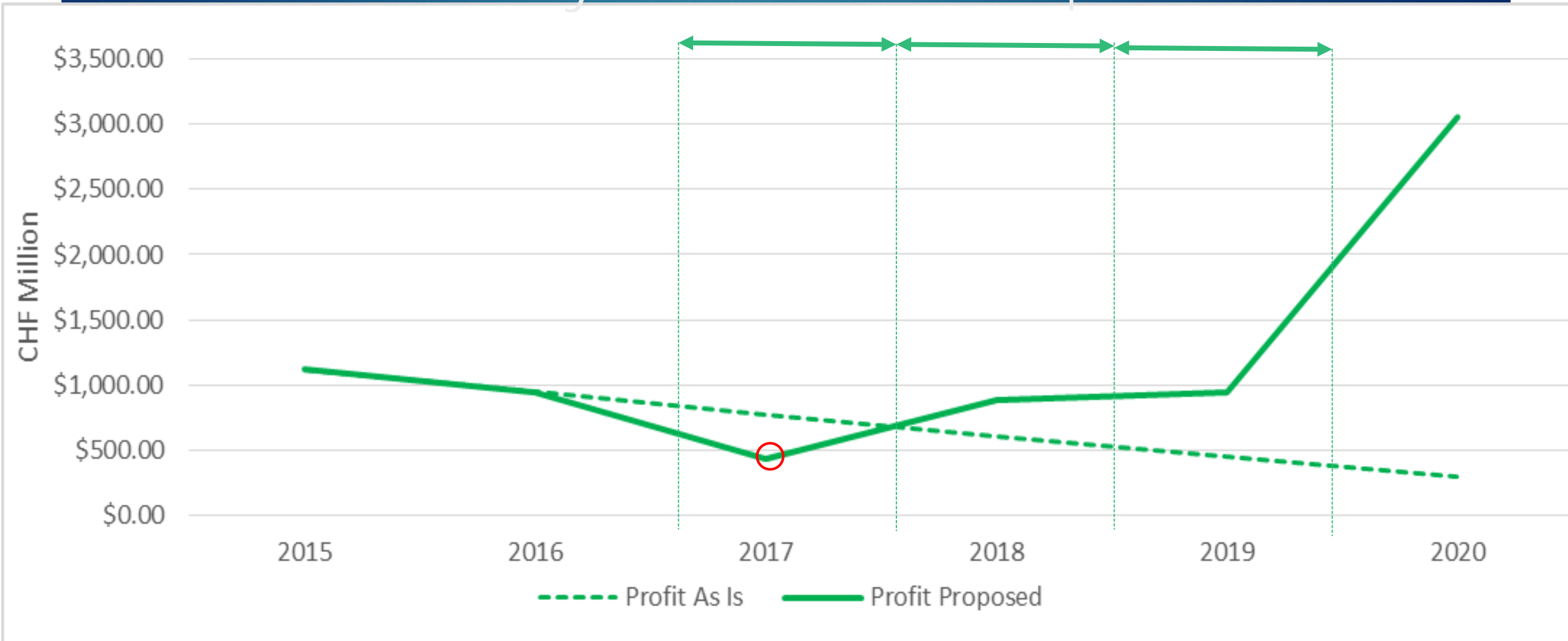
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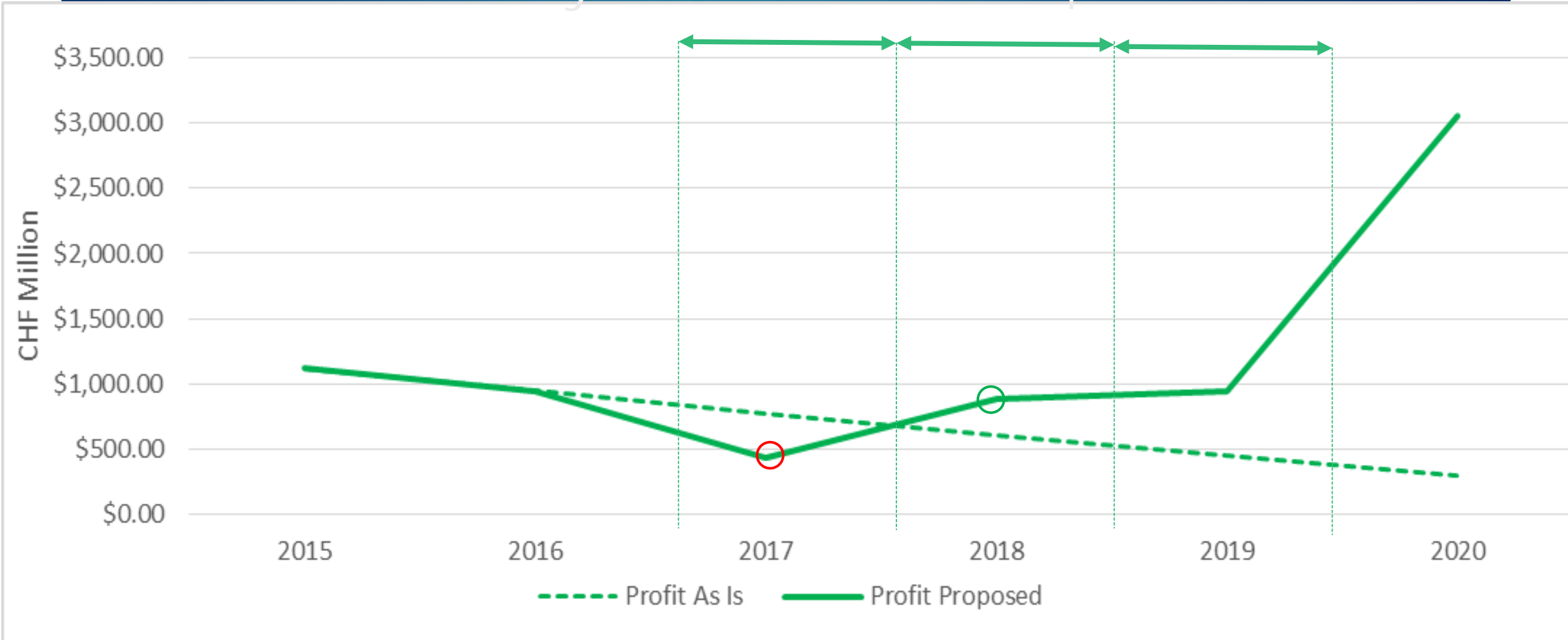
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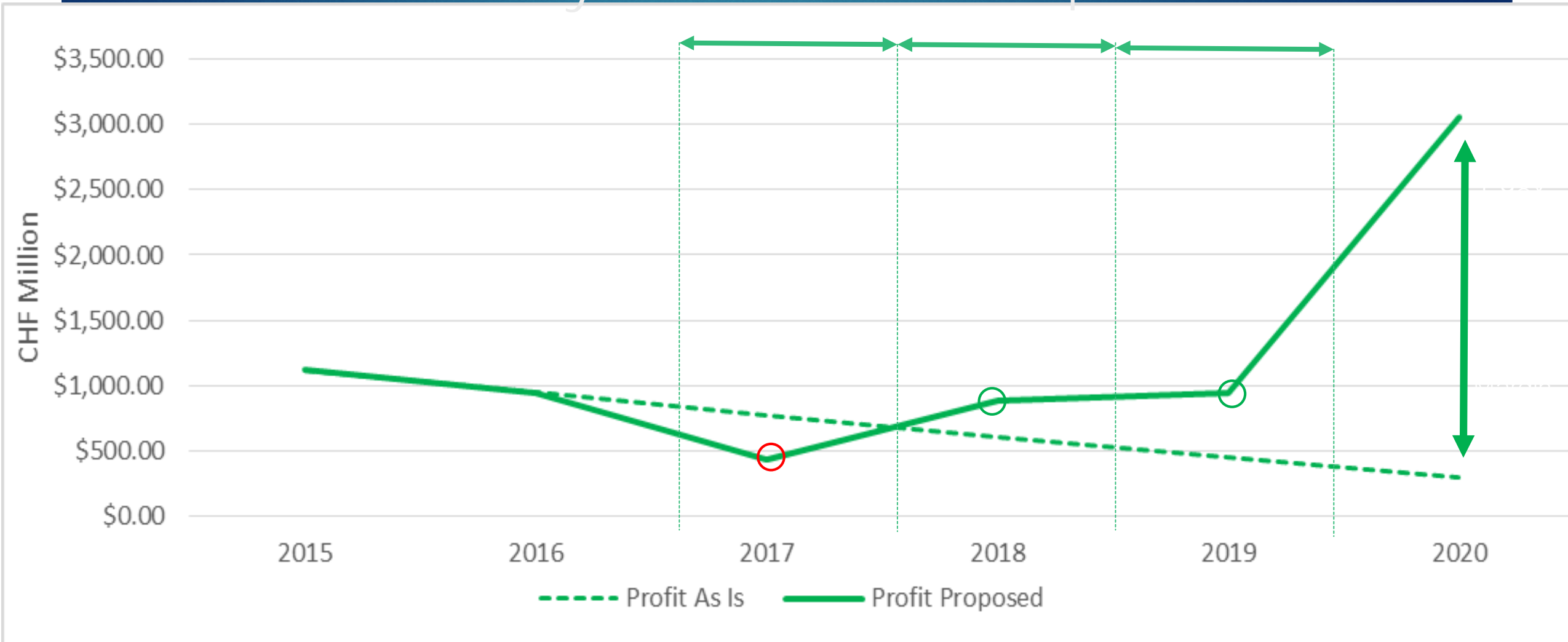
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# Financial Analysis – Revenue & Expenses



# Financial Analysis – Revenue & Expenses



# Call to action

- ▶ Window of fleeting opportunity
- ▶ Both market forces and internal capabilities are conducive for strong entry into the smartwatch market
- ▶ Potential to double profit & significant revenue growth – provided the R&D and marketing investment is there

**Your call to action is to offer the market – Smarter, Savvier Swatches**