Swatch Group Ltd

Turning the technology trend into an opportunity for Swatch

Presenting to
The Management board &
CEO Nick Hayek

Presenters
Andreas Lampeitl
Ermelinda Nici
Daniel Granath
Jenny Holmgren
Strategic Goal

Remain the position as a leading manufacturer of timekeepers for the next 100 years
How to turn the growing smart watches trend into an opportunity instead of a threat

Leverage on the core competence of manufacturing timekeepers & incorporate Apple and Samsung's technologies into our current watches & brand
Todays Agenda

- Analysis
- Alternatives
- Recommendation
- Implementation
- Financial
- Risks
External Business Environment

Political
- Discussions of personal integrity in relation to smart watches & devices

Economic
- Economies are on good way of recovering from the financial recessions of 2009

Social
- The average population age is increasing. Older generation is becoming a target group with increasing purchasing power

Technological
- Tremendous spread & growth in smart phones & devices

Environmental
- Increased focus on sustainability

Legal
Swatch needs to focus on its core competence in creating timekeeping watches.

### Timekeepers
- Luxury
- Used as an accessory
- Used as a fashion statement

### Smart Watches
- Innovative
- Used to keep track of daily activities & messages
- Used as a functionality accessory

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Clear difference between product segments

<table>
<thead>
<tr>
<th>Analysis</th>
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<th>Risks</th>
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The competitive environment is opening up a hybrid-opportunity

<table>
<thead>
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<tbody>
<tr>
<td><strong>Smart watches</strong></td>
<td><strong>Timekeepers</strong></td>
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<td></td>
</tr>
<tr>
<td>• Apple</td>
<td>• Rolex</td>
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<tr>
<td>• Fitbit</td>
<td>• Richmont</td>
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<td>• Garmin</td>
<td>• Daniel Wellington</td>
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<td>• Nike</td>
<td>• Patek Philippe</td>
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<td><strong>Driving factors</strong></td>
<td><strong>Driving factors</strong></td>
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<tr>
<td>- Innovation</td>
<td>- Heritage</td>
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<td></td>
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<tr>
<td>- Price</td>
<td>- Quality</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>- Functionality</td>
<td>- Design and Craftsmanship</td>
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</table>
Swatch is a brand with great competitive advantage

- Swatch
- Swiss brand → Stands for excellent quality & design
- 18 Watch brands in the brand portfolio
- Operates in 50 Countries
- Well recognized brand with heritage & history
- Luxury segment position

Swatch has high competitive advantage to leverage one
Swatches customers should not compromise between craftsmanship and technology

**Target Group**
- Luxury watch consumers

**Wants..**
- 27% of target group prefer smart watches over luxury watches
- Only 15% of customers consider an apple watch as a substitute for a luxury watch

Luxury watch buyers values timelessness & craftsmanship

**Focused on Technology**
- Customers prefer timelessness & craftsmanship but do not want to compromise on technology
Swatch is a leading manufacturer but face a drop in top line growth

- Top luxury brand worldwide
- 95% of revenues from luxury segment
- 21% decrease in net income = dealing with higher costs

Decline in exports have led to the decreased revenues
Upcoming segments show high growth but Swatch Group current one is larger

- Smartwatches shows high annual growth

- Luxury segment has a steady demand but is larger

Swatch has an opportunity to leverage the trend while maintaining current trend
History shows that new competitors can impose great impact on Swiss quality manufacturing

- China developed cheaper watches
- Price focused segment chose cheaper watches over quality Swiss

Swatch Group needs to pay attention to avoid a new crisis

- Analysis
- Alternatives
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- Risks
Leverage on the core competence & brands core values sets a firm value proposition

**Value Proposition**
Quality timekeepers with great design

**Brand Core**
Time, Quality & Design

**Core Competence**
Craftsmanship, Timekeepers, micromechanics & microelectronic

Swatch has high competitive advantage to leverage one
Blue ocean opportunity combining heritage & innovation

Analysis
Alternatives
Recommendation
Implementation
Financial
Risks

Heritage
High
Low

Innovation
Low
High

Swatch
Patek Philippe
Rolex

Apple
Samsung
Key success factors for the Watch brand

- **Customer Wants**
  - TECHNOLOGY

- **Swatch Heritage**
  - FASHION STATEMENT

- **Core Competence**
  - Quality Watches
  - Design
Key success factors for the Watch brand

1. **Continue develop Smart Watches & Challenge Apple and other smartwatch brands**

2. **Focus on traditional watches & time pieces, exit the smart watches segment**

3. **Leverage on core competence by incorporate Apple & Samsungs technologies into the Swatch brands timekeepers**
## Key success factors for the Watch brand

