



Apple Watch – A Threat or Opportunity for the Swatch?

Presenting to: Nick Hayek, Owner and CEO of Swatch Group Ltd.

Montreal, January 2, 2016

Driving Question



How to face the new and disruptive smartwatch technology?

Keeping a strong brand alive

Compete against Apple as a major player

Seeking growth in a fast developing market

Solution Preview



Strategy Recommendation

- 1 M&A with a fitness tracker company and position smartwatch in advanced mass market

Implementation Actions

- 2 M&A with Garmin
Develop TecWATCH
Market product in US market

Target Outcome

- 3 Sales of \$231 million dollar during the first five years after launch

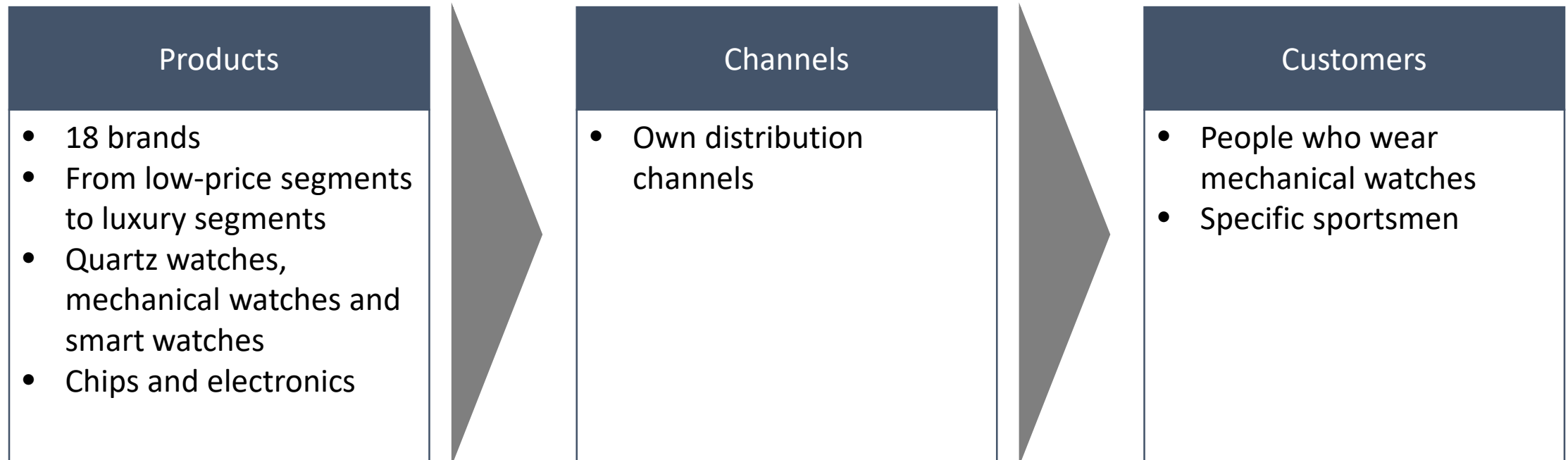
Agenda



Consulting

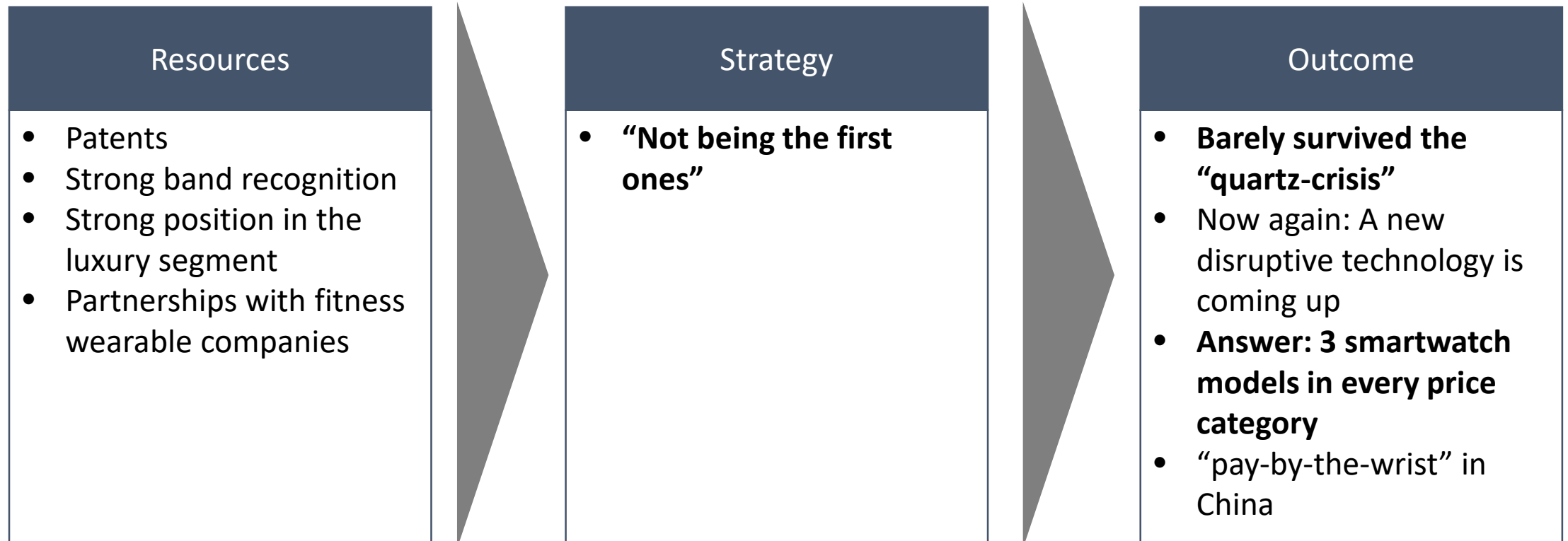
- Analysis of Status Quo
- Strategy Development
- Implementation Actions
