

SWATCH

A Smart Way to be Timeless

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Swatch: A Pioneer in the Luxury Watch Industry

Context

Analysis

Alternatives

Recommendation

Implementation

Conclusion

- 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

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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

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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

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- Apple Sport
- Apple Watch
- Apple Watch edition

Forecast:

13.5 millions in 2015

23.8 millions in 2016

Very smart and innovative

Early adopters mostly

Creation of a new market

There is an opportunity in the smartphone

What is the current perception of your brands?

Context

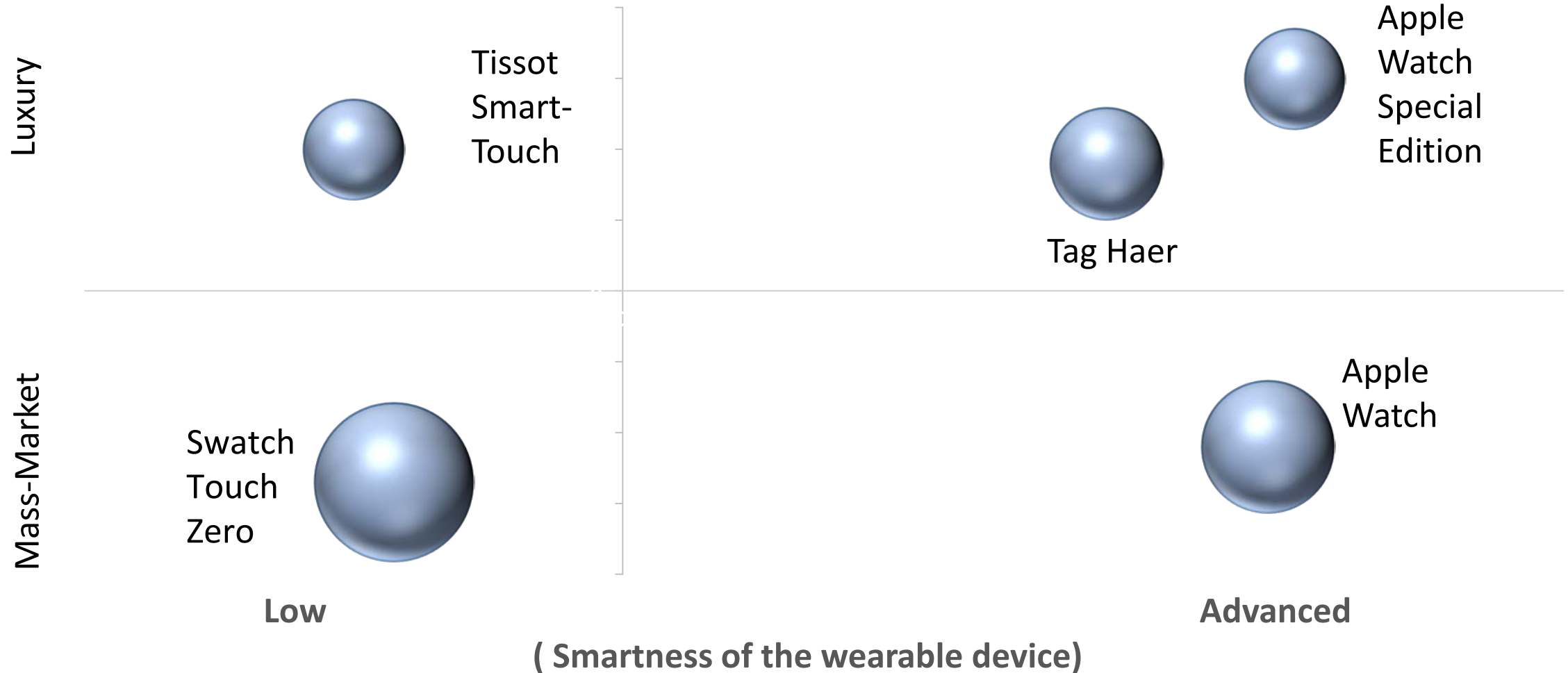
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Swatch: What is your competitive advantage?