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>Customer Wants</th>
<th>Brand Heritage</th>
<th>Core Competence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Continue develop Smart Watches &amp; Challenge Apple and other smartwatch brands</td>
<td>Excellent</td>
<td>Alarming</td>
<td>Alarming</td>
</tr>
<tr>
<td>2. Focus on traditional watches &amp; time pieces, exit the smart watches segment</td>
<td>Alarming</td>
<td>Excellent</td>
<td>Excellent</td>
</tr>
<tr>
<td>3. Leverage on core competence by incorporate Apple &amp; Samsung technologies into the Swatch brands timekeepers</td>
<td>Excellent</td>
<td>Excellent</td>
<td>Excellent</td>
</tr>
</tbody>
</table>
Leverage on core competence by incorporate smart watches technologies into the Swatch brands timekeepers
Beautiful Technology
Key success factors for the Watch brand

- Customer Wants
  - TECHNOLOGY

- Swatch Heritage
  - FASHION STATEMENT

- Core Competence
  - Quality Watches
  - Design

Meet customer wants on Swatch homefield
1. Wristbands & accessories for smart watches
2. Display Screen
1. Wristbands & Accessories

- Short term revenues → High Margins
- Use existing market trends to advantage
- Customize Apple Watch with Swiss fashion design
- Communicate through traditional marketing
  - Magazines billboards & Point of Sales
- Models for Apple & Samsung
2. Display Screen

- Make a innovative screen-glass that is transparent but can become a screen for smart watch technologies such as iOS and Android
- Can be incorporated on existing models of timekeepers
- Let your luxury Swiss watch incorporate smartwatch technology
- Customers come first – Craftsmanship & Technology

Best of 2 worlds – Meet customer demands in the 21st century
Combining Fashion and technological Functionality will **create a competitive advantage** through the value proposition.
## Implementation schedule

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wristbands</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Design &amp; develop</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Launch</td>
<td></td>
<td></td>
<td></td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Display Screen</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Plan &amp; Develop</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>- Roll out on selected models</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔️</td>
</tr>
<tr>
<td><strong>Marketing</strong></td>
<td></td>
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</tbody>
</table>
The development of technology will cost but will also pay off

**Investments**
- Develop Screen: $10 million
- Develop Wristbands: $5 million
- Marketing: $2 million

- Wristband price: approx. $150
- Screen price: approx. $750

17 million equals around 18% of revenues

To be financed with assets & small loan

Swatch has an opportunity to leverage the trend while maintaining current trend
The complementing accessories will gain profits due to large market segments.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smartwatches sold</td>
<td>13.5</td>
<td>23.8</td>
<td>32</td>
</tr>
<tr>
<td>Wristbands sold</td>
<td>0.7</td>
<td>1.67</td>
<td>3.2</td>
</tr>
<tr>
<td>% of total market</td>
<td>5%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Revenues</td>
<td>101</td>
<td>249.9</td>
<td>480</td>
</tr>
<tr>
<td>COGS 40%</td>
<td>41</td>
<td>99.96</td>
<td>119.2</td>
</tr>
<tr>
<td>Profit</td>
<td>61</td>
<td>149.9</td>
<td>288</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss watches sold</td>
<td>29.3</td>
<td>31</td>
<td>33</td>
</tr>
<tr>
<td>Screens</td>
<td>0.000</td>
<td>0.155</td>
<td>0.495</td>
</tr>
<tr>
<td>% of total market</td>
<td>0.00%</td>
<td>0.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Revenues</td>
<td>0</td>
<td>116.3</td>
<td>371.3</td>
</tr>
<tr>
<td>COGS 60%</td>
<td>0</td>
<td>69.75</td>
<td>222.8</td>
</tr>
<tr>
<td>Profit</td>
<td>0</td>
<td>46.5</td>
<td>148.5</td>
</tr>
</tbody>
</table>

We currently sell 120,000 Swatch watches/year. The accessories complement other brands.

Swatch can leverage trends but still maintain core Luxury segment watches.
The new revenues will increase Swatch Group Ltd.’s top line growth again

• Will reach sales of **100 million dollars** in 2018

• Investment will be paid off from est. 6 months sales
Swatch’s new revenue streams are multiple

- To increase the demand of Swatch products
- Increase export again
- Enable growth in several segments

By going in to accessories Swatch will have multiple ways to grow
There are risks but they can be mitigated

<table>
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<tr>
<th>Risk</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Losing brand identity by introducing technology</td>
<td>1. Not compromising core products or product reputation</td>
</tr>
<tr>
<td>2. Losing market shares by not develop direct Apple watch fighter</td>
<td>2. Compete by adding value from Swatch core competences</td>
</tr>
<tr>
<td>3. Too difficult or expensive to develop screen</td>
<td>3. Technology exists and wristbands will add extra revenus</td>
</tr>
</tbody>
</table>

Analysis        Alternatives        Recommendation      Implementation      Financial

Risks
Turn the opportunity of smart watches into a blue ocean strategy positioning

- Patek Philippe
- Rolex
- Swatch
- Apple
- Samsung

Heritage High
Heritage Low
Innovation Low
Innovation High

Blue Ocean Positioning