- Future Outlook
- Conclusion

Swatch at a glance



Strong brand recognition as an outstanding Swiss watch maker

Swatch's way to the current situation



Swatch should avoid a similar situation as in the “quartz-crisis”

What do customers think about smartwatches?



Customer demands

- Don't see the watch types as competitors
- **Only 27% of luxury watch consumers preferred Apple Watch**
- Only 15% see it as a potential substitute
- Want to wear a watch all day
- Glance at their smartphone instead of their wristwatches
- **Just 16% of US individuals aged 18 and older own a wearable device**

Major obstacles for smart watches

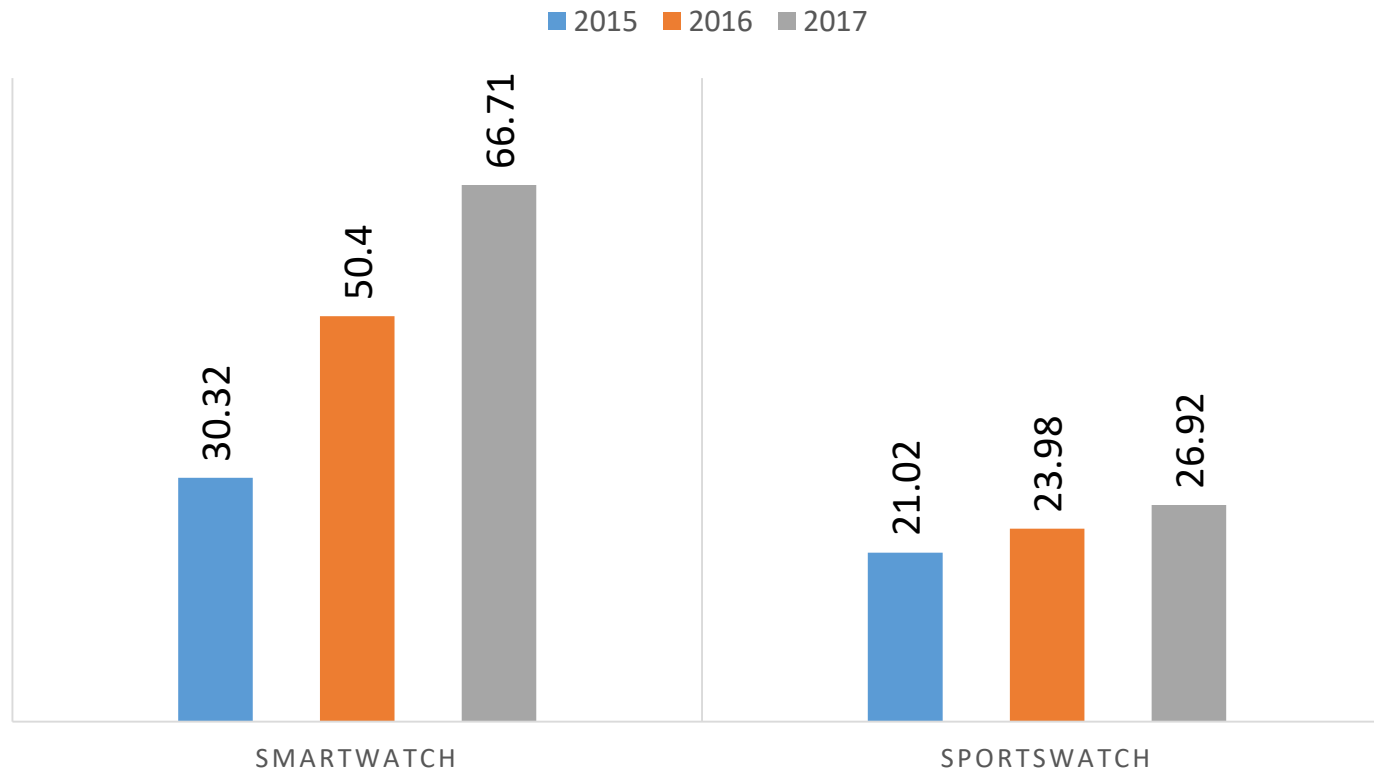
- Battery life
- Need of a smartphone to pair with
- Small screen size
- **Number one obstacle: Price**
- **Design is also important**

