SWATCH
A Smart Way to be Timeless

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Swatch: A Pioneer in the Luxury Watch Industry

- Established and well-known
- Multi-segment presence: prestige + technology + availability
- 18 brands, wide price range
- Handle crisis:
  - Quartz crisis
- Elastic demand
- Apple watch and changing trends
- Decline in sales
How can Swatch Group grow in the smartest way possible in order to capitalize on new market trends?
“Be Smart” Recommendation

1. Maintain strategy for current luxury products
2. Leverage your entry level brand (Swatch) with a partnership with the largest smartphone manufacturer Samsung
3. New marketing strategy for new product
Wearable device segment

**Time keeping watches**
- “job to be done”

**Activity trackers**
- Sport-oriented

**Smartwatches**
- Mainstreams
- All aspects of a watch with all activity trackers

Main obstacle: PRICE
What is Apple doing

- Apple Sport
- Apple Watch
- Apple Watch edition

Very smart and innovative

Early adopters mostly

Creation of a new market

Forecast:
13.5 millions in 2015
23.8 millions in 2016

There is an opportunity in the smartphone
What is the current perception of your brands?

- Luxury:
  - Tissot Smart-Touch
  - Swatch Touch Zero

- Mass-Market:
  - Tag Haer
  - Apple Watch Special Edition
  - Apple Watch

( Smartness of the wearable device)
Swatch: What is your competitive advantage?

Diversified portfolio
- Lower the risk to launch new products

Adaptive and innovative production capabilities
- Low manufacturing cost
- Creative company
- Good management of the Quartz crisis

Brand equity
- History & prestige
- Good brand
- Awareness
Swatch’s Performance

- Increase competition from Apple in the luxury segment (Apple edition)
- Concentration in a very discretionary segment
- Swatch wants to grow and diversify more

Swatch need to find new sources of profits via diversification
Internal Analysis

S  
Experience and nostalgia
Quality perception (Swiss product)
Survived past crisis
Supplier for other brands
Wide price range
Diversification
Innovative
Vertically integrate

W  
Decreased sales
No smart devices
External Analysis

Context: O

- Still in early adopters phase
- Only 16% of individual have one
- Dependence on smartphone
- Popularity of connected devices

Context: T

- Market position of Apple
- Volatility of the currency
- Emerging trends in watches
What are your alternatives

1. Maintain Status Quo
2. Enter smartwatch segment
3. Focus on luxury watches (divest from other products)

Assessment criteria
1. Increase sales
2. Increase market share
3. In line with the competitive advantage
4. In line with the management values
5. Financially feasible
How do we evaluate the options?

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Increase sales</th>
<th>In line with competitive advantage</th>
<th>Increase market share</th>
<th>Financially feasible</th>
<th>In line with management values</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Status Quo</td>
<td>![Yellow]</td>
<td>![Yellow]</td>
<td>![Red]</td>
<td>![Green]</td>
<td>![Green]</td>
</tr>
<tr>
<td>2) Enter smartwatch segment</td>
<td>![Green]</td>
<td>![Green]</td>
<td>![Green]</td>
<td>![Green]</td>
<td>![Green]</td>
</tr>
<tr>
<td>3) Focus on luxury watches (divest from other products)</td>
<td>![Red]</td>
<td>![Red]</td>
<td>![Red]</td>
<td>![Green]</td>
<td>![Red]</td>
</tr>
</tbody>
</table>
Recap: the “Be Smart” Recommendation

1. Maintain strategy for current luxury products
2. Leverage your entry level brand (Swatch) with a partnership with the largest smartphone manufacturer Samsung
3. New marketing strategy for new product
Step 1: Develop your new product

- R&D joint-venture partnership with Samsung
  - Through the use of SWATCH brand
  - More Samsung smartphones on the market (Android operating system)
  - Compatible with all Android devices
  - Samsung – Swatch partnership adds legitimacy to both brands
  - Production in Switzerland to maintain identity and quality

Introducing .... The “SwatchDroid”
A New Marketing Strategy

Context

Analysis

Alternatives

Recommendation

Implementation

Conclusion

Product

The “SwatchDroid”
Android-compatible smartwatch
Fitness tracker
Time keeping
E-mails
Visual display
Receive calls/texts

Price

$199

Place

Swatch stores
Online/E-Commerce
Cell Phone Carrier boutiques

Promotion?
Step 2: Identify your segments

SEGMENT 1: 25-40 Young professionals

SEGMENT 2: Middle-aged Middle-class

SEGMENT 3: 18-25 High school graduates Middle-class
Segment 1: Introducing John

Who is John?