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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

Context

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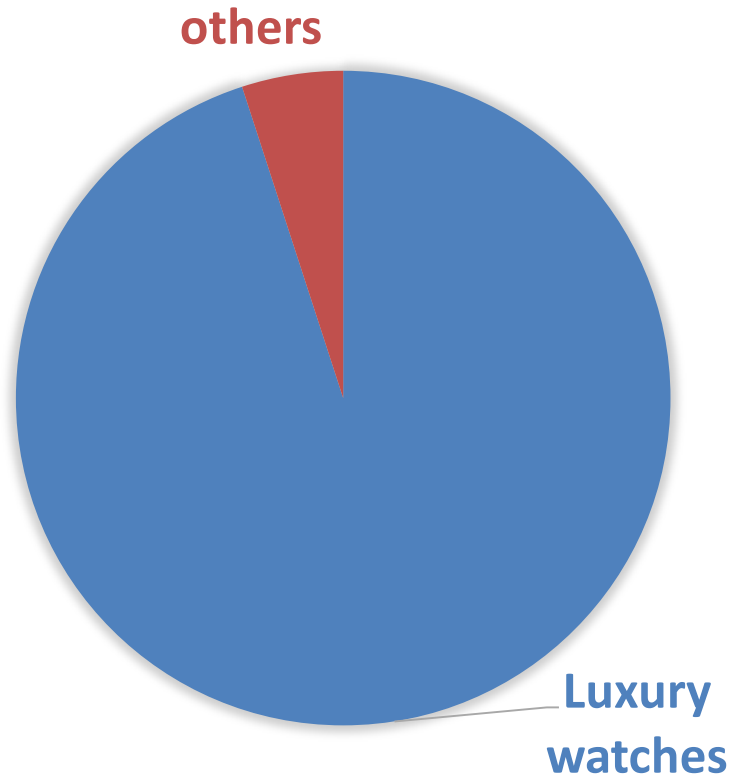
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SWATCH PROFITS



- 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

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Experience and nostalgia

Quality perception (Swiss product)

Survived past crisis

Supplier for other brands

Wide price range

Diversification

Innovative

Vetrically integrate

W

Decreased sales
No smart devices

External Analysis

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Still in early adopters phase
Only 16% of individual have one
Dependance on smartphone
Popularity of conncted devices

T

Market position of Apple
Volatility of the curency
Emerging trends in watches

What are your alternatives

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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?

Context



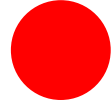












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Alternatives	Increase sales	In line with competitive advantage	Increase market share	Financially feasible	In line with management values
1) Status Quo					
2) Enter smartwatch segment					
3) Focus on luxury watches (divest from other products)					

Recap: the “Be Smart” Recommendation

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Step 1: Develop your new product

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- 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

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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

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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

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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

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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

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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?

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Tactic	2017 H1	2017 H2	2018 H1	2018 H2	2019 H1	2019 H2
Establish partnership						
R&D						
Develop marketing						
Implement marketing						
North American release						
European release						
Asian release						
Impact assessment						
Existing luxury Swiss Watch marketing						

Where we want to get you

Context

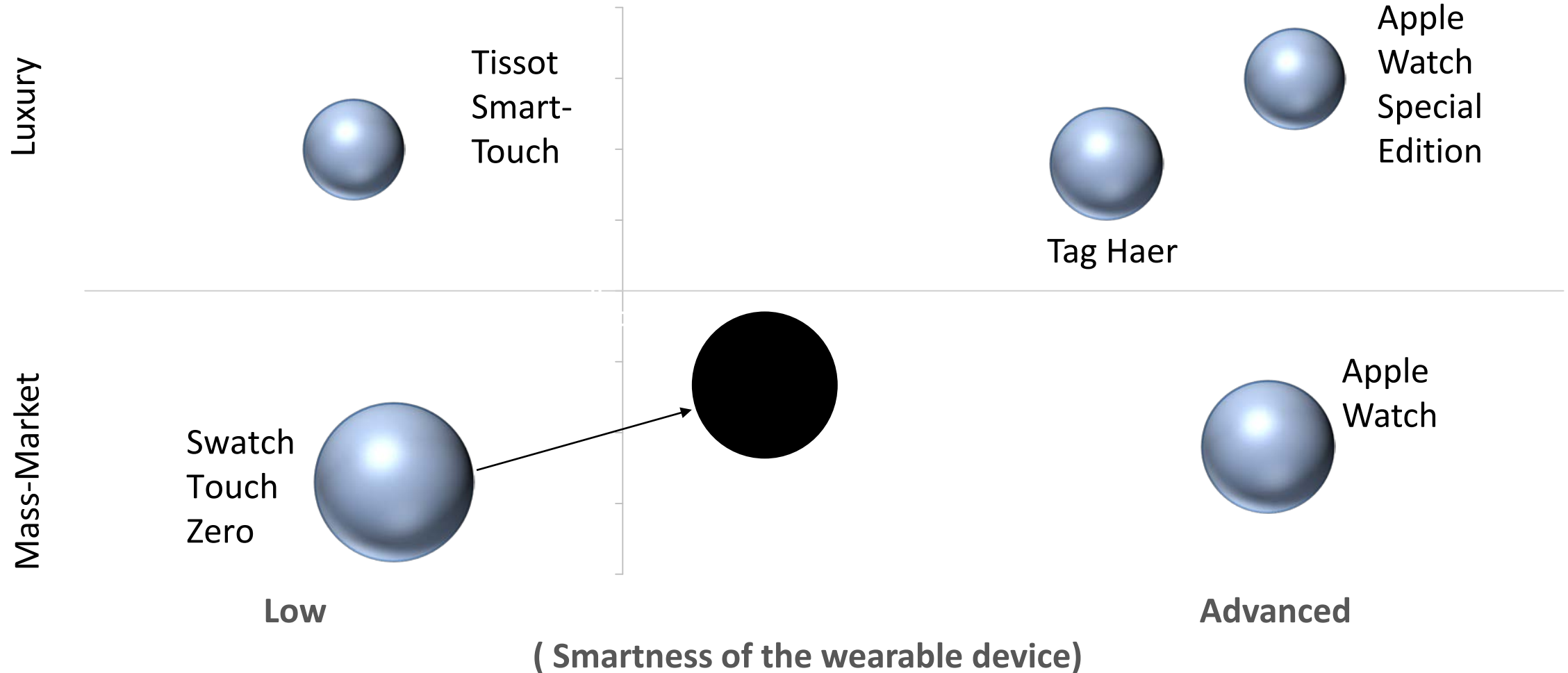
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Sales Declined Due to Multiple Factors