The smart watch market as growing but young market



Consulting

MARKET GROWTH (%)



Facts

- Wrist-Market:
 - Timekeeping
 - Activity trackers
 - Smartwatches
- Starts in the 1990s
- Sales: 18 mio. Units in 2015
- **Smart watches have taken the lead over fitness trackers**
- Both categories merge
- **Early adopter phase**
- **Apple as the biggest competitor**
- **Chance of creating awareness**

Apple as a strong and disruptive competitor



Figures

- **Brand value: US \$170 bn.**
- Market capitalization: US \$ 659 bn.
- Revenues: US \$234 bn.
- **Just 4.31% of net sales on other products including iPod, Watch, etc. → US \$10 bn.**

Strategy

- **Creating an ecosystem**
- Creating the best, most innovative products on earth

AppleWatch

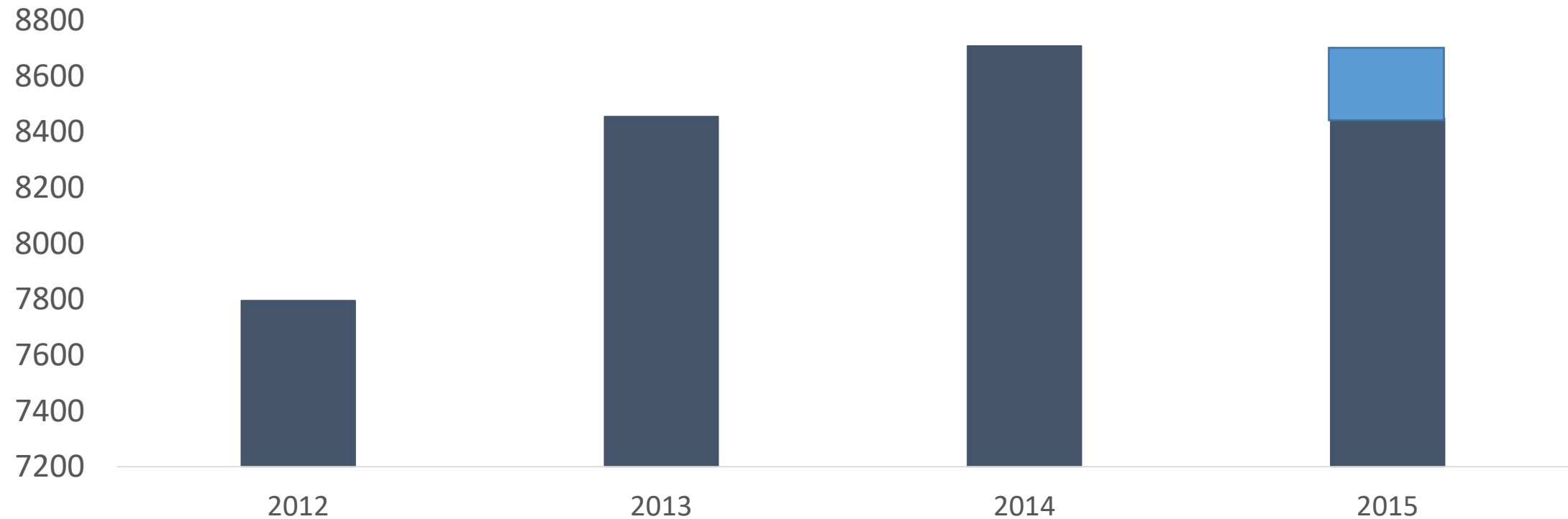
- **Delivering 12 mill. Units**
- Three types
 - Watch sport
 - Watch
 - Watch edition
- **Prices: US \$299 – US \$17,000**
- **Price cutting of the watch**
- **No specific sales numbers from Apple itself**

