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Executive Summary

History
In 1970s, the Swiss watch making industry faced a great challenge. In 1983, Nicolas G. Hayek directed to merge ASSUAGE and SSIH, and inherited superior brands owned by them. At the same year, the Swatch Group released its first swatch watches, shocked the world. From then on, the Swatch Group has kept the leading position in watch manufacture industry.

Industry Analysis
Nowadays, the watch industry gradually combines the elements of luxury and fashion. The development of the watch industry brought globalization as well as some problems and risks. The watch industry has experienced many challenges. However, the motivation of innovation spurred the industry steps forward. The future trend of the watch industry include to be “greener”, to base on e-commerce and to pursue the theme of luxury.

Company analysis & SWOT
As the world’s largest watch manufacturer, Swatch Group occupies the number one position in the industry. It diversified its revenue to improve outputs. Besides, the strong financial performance and the production capability are also its strengths. However, its employee productivity and the assets turnover make the company lose part of its profits. The good opportunities of which are the cooperation with Tourneau and the reposition of Omega, which is the luxury brand under Swatch Group. Threats are the increasingly cost of materials to manufacture watches and emerging counterfeiting goods.

International Expansion
During the 25 years, the Swatch Group had already expanded its sales market all around the world. It located hundreds of manufacturing centers mainly in Switzerland, German, France,
Italy, the U.S., Virgin Islands, Thailand, Malaysia and China. Its distributors are dispersed in Europe, Americas, Oceania, Far East, Middle East and Africa. In 2007, more than half of the Swatch Group’s entire sales came from Europe, sales in Asia and the U.S. account for 35% and 11% separately; other sales come from Oceania and Africa.

**Competitor**

In the watch market, there are many competitors for the Swatch Group, including the Rolex Group, the Richemont Group, the LVMH Group, the Citizen Group, the Seiko Group, and the Desco Group. However, as the biggest watch manufacturer around the world, the Swatch group has a comparative advantage over the competitors.

**Recommendation**

In the short term, three recommendations are available. Firstly, explore new materials to make up watches. Secondly, react to different preference of consumers from different countries positively. Thirdly, take actions to reduce counterfeit goods. In the long run, the Swatch Group should improve its operation management and concentrate on researching and innovation. Joint venture is a good way to vary marketing strategy to adapt to the current globalization. Furthermore, choosing a variety of products or marketing methods in accord with different countries and assembling multiple advantages within one brand are suggested.

**Conclusion**

The Swatch Group is a successful international corporation with a lot of comparative and competitive advantages. If the company put the recommendations mentioned above into practice, and keep its dominancy as well, marvelous success will be achieved in the future.
Introduction

The Swatch Group, known as the largest finished watch manufacturer and distributor in the world, locates its headquartered in Berne, Switzerland. This group was founded through combination of two large company suffering crisis at that time, ASSUAG and SSIH, by Nicolas G. Hayek in 1983. The establishment of the Swatch Group and its release of first swatch watch were recognized as a recovery of Swiss watch making industry in 1970s.\(^1\)

Currently, the Swatch Group owns 19 watch brands, a part of which are old brand names carried from the former two companies. Its categories rang from luxury ones to basic ones, in order to meet different preference of consumers with different consumption ability. In recent years, the Swatch Group has conducted its business in more than 160 countries and regions, occupying almost a quarter of the total watch sales across the world.

In the future, the Swatch group is bound to keep its leading position by taking advantages of its strong brand names, excellent reputation and continuously innovation in both producing and marketing.

History

The Swatch Group Ltd. was founded by Nicolas G. Hayek, who is the current president of the group, through the merger of two Swiss watch manufacturers being stuck in financial troubles, ASUAG and SSIH, in 1983.

SSIH was a merger of Tissot and Omega founded in 1930, while ASUAG had been founded a year later with the Rado and Longines brand. At the time, both SSIH and ASUAG

\(^1\) Wikipedia.org
possessed substantial share in the watch market with a great many of superior watch brands in Swiss. However, in the late 1970s, the Swiss watch industry sank into an unprecedented crisis. At that time, Switzerland's watch production output in the global market in the ratio dropped from 43% to 15% sharply.² SSIH and ASUAGE had to face bankrupt due to this recession and intense competition from Asian watch industry with high technologies. Reviving the Swiss watch industry had become the urgent task.

After more than four years reconstructing, Nicolas G. Hayek facilitated these two companies’ incorporation finally in the year of 1983, and name the new company as Swiss Corporation for Microelectronics and Watch making Industries Ltd., abbreviated as SMH. After numerous experiments and improvements, craftsman in the Swatch Group had invented a new kind of watch, making plastic wrist watches possible. At the same year, SMH released its first Swatch watch, shocking the world. Tons of young had been attracted. Wrist watched had evolved into a symbol of fashion.