• 29 years old
• Young professional & MBA graduate
• Interested in fitness and has a very busy lifestyle
• Tech-saavy & Android user
• Likes: easy-to-use products, functionality, affordability

Promotion

1. Brand ambassador: Chris Martin, Calvin Harris
2. Social Media Strategy: Presence on all platforms including LinkedIn
3. Sponsorship: sports event, concerts, networking events, case competitions, career fairs
Segment 2: Introducing Joelle

Who is Joelle?
• 50 years old
• Mid-level manager
• Mother of two
• Likes technology but does not fully understand it
• Uses Samsung
• Likes: ease-of-use, practicality

Promotion
1. **Brand ambassador**: Ellen Degeneres, Oprah Winfrey
2. **Social Media Strategy**: Presence on Facebook
3. **In-store strategy**: Boutiques, promotions, discounts, bundling options
4. **Traditional advertising**
Segment 3: Introducing Marianne

Who is Marianne?
- 18 years old
- Graduating from high school
- Middle-class family
- Tech-saavy
- Buys into trends in fashion and technology
- Family has high-brand loyalty to the Swiss watch
- Likes: good quality, “cool” devices, standing-out

Promotion
1. **Brand ambassador**: Selena Gomez, Justin Bieber
2. **Social Media Strategy**: Presence on all social media platforms, particularly Instagram, Snapchat, YouTube
3. **Sponsorship**: Concerts, career-fair, campus recruitment (universities and colleges)
How will you do this?

<table>
<thead>
<tr>
<th>Tactic</th>
<th>2017 H1</th>
<th>2017 H2</th>
<th>2018 H1</th>
<th>2018 H2</th>
<th>2019 H1</th>
<th>2019 H2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish partnership</td>
<td></td>
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<tr>
<td>R&amp;D</td>
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<tr>
<td>Develop marketing</td>
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<tr>
<td>Implement marketing</td>
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<tr>
<td>North American release</td>
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<tr>
<td>European release</td>
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<td>Asian release</td>
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<tr>
<td>Impact assessment</td>
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<tr>
<td>Existing luxury Swiss Watch marketing</td>
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</tbody>
</table>
Where we want to get you

Luxury
- Tissot Smart-Touch

Mass-Market
- Swatch Touch Zero

(Mass-Market)
- Apple Watch

(Luxury)
- Tag Haer
- Apple Watch Special Edition

(Smartness of the wearable device)
Sales Declined Due to Multiple Factors

CHF Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (CHF Millions)</th>
<th>Year over year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>7,796</td>
<td>15.3%</td>
</tr>
<tr>
<td>2013</td>
<td>8,456</td>
<td>8.5%</td>
</tr>
<tr>
<td>2014</td>
<td>8,709</td>
<td>3.0%</td>
</tr>
<tr>
<td>2015</td>
<td>8,451</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

CHF depreciation, China anti-corruption, overall competition
Net income margins compressed significantly

Average number of employees increased 24% since 2012
Still a very healthy financials

Equity is 6x larger than Liabilities = consistent and stable company

Equity is 6x larger than Liabilities = consistent and stable company
### JV with Samsung

#### Context

- Analysis
- Alternatives
- Recommendation
- Implementation
- Conclusion

#### CHF Millions

<table>
<thead>
<tr>
<th></th>
<th>2016e</th>
<th>2017e</th>
<th>2018e</th>
<th>2019e</th>
<th>2020e</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>R&amp;D initial investment</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td>250</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016e</th>
<th>2017e</th>
<th>2018e</th>
<th>2019e</th>
<th>2020e</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Units sold - Millions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td>199</td>
<td>199</td>
<td>199</td>
<td>199</td>
<td>199</td>
</tr>
<tr>
<td><strong>Revenues estimates</strong></td>
<td>1,791</td>
<td>1,990</td>
<td>2,189</td>
<td>2,388</td>
<td></td>
</tr>
<tr>
<td>Swatch group revenues - CHF Million</td>
<td>896</td>
<td>995</td>
<td>1,095</td>
<td>1,194</td>
<td></td>
</tr>
</tbody>
</table>

2017 revenue of $896 = 11% growth on 2015
# SwatchDroid Financials

Operating income will increase by mid-teens vs 2015

<table>
<thead>
<tr>
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<td>995</td>
<td>1,095</td>
<td>1,194</td>
</tr>
<tr>
<td>Costs of Goods Sold (40% sales)</td>
<td>-358</td>
<td>-398</td>
<td>-438</td>
<td>-478</td>
</tr>
<tr>
<td><strong>Swatch Group Project expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D (8% smart watch sales)</td>
<td>-72</td>
<td>-80</td>
<td>-88</td>
<td>-96</td>
</tr>
<tr>
<td>Marketing (initial launch)</td>
<td>-100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing (5% smart watch sales)</td>
<td></td>
<td>-50</td>
<td>-55</td>
<td>-60</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>-242</td>
<td>-269</td>
<td>-296</td>
<td>-322</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>-413</td>
<td>-398</td>
<td>-438</td>
<td>-478</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>124</td>
<td>199</td>
<td>219</td>
<td>239</td>
</tr>
<tr>
<td><strong>%sales</strong></td>
<td>14%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Operating income will increase by mid-teens vs 2015.
## What are the risks?