Net Sales are Highly Dependent on Currency Fluctuations due to Strong Swiss Franc

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Net Sales (in CHF million)

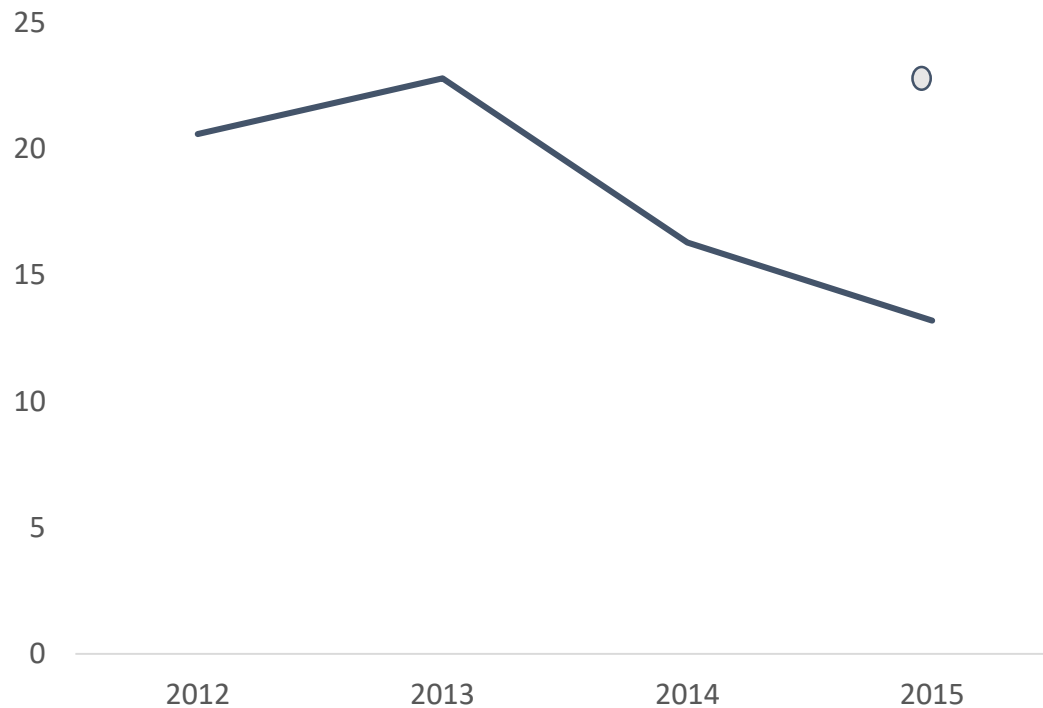


Keep influence of currency fluctuation in mind when thinking about further actions

Declining Profit Margins needs to be improved



Operating Profit Margin (in percent)



