Swatch Group
Is it “Time” for a Change?

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Memorial University
Agenda

- Problem Statement
- Key Issues
- Objectives
- Recommendation
- Analysis
- Alternatives
- Implementation
- Risks and Mitigations
- Questions

Kate
Nick
Greg
Stephanie
Kate
Problem Statement

- How does Swatch Group address the emergence of the Smart Watch market and major competitors such as Apple?
Key Issues

- Changing Industry
  - Apple Watch
  - Wearable Technology

- Decline in Sales

- Profitability
  - Currency fluctuations
Objectives

- Increase Sales
- Improve Profitability
- Maintain Brand Heritage
- Defend Market Share in Luxury Watch Segment
Recommendation

Launch a new line of luxury Swatch watches that combine popular smart features with style.
Analysis
Analysis

Swatch’s strategy

- Internal performance
- External environment
- Competition
- Consumer preferences
Internal - the Swatch business

- Diversified:
  - 50 countries and 18 brands
  - Provide parts and complete products
- Top-three worldwide luxury watch brands
- Strong history and brand perception
- History of market predictability
Internal - financial performance

- Historic sales growth
  - Sales decline in 2015
- Profitability decline
  - 21% decline in 2015
  - 27% decline in 2014
- 95% of profit from “luxury” market

Swatch sales and net income (CHF millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (CHF millions)</th>
<th>Profit (CHF millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>7,796</td>
<td>1,604</td>
</tr>
<tr>
<td>2013</td>
<td>8,456</td>
<td>1,928</td>
</tr>
<tr>
<td>2014</td>
<td>8,709</td>
<td>1,416</td>
</tr>
<tr>
<td>2015</td>
<td>8,451</td>
<td>1,119</td>
</tr>
<tr>
<td>2015 (adj.)</td>
<td>8,636</td>
<td>1,143</td>
</tr>
</tbody>
</table>
External - the watch industry

- History of market disruptions
- Significantly differing markets

<table>
<thead>
<tr>
<th></th>
<th>Swiss (Luxury)</th>
<th>China (Low-price)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watches sold</td>
<td>29.3M</td>
<td>678.5M</td>
</tr>
<tr>
<td>Sales</td>
<td>$22.9B</td>
<td>$5.1B</td>
</tr>
<tr>
<td>Price per watch</td>
<td>$737</td>
<td>$3</td>
</tr>
</tbody>
</table>

- Wearable technologies impacting the industry
## External - views of the smart-watch

<table>
<thead>
<tr>
<th>Advocates</th>
<th>Detractors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Features</td>
<td>• Limited battery</td>
</tr>
<tr>
<td>o News</td>
<td>• Pricing concerns</td>
</tr>
<tr>
<td>o GPS</td>
<td>• “People buy for emotion”</td>
</tr>
<tr>
<td>o Health monitor</td>
<td>• It’s a trend / gadget</td>
</tr>
</tbody>
</table>

“Swiss watch-makers are f**ked”  
“Watches remain a piece of jewelry”
External - wearables growth

Wearable sales (units)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart watch</td>
<td>30.32</td>
<td>30.15</td>
<td>34.97</td>
</tr>
<tr>
<td>Wristband</td>
<td>50.4</td>
<td>66.71</td>
<td>44.1</td>
</tr>
</tbody>
</table>

Growth rates of wearable technologies

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart watch</td>
<td>66.2%</td>
<td>32.4%</td>
</tr>
<tr>
<td>Wristband</td>
<td>16.0%</td>
<td>26.1%</td>
</tr>
</tbody>
</table>
Competition

► Smartwatch:
  ► Apple owns 66% of the market
  ► Financially strong
  ► Dominant player globally
  ► Reliant on other technologies

► Activity trackers:
  ► Relatively fragmented
  ► No dominant player
Competition - positioning map

- Mass market
  - Apple
  - fitbit

- Technology-advanced
  - Tag Heuer
  - Swatch

- Luxury
  - Rolex
Consumer preferences

Four major obstacles to buying a smartwatch:

1. Battery life
2. Reliant on smartphone
3. Screen size
4. Price
What business is Swatch in?

Swatch is one of the world’s leading luxury watch companies.
Alternatives
Alternatives

1. Retrench to Luxury Watch Market

2. Develop Smart Watch to Compete directly with Apple Watch

3. Integrate popular smart features into Luxury Watches
Alternative 1 - Retrench in Luxury Segment

Stay true to brand
No development cost

Slumping sales
Lost opportunity
Alternative 2 - Compete Head-on with Apple

- Rapid growth in market
- Existing technology

- Apple is established leader
- Compatibility
Alternative 3 - Integrate Smart features in Luxury Watches

- Brand loyalty
- Most popular features only
- Battery life

- Low technology
# Alternative Comparison

<table>
<thead>
<tr>
<th>Objective</th>
<th>Alternative 1 Retrench</th>
<th>Alternative 2 Head-on w/ Apple</th>
<th>Alternative 3 Integrate into Luxury Watches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Profitability</td>
<td>-</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Brand Heritage</td>
<td>+</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>Defend Luxury Market</td>
<td>+</td>
<td>-</td>
<td>+</td>
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</table>
Recommendation

Launch a new line of luxury Swatch watches that combine popular smart features with style.
Implementation
The Power of Looking Smart

“Watches remain a piece of jewelry”
Nick Hayek
Key Success Factors

- Style
- Variety
- Challenger approach
- New customers
Implementation

Short (Year 1)
- Develop watches
- Secure vendor to develop app

Medium (Year 2)
- Launch watches & promotion campaign

Long Term (Year 3)
- R&D / Launch new features
What looking smart looks like?

Watch Features

- Stylish / no display
- Quick pay
- Activity monitor
- Long battery life
- Pair with smartphone
Target Market: Tissot X

- Male
- Age: 35+
- Income: $100,000+
- Occupation: Business Professionals
- Interests: Travel
Consumer Life Cycle

Fitbit

Tissot

Tissot

X
A Smart Ad Campaign

Beautiful Clocks in major airports: NYC, London, Toronto

“It will take you another 1000 steps to get to your gate and about 3 seconds to pay for your latte before you board.”
A Smart Ad Campaign

Picture a Tissot X customer in the herd of smartwatch and Fitbit customers.

- Print & Online: travel, GQ, Economist
Talent Plan

- Third party app developer
- Special team
  - Luxury
  - Smart technology
  - Technical and marketing
## Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Product &amp; App Development</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$5 Million</td>
<td>Promotional Campaign</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$20</td>
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Funded by cash.
What does great look like?

Incremental revenue and profitability

- Revenue
- Profit

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
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<tbody>
<tr>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5,000,000</td>
<td>$10,000,000</td>
<td>$15,000,000</td>
<td>$20,000,000</td>
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<tr>
<td>$25,000,000</td>
<td>$30,000,000</td>
<td>$35,000,000</td>
<td>$40,000,000</td>
<td></td>
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Risks and Mitigations
# Risks

- Competitors copy
- New technology threat
- Currency conditions

# Probability

- Med
- Med
- Low

# Mitigation

- Leverage brand loyalty
- Acquire/partner
- Financial hedging
Objectives

Increase Sales
- Look smart campaign

Improve Profitability
- Added smart feature

Maintain Brand Heritage
- Integrity of watch remains

Defend Market Share in Luxury Watch Segment
- Style+technology
Questions
Contingency Plan

- Don’t go head-to-head with Apple
- Stay on Brand
  - Focus on Luxury and Style