Since then the Swiss watch making industry had recovered. From then on, SMH had grown into a well-established group possessing a substantial share of the global watch market. In order to adapt to the trend of globalization and make the company’s name well-known, SMH changed its name to the Swatch Group in 1998, because of the extraordinary success of its Swatch brand. From then on, the Swatch Group has expanded into a great many of foreign countries.

In the 1990s, Swatch concentrated on the market domestically; meanwhile, it began to set its sight on countries and regions overseas. In 1997, Swatch was listed on the Berne Stock
Exchange while it had already been listed on the SWX Swiss Stock Exchange years ago. In 1998, Swatch introduced its "Swatch Internet Time" which was intended to unify a global time system.

In 2004, Swatch released its first smart watch, the Paparazzi, took advantages of SPOT technology offered by Microsoft Corporation. In the same year, the Swatch Group diversified its products and sales in Asia. China then was viewed as the most important and potential market by the Swatch Group.

In recent years, Swatch had developed rapidly, acquiring a number of groups or business activities, entering joint venture agreement with corporations from foreign countries, and enhancing its ability of R&D, production and distribution.

Today, the Swatch Group is an international corporation owning nineteen watch brands covering all price categories. The excellent design and skilled producing attracts a large number of consumers, make the group access to the much more diversity global market, and enable it possess the leading position in the worldwide watch industry.

**Industry analysis**

In the early 1970s, the cost-effective and high-precision quartz watches from Japan and Hong Kong swept through the global watch market. Many prominent machinery watch factories was force to close and Switzerland watch industry was greatly impacted, which seemed to be the biggest disaster in the history of watch market.

However, nowadays, Japan and Hong Kong manufacturers can no longer pose a threat to the Swatch Association. Compared to the watches made in Japan or Hong Kong, Consumer can
accept a little bit higher price of the Swiss watches. Even if the Japanese labor costs to zero, the Switzerland watches also have market.

At present, the luxury watches are at the best state over the years. According to the data, the Swiss watch exports of parts and components increased 14.6 percent, and the sum of exports of the first five months in 2008 increased 15.3 percent compared with the same period last year. As the official statistics of the Swiss watch industry federation shows, among the exports of watches in May, the high-end watches account for 40% of the total value. In addition, in market aspect, the individual regional market has grown rapidly. There is a growth of 72.1 percent in Singapore, 54.7 percent in the United Arab Emirates, 38.1 percent in China, 23.1 percent in Hong Kong, and 28.4 percent in France. With a growth of 1.1 percent, the United States is fundamental to maintain the status quo. However, decreasing exports also existed, such as Japan who fell by 5%.

Global Issues

Merger and acquisition become the latest popularity in watch industry worldwide. Although some companies suffer losses, it originally stimulates the whole industry move forward.

In the era of globalization, to obtain the comparative advantage, enterprises must carry out diversified management. Besides design and fashion, the internal production process also has to meet the stringent satisfaction of consumers. This is the main reason why so many fashion brands are deliberated to combine with professional watch manufacturers.

So far, several long-history professional watch manufacturers have joined in fashion groups. For instance, Vacheron, Constatin, Jager Lecoultner, and A. Lauge&Sohne joined the

\(^{3}\text{http://www.bizteller.cn} \)
Richemont Group, and Zenith joined the LVMH Group⁴. In order to keep pace with the trend of mechanical watches, the fashion groups want to strengthen the ability of watch making.

For many non-independent fashion groups, there is another form of combination which is alliance. In this way, HÉRMES directly bought a share of 25% of the plant Vaucher Manufacture Fleurier and became its largest shareholder. Compared to buy the whole watch manufactures, the fashion group with the professional value of producing watches can relatively save a large amount of costs.

To march in the watch industry, the most efficient and safest way for the fashion groups is to order the movements from the watch manufactures. Recently, CHANEL has taken such an action on the watch maker Audemars Piguet. As a result, the cooperation not only enhances the position of Chanel watches, but also allows more customers realize the professional brand of Audemars Piguet.

In general, the growing globalization of watch industry is along with other industries. There is no clear boundary among fashion industry, watch industry or luxury industry, and the global market is available for every company who has the ability to compete.

**Risk**

**Firstly, there is the financing risk of investment.** Watch related companies are actively expanding retail network, but it is worth noting the high requirements of the cash flows. If not to support the development of the chain scale with the cash structure properly, the rapid pace of development is likely threat to the company's financial stability.