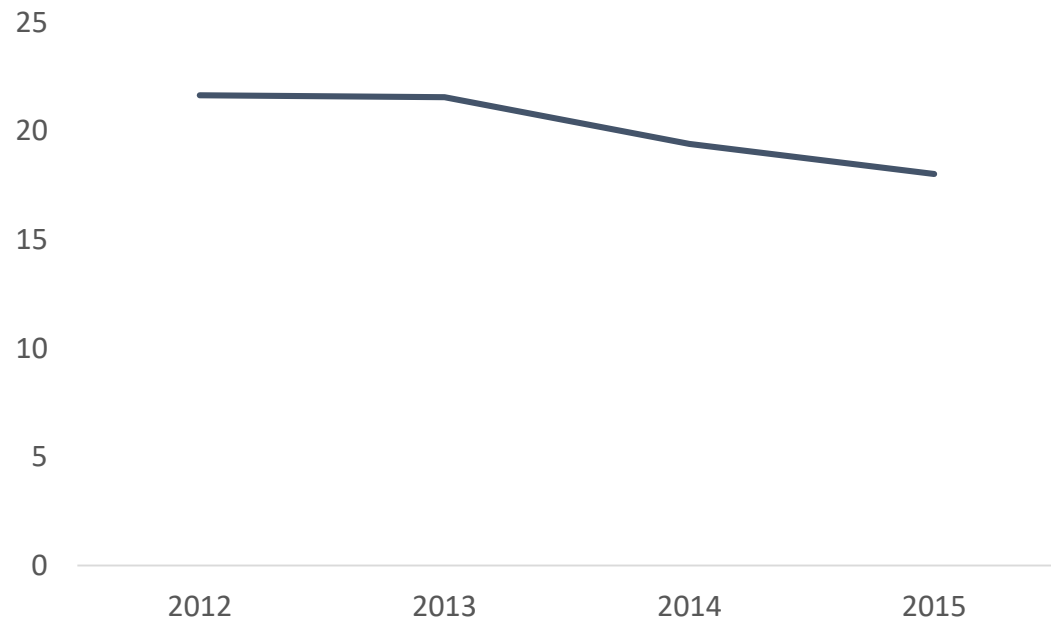
Apple

- Net sales of \$ 234 billion with profits of \$ 53.2 billion

Strong financial basis for investments



(in percent)



Apple

- Market capitalization of \$ 659 billion



Hard to directly compete with Apple in terms of financial power.

It is important to enter the smartwatch market



Advantages

- **Disruptive technology can change market**
- **Small market with strong growth**
- No substitute for luxury watches
- Existing products of Swatch
- Existing know-how

Disadvantages

- **Fierce competition**
- Trackable devices (by companies or governmental institutions)



Don't miss the product development and disruptive trend

Smartwatch is a combination of aspects of existing technologies



→ Important to gain knowledge in field of fitness tracker

Collaboration

M&A

In-house Development

Collaboration with company



Definition

- Collaborate with existing fitness tracker company
- Share know-how and development of smartwatches

Advantages

- **Splitting costs and risks of market entry**
- Generating know-how

Disadvantages

- **Dependent on third parties**
- Loss of know-how

M&A of company



Definition

- Acquire existing company
- Spin-off for smartwatches

Advantages

- **Full control of company**
- Generating know-how
- Use of existing processes and production facilities

Disadvantages

- High acquisition costs

In-house development



Definition	<ul style="list-style-type: none">• Develop smartwatches at Swatch
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Advantages
<ul style="list-style-type: none">• know-how remains at Swatch• Not dependent on third parties for development

Disadvantages
<ul style="list-style-type: none">• Long development time• Disruptive technology<ul style="list-style-type: none">→ not possible to develop in existing network• Not enough knowledge in field of fitness tracker

Critical Success Factors



Criteria	Collaboration	M&A	In-house Development
Time to gain knowledge			
Control of development			
Dependency of third parties			
Value Network			

Critical Success Factors

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Positioning of Smartwatch



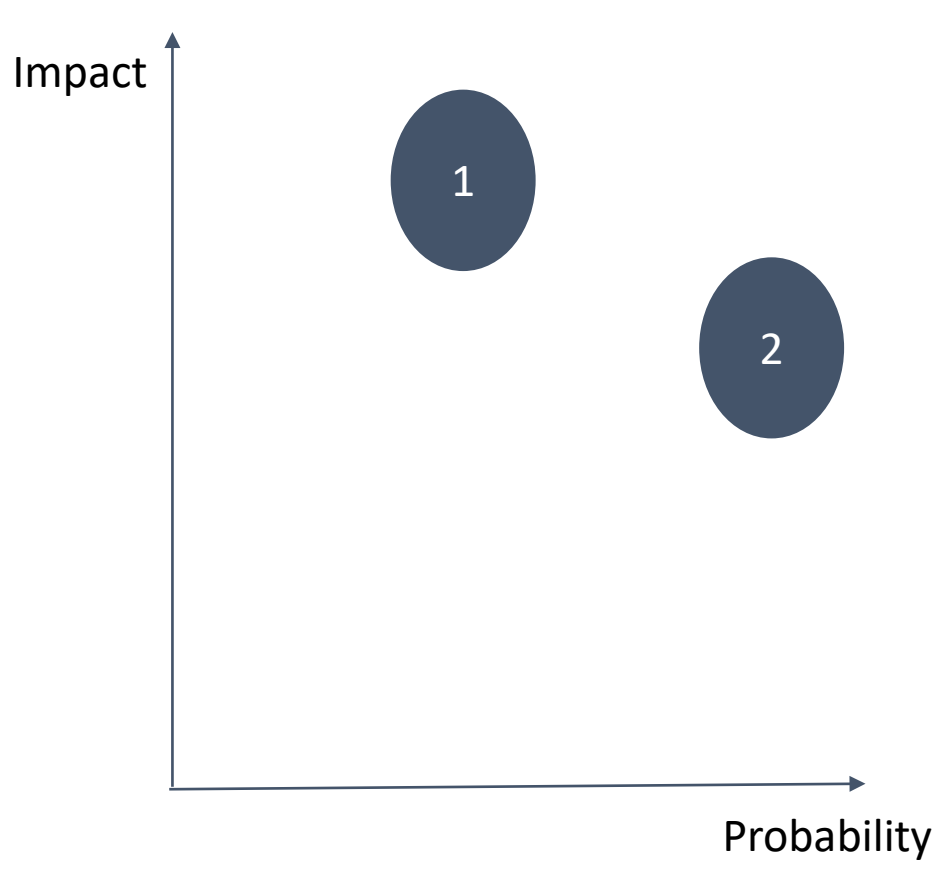
Criteria	Advanced Mass Market	Advanced Luxury Market
Price		
Market growth		
Acceptance		
Associated Risks		