<table>
<thead>
<tr>
<th>RISK</th>
<th>PREVENTION</th>
<th>MITIGATION</th>
<th>IMPACT</th>
<th>LIKELIHOOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not able to obtain partnership with Samsung</td>
<td>Work to show the benefits for both brands</td>
<td>Reach out to other Android smartphone manufacturers</td>
<td>HIGH</td>
<td>LOW</td>
</tr>
<tr>
<td>Currency volatility of Swiss Franc</td>
<td>Foreign Exchange Hedges</td>
<td>N/A</td>
<td>MEDIUM</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>Cannibalization of current luxury products</td>
<td>Differentiation &amp; marketing plan</td>
<td>Increase allocation of marketing budget to luxury brand</td>
<td>LOW</td>
<td>LOW</td>
</tr>
<tr>
<td>Pressure from Apple</td>
<td>Targeting Android users</td>
<td>Competitive pricing</td>
<td>MEDIUM</td>
<td>HIGH</td>
</tr>
<tr>
<td>Reduction in brand equity</td>
<td>Differentiation &amp; marketing plan</td>
<td>Changing brand name</td>
<td>HIGH</td>
<td>LOW</td>
</tr>
</tbody>
</table>
The time to act is now

- Swatch is a timeless brand with strong brand awareness
- It’s prestige, it’s innovation and brand equity
- Apple is not a threat to your luxury business

**Recommendation:**
- Emphasize luxury brand by continuing to utilize your current marketing strategy
- Product development with Samsung

- Results in sales of 9 million units in year 1 (1.8B Swiss Francs)
THANK YOU
<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>2,978</td>
<td>33,590</td>
<td>35,623</td>
<td>36,313</td>
</tr>
<tr>
<td>AVG employees</td>
<td>28,942</td>
<td>31,114</td>
<td>34,492</td>
<td>35,783</td>
</tr>
<tr>
<td>yoy</td>
<td>3%</td>
<td>8%</td>
<td>11%</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>8456</td>
<td>8709</td>
<td>8451</td>
</tr>
<tr>
<td>Personnel expense</td>
<td>2144</td>
<td>2343</td>
<td>2384</td>
</tr>
<tr>
<td>%Revenues</td>
<td>25%</td>
<td>27%</td>
<td>28%</td>
</tr>
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</table>
## Appendix

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
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<th>2014</th>
<th>2015</th>
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<tr>
<td>year over year</td>
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<td>8.5%</td>
<td>3.0%</td>
<td>-3.0%</td>
</tr>
<tr>
<td><strong>Operating results</strong></td>
<td>1,978</td>
<td>2,314</td>
<td>1,752</td>
<td>1,451</td>
</tr>
<tr>
<td>%sales</td>
<td>25.4%</td>
<td>27.4%</td>
<td>20.1%</td>
<td>17.2%</td>
</tr>
<tr>
<td>year over year</td>
<td>25.40%</td>
<td>17.0%</td>
<td>-24.3%</td>
<td>-17.2%</td>
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<tr>
<td><strong>Net income</strong></td>
<td>1,604</td>
<td>1,928</td>
<td>1,416</td>
<td>1,119</td>
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<tr>
<td>%sales</td>
<td>20.6%</td>
<td>22.8%</td>
<td>16.3%</td>
<td>13.2%</td>
</tr>
<tr>
<td>year over year</td>
<td>25.7%</td>
<td>20.2%</td>
<td>-26.6%</td>
<td>-21.0%</td>
</tr>
<tr>
<td><strong>CFO</strong></td>
<td>999</td>
<td>1,309</td>
<td>1,848</td>
<td>1,404</td>
</tr>
<tr>
<td>year over year</td>
<td>12.8%</td>
<td>31.0%</td>
<td>41.2%</td>
<td>-24.0%</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>1,857</td>
<td>2,065</td>
<td>2,073</td>
<td>2,028</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>8,573</td>
<td>9,574</td>
<td>10,674</td>
<td>11,242</td>
</tr>
<tr>
<td>%BS</td>
<td>82.2%</td>
<td>82.3%</td>
<td>83.7%</td>
<td>84.7%</td>
</tr>
<tr>
<td><strong>Balance sheet</strong></td>
<td>10,430</td>
<td>11,639</td>
<td>12,747</td>
<td>13,270</td>
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</tbody>
</table>