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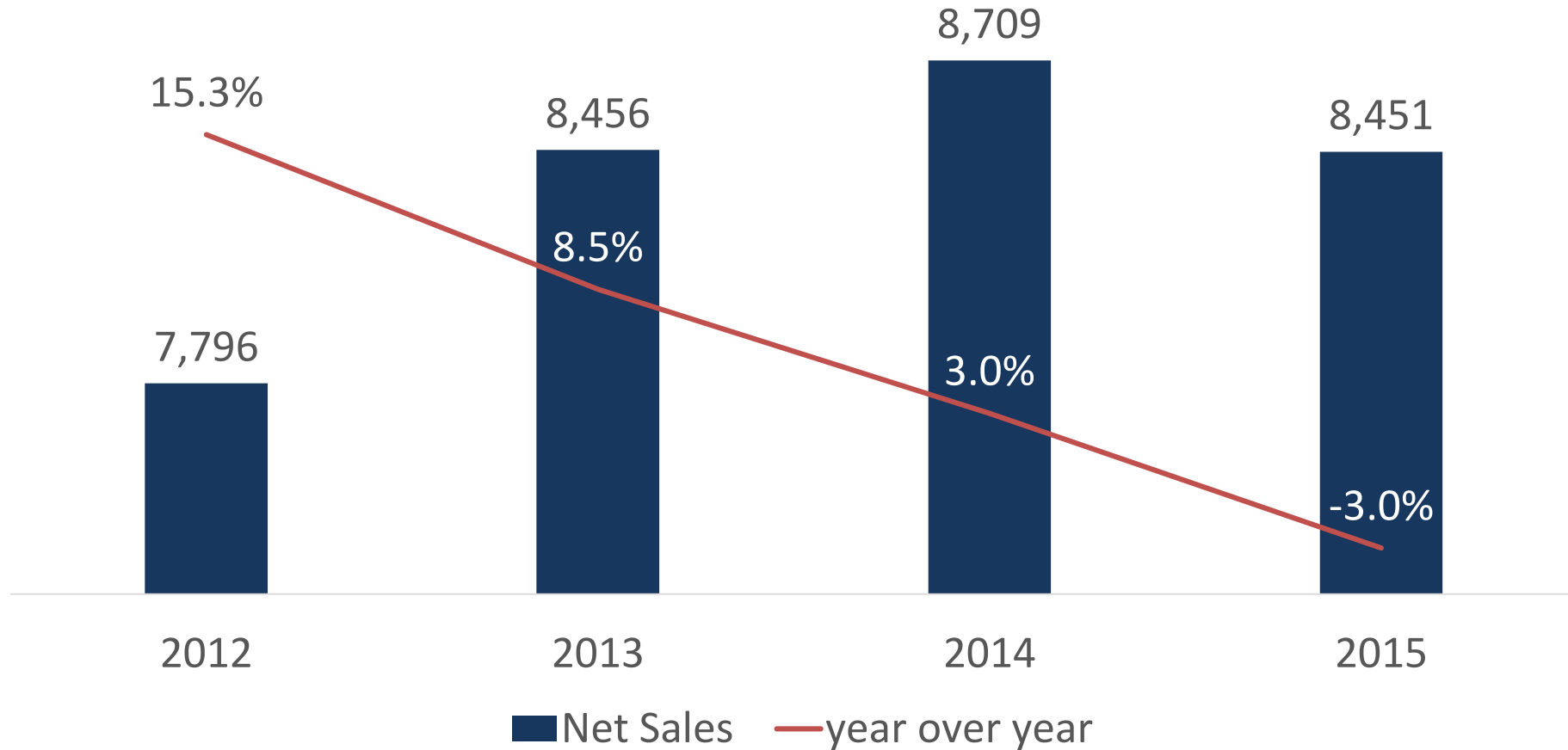
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CHF Millions