Positioning of Smartwatch



Criteria	Advanced Mass Market	Advanced Luxury Market
Price		
Market growth		
Acceptance		
Associated Risks		

Contingencies



1. Declining market acceptance

→ small smartwatch market

→ main sales with luxury watches

2. Cannibalization

→ creating of a new brand

→ position in mass market

Strategy in an Nutshell



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M&A with a fitness tracker company

Position smartwatch in advanced mass market

Acquire Garmin to obtain technology advantages



Criteria	Garmin	FitBit	Jawbone	Nike
Required Technology	Green	Yellow	Green	Green
Associated Costs	Yellow	Green	Yellow	Red
Existing Collaboration	Green	Yellow	Yellow	Yellow
Brand Awareness	Green	Yellow	Green	Green



With Garmin you combine your strength in watch technology and theirs in fitness devices

Simple Watch Design to enable Customers to deal with it easily



TecWATCH

Changeable silica wristbands

Storage to keep GPS data

8 Gb

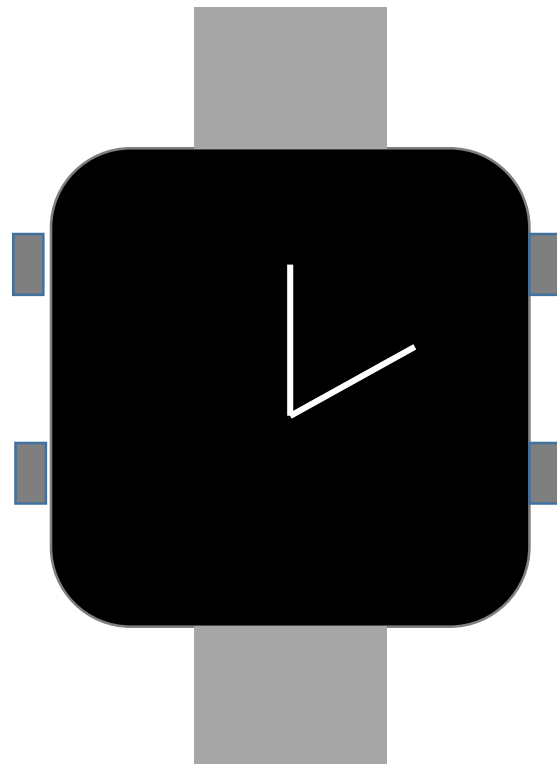
Two Sizes

4.2" 4.6"



Retail price: \$180

\$ 200



Hot Buttons for instant access to pre-determined apps



With Garmin you combine your strength in watch technology and theirs in fitness devices