The special nature of the watch retail is that its cash flow has the characteristics of large input,

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⁴ [http://www.timesquare.ws](http://www.timesquare.ws)
but slow recovery. If a watch retail company opens a new store, in addition to the large amount of rental and decoration expense, it needs to pay the full amount of procurement at one time, which makes the start-up costs considerable large. Although the gross margin in high-end watches is relatively high, it often needs longer asset turnover period. It is known that the department stores and supermarkets are in the asset turnover ratio of about 7 times, but watch retail companies are only at the rate of 1 times which is a relatively slow cash return.  

**Secondly, ordinary watches are leaved in the cold.** Watches are convenient for us to accurately grasp the time. This role used to be very popular in daily life. However, with many high-tech electronic products available, such as mobile phones, Mp3, Mp4, and so on, which all has the characteristic of displaying time. The ordinary watches will gradually be leave in the cold.

**Future trend**

**Green concept becomes the latest trend in the watch market,** especially in Europe in which the awareness of environmental protection generally raises in consumers’ mind. The E.U. has implemented a series of environmental directives about watches, such as the restriction of mercury-containing batteries, and the limitation of the nickel materials use.

With the increasing application of information technology, **electronic commerce has become a major watch and clock industry trends.** More and more companies have set up websites, diversifying their distribution approaches. For manufacturers and exporters, the Internet is becoming a basic mean to support the marketing activities. Setting up a website to introduce

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and promote products, the company can strengthen its business, such as connect with customers, exchange data, send and receive orders and arrange logistics services\(^6\).

Materials used to make watches can be divided into 5 categories: stainless steel, precious metals, two-color gold, other metals and other materials. In recent years, we can see a new trend. That is the jewelry watches never be popped back. With the increasing creative ideas focused on jewelry brands, as well as consumer’s awareness of the aesthetic changes, a different theme emphasized on the characteristics of jewelry watches is quietly raising.

The high-end watch industry and the luxury goods industry are gradually infiltrating into each other. Moreover, the luxury group has a natural advantage over the other industry if they want to march into the high-end watch industry. Of course, in the process of mutual penetration, those two industries mainly target for high-end watches and luxury brands. So, as some industry experts predicted, some acquisition and merger actions are on the way\(^7\).

**Company Analysis**

**Current Profile**

As one of the largest watch makers in the world, Swatch Group is doing very well in many aspects. It not only produces almost all of the necessary components of the 19 brands that it owns, but also the components other manufacturers need. It also takes charge of its own products distribution.

Since founded in 1983, this company has become a strong and diversified titan in the watch


\(^7\) [space.pconline.com.cn](http://space.pconline.com.cn)
Swatch Group

Industry, enhancing the position of Swatch Group in this industry. Today, Swatch Group has produced watches from the cheap price to high price. The customers it faces are coming from different backgrounds and social status. Nowadays, Swatch Group put many efforts on the development and the research of high technology. It is able to keep its leading position in the watch market, because it is good at manufacturing, material, and design. What’s more, Swatch Group is also responsible of the timing in many international games, including the Olympic. The mission statement of Swatch Group is making the world’s best watches and catering for the widest customer demands.\(^8\)

**SWOT Analysis**

Swatch is one of the most competitive and largest watch makers of all over the world. It is known for the high technology of making watches. It is employing more than 20,000 workers, and sells its products to more than 50 countries. However, the price of the raw material of making watches is rising continuously, which heavily affects the cost of production, so that the company will not gain as much of profit as it gained before.

**Strengths**

Swatch Group enjoys a **strong brand reputation and a prominent market position**. It is a huge and successful company which owns nearly 20 world famous watch brands, such as Omega, Rado, Tissot, Swatch, Longines, Tinffany & Co., ck watch & Jewelry, Certina, Blancpain, Jaquete Droz, Leon Hatot, Union Glashutte, balmain, Mido, Hamilton, Flik Flak, Endura, Tourbillon. All of the world famous brands owned by Swatch Group enable this

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\(^8\)Swatchgroup.com
company to occupy the world’s leading position of all its competitors. Among all these impressive brands, each of them targets its consumer segment. For example, Brequet is the number one of the world’s luxury watch brands. And next to Cartier and Rolex, Omega can be counted as the world’s third largest brands. Besides, Swatch, due to its casual, fashionable and cool design, is focusing on the youth segment. What is more, the Flik Flak, which has a very cute and adorable design, never fail to fascinate the kids’ eyes. From men to women, young to old, everyone can enjoy the joy brought by Swatch Group. It is why the Swatch Group can have so prominent a reputation and so large a market share. Moreover, Swatch Group is good at making watch components and electronic components, and then provides them to the third party.