CHF depreciation, China anti-corruption, overall competition

Net income margins compressed significantly

Context

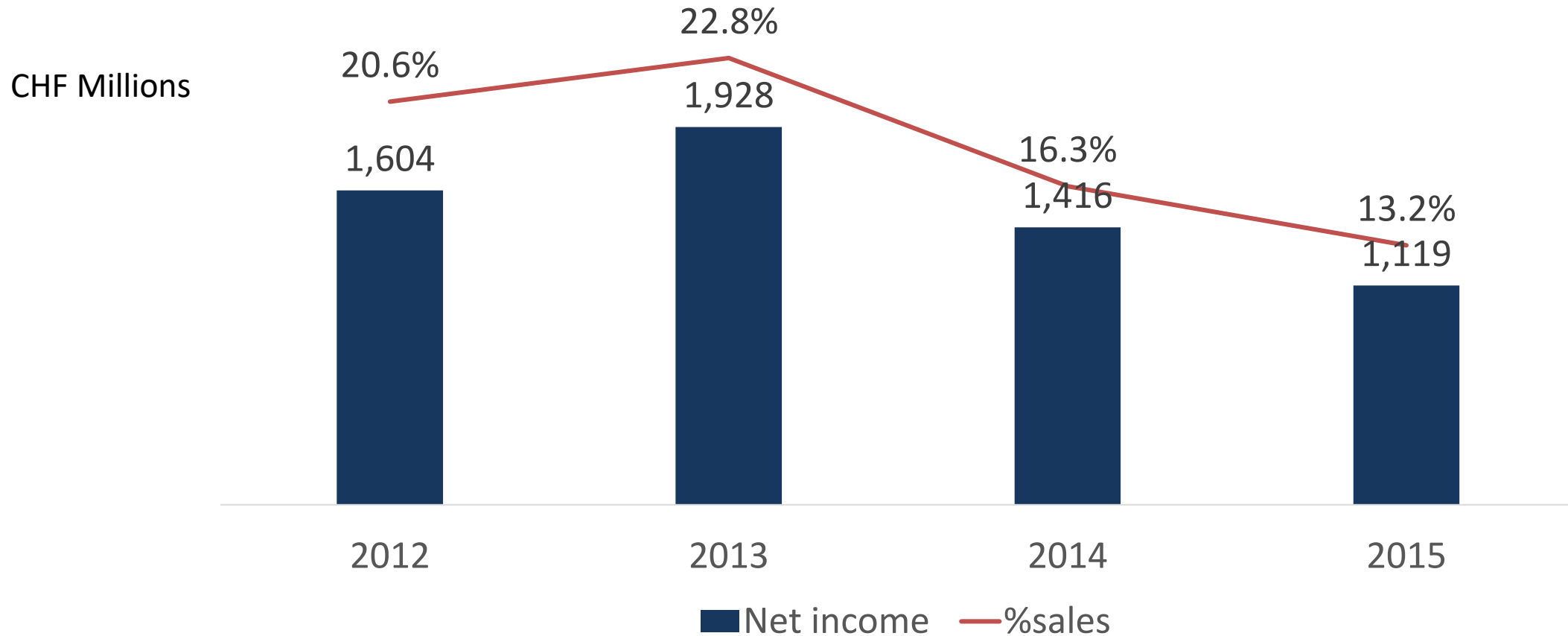
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Average number of employees increased 24% since 2012