Using Android as a platform sets Apple and iOS under pressure



Key Facts

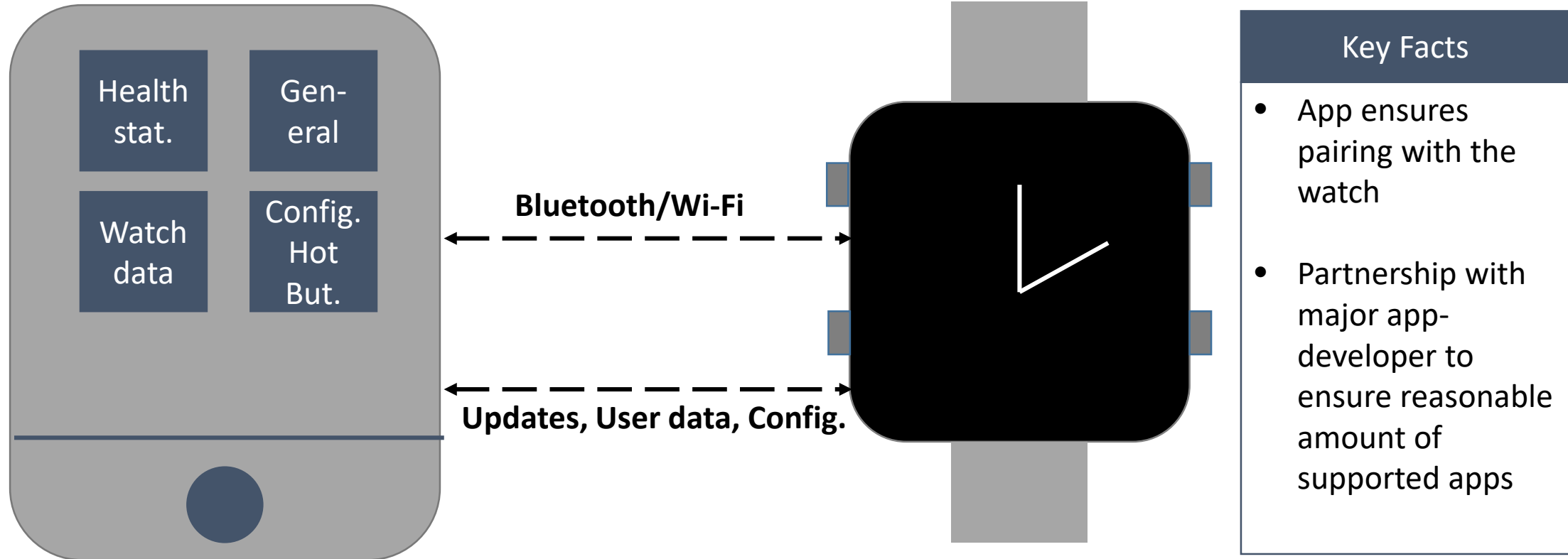
- Android provides open source platform, enabling many programmers developing Apps
- Apple App store is highly regulated by Apple
- No additional developer costs for Android platform

Criteria	iOS	Android
Open Source platform	Red circle	Green circle
Associated Costs	Yellow circle	Green circle
Regulation for AppStore/PlayStore	Red circle	Green circle



Android has an incentive to compete against Apple too; leverage this incentive for your advantage

Making sure to have all services paired with an Android phone



Success highly depended on the eco-system to be established

Market your product properly to your target segment



Market initiatives for US market first

- Product placement with Individual sports persons (tennis, snowboarding, etc.)
- Collaboration with Gyms
- Convince people of watches' convenience



Classic design mixed with innovative technology



Implementation Roadmap

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Q1 2017 Q2 2017 Q3 2017 Q4 2017 Q1 2018 Q2 2018