Still a very healthy financials

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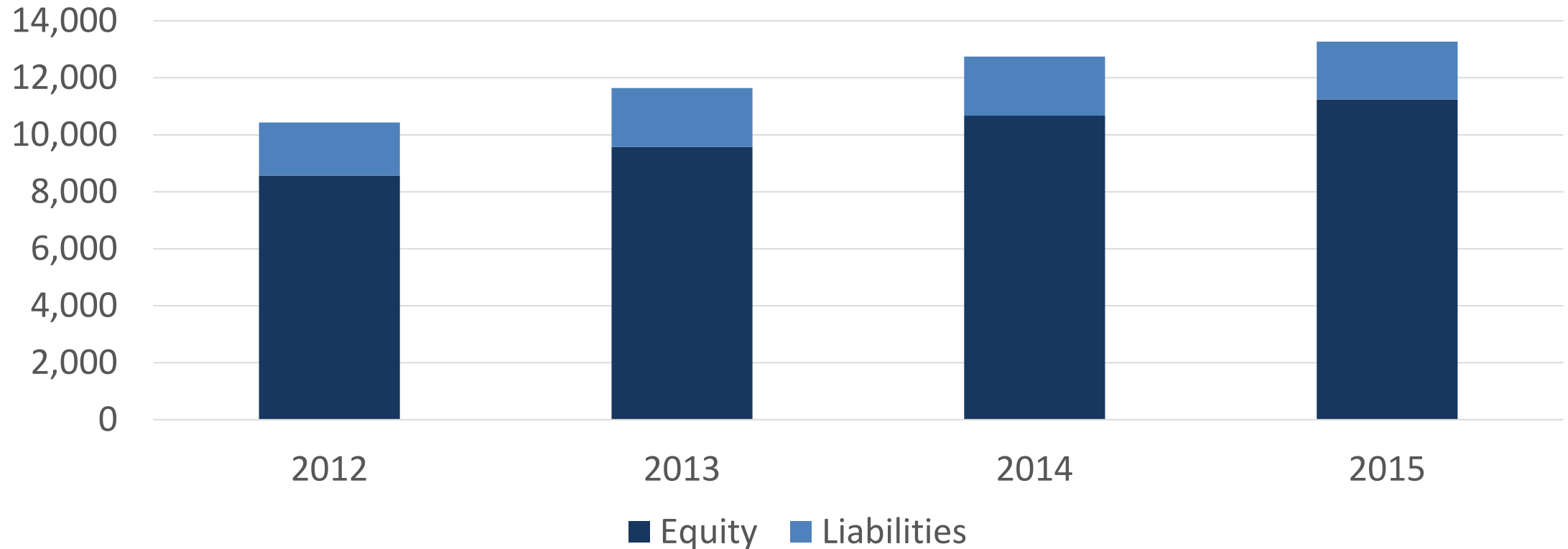
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CHF Millions

Balance sheet



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

JV with Samsung

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<u>CHF Millions</u>	2016e	2017e	2018e	2019e	2020e
Capital Expenditures					
R&D initial investment	100	250			
Units sold - Millions		9	10	11	12
Price		199	199	199	199
Revenues estimates		1,791	1,990	2,189	2,388
Swatch group revenues - CHF Million		896	995	1,095	1,194

2017 revenue of \$896 = 11% growth on 2015

SwatchDroid Financials

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	2017e	2018e	2019e	2020e
Swatch group revenues - CHF Million	896	995	1,095	1,194
Costs of Goods Sold (40% sales)	-358	-398	-438	-478
Swatch Group Project expenses				
R&D (8% smart watch sales)	-72	-80	-88	-96
Marketing (initial launch)	-100			
Marketing (5% smart watch sales)		-50	-55	-60
SG&A	-242	-269	-296	-322
Total expenses	-413	-398	-438	-478
Operating Income	124	199	219	239
%sales	14%	20%	20%	20%

Operating income will increase by mid-teens vs 2015

What are the risks?

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

The time to act is now

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- 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

Appendix

	2012	2013	2014	2015
Employees	2,978	33,590	35,623	36,313
AVG employees	28,942	31,114	34,492	35,783
yoy	3%	8%	11%	4%

	2013	2014	2015
Revenues	8456	8709	8451
Personnel expense	2144	2343	2384
%Revenues	25%	27%	28%

Appendix

Million	2012	2013	2014	2015
Net Sales	7,796	8,456	8,709	8,451
year over year	15.3%	8.5%	3.0%	-3.0%
Operating results	1,978	2,314	1,752	1,451
%sales	25.4%	27.4%	20.1%	17.2%
year over year	25.40%	17.0%	-24.3%	-17.2%
Net income	1,604	1,928	1,416	1,119
%sales	20.6%	22.8%	16.3%	13.2%
year over year	25.7%	20.2%	-26.6%	-21.0%
CFO	999	1,309	1,848	1,404
year over year	12.8%	31.0%	41.2%	-24.0%
Liabilities	1,857	2,065	2,073	2,028
Equity	8,573	9,574	10,674	11,242
%BS	82.2%	82.3%	83.7%	84.7%
Balance sheet	10,430	11,639	12,747	13,270