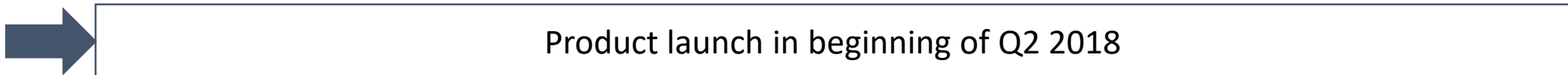
Acquire Garmin

- Due Diligence
- Takeover
- Integration

Develop TecWATCH

- Design (hardware)
- Design (software)
- Launch

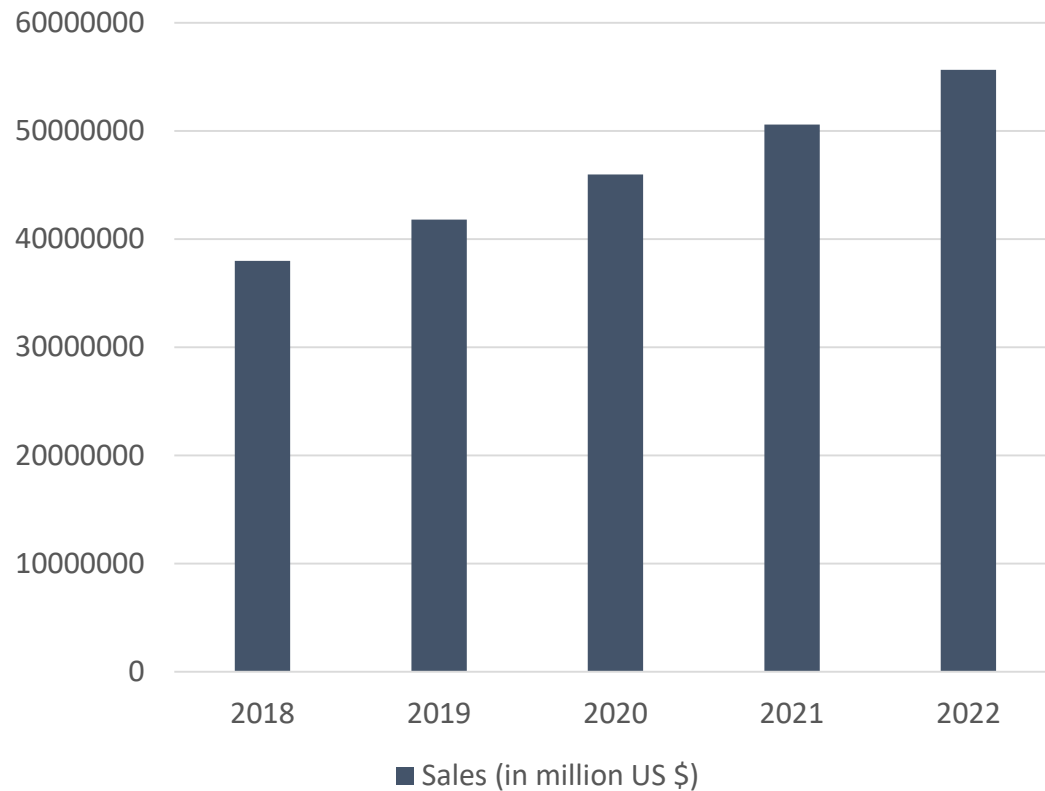
Marketing Campaign



Future outlook



Sales (in million US \$)



Assumptions

- Sold smartwatches in 2015: 18m
- Our sales starts with 1m per model
- Around 60% market growth
→ Sales increases at 10% yearly

Future outlook



Initial investments:

- Acquisition of Garmin: \$ 6 billion
- Integration of Garmin: \$ 7 billion
- Development of watch: \$ 20 million
- App development: \$ 15 million
- Marketing campaign: \$ 10 million

Total \$ 13.45 billion

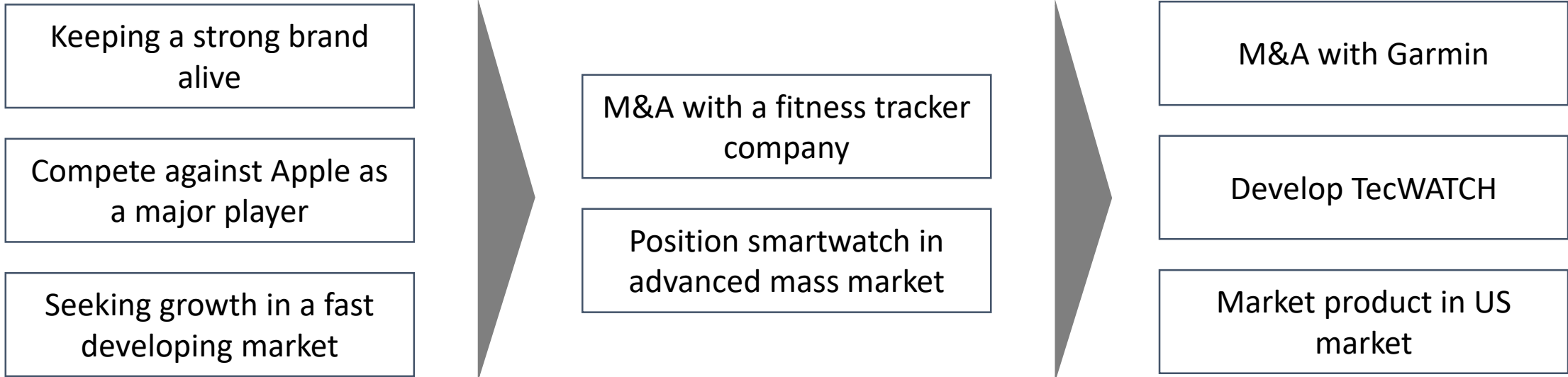
Assumptions:

- Around 10% of Apples market cap

Conclusion



How to face the new and disruptive smartwatch technology?



Monday Morning Actions



1 Seeking contacts to banks and consultants

2 Setting up a new project team for TecWATCH

3 Setting up an integration team