Unlike many other companies, **Swatch Group has a good way to fully use its revenue**, which is to diversify its revenue to several markets, such as 23.6% of total revenues are invested in the jewelry production (2006), 66.3% to watch production (2006), 10.1% to electronic system, and some of them to watch components. This diversity of revenue use enables Swatch Group to have a more flexible way to face challenges and has enough cash to develop when opportunities come.

Due to its **strong financial performance**, Swatch Group is capable to strengthen its leading market position. The operation margins and the net profit were 16.6% and 13.8% during the period from 2002 to 2006, which is largely higher than the industry average which is 11.4%. In the fiscal tear of 2006, the total revenue of which is far more larger than that of Citizen Watch Co., and Seiko Corporation which are Swatch Group’s two major competitors.
Weaknesses

Compare to its competitors, **Swatch Group’s revenue per employee is less**. In the year 2006, the revenue per employee is $0.2 million, and at the same time, the revenue per employee of its competitors Seiko is $0.3 million. No mention the Rhythm Co. which has revenue per employee is also $0.3 million. The low revenue per employee indicates that employees are relatively less efficient than its competitors. Although Swatch Group has large and competitive total revenue, it has to work on the productivity of its employees. The large-scale operation can help Swatch Group being more productive and efficient.

One of the company’s major weaknesses is its **low assets turnover ratio**. And this bad situation lasts for quite a long time. Its turnover ratio in the fiscal year of 2006 is 0.8%, even lower than the industry average which is 1.3%. And it is far lower than its competitor Seiko, the asset turnover ratio of which is 0.9%, which indicates that the poor management of operation and inability to deploy assets profitably.

Opportunities

One of Swatch Group’s biggest opportunities is the **joint venture with Tourneau**, the world’s largest watch store. The brands that Tourneau sells are such as Gucci, Cartier, Burberry, Coach, Chanel, Dior, and Fendi. And this company is recorded in the Guinness World Record as the largest watch store. Swatch Group steps into the retail store all over the US under the name of Tourneau, and it has open lots of retail stores in some premium and luxury outlet malls in America. And the partnership between the two watch titans is a win-win relationship, because it will increase the revenue of both companies.

The other opportunity for Swatch Group is **the increasing demand for watch and jewelry**
in Asia. According to some authority statistics, the total Swiss watch exports in the year of 2007 are growing between 9% and 10%, among which, the sales of Swatch Group occupied 88%. This surprising number of sales brings Swatch Group consistent revenue. Because of the rising wealth in Asia, the demand for luxury is increasing dramatically during these years. The good reputation and the number one position in this industry enable Swatch Group to gain considerably revenue from this precious opportunity. Besides, the well division of watch and jewelry and the strong performance of the company can stably handle the growing demand of both of the two products.

Omega, one of Swatch Group’s proud brands, is also the largest brand of the company. Omega is the world’s third largest luxury brand right after Cartier and Rolex. In the fiscal year 2006, the sales of Omega occupied 30% of the total watch sales of the company, and 10% of the world’s market share. Swatch Group focus on helping Omega reposition the brand in the market with several crucial management steps. With this action, Omega successfully reposition from the mature and stable image to the urban life and fashionable image. The company has launched a brand new serial of Omega to the market in the year 2007, which is the Co-Axial offering. They estimate that within the next five years, the Omega brand will double its sales by introducing the new mechanical movement.

**Threats**

The continuously growing price of raw material is the biggest threat to Swatch Group, because it needs the plastic and fine steel to make watch. However, these two kinds of material are the most expensive ones at present. The plastic is a petroleum based product, due
to the increasing price of crude oil, the price of plastic is also rise dramatically. Another sad fact is that the price of iron, which is another major material to make watches, will increase by 5% in 2008. As a result, the increasing price of raw material will increase the company’s costs and cut the profitability.

**The customers of Swatch Group are rapidly changeable**, because they are the most fashionable urban citizens whose preferences is unpredictable. In order to attract those customers attention, Swatch Group must have the ability to anticipate and gauge the change of fashion trends and the appetites of its customers. If it fails to react instantaneously to the change, the sales will be greatly affected.

Such as human nature, people love to buy goods with high quality and low price, so that the production of **counterfeit goods** is proliferating in a dramatically high speed. As recorded by Global Congress on Combating Counterfeiting, the counterfeit goods have occupied 9% of the world’s total trade. Gieschen Consultancy which is an organization that tracks the forgery activities all over the world has recorded that there are 5,024 incidents of counterfeiting and piracy activities in the year 2006. The situation is that there are more than 1.41 billion fake goods which worth nearly $4.13 trillion in the year 2004 to January 2006. Those forgery makers are likely to make fake shoes, watches, bags and clothes. In Beijing, China, there is a mall called Xiushui Street, which is a market only selling counterfeiting goods, especially those with famous brand names. No matter Chinese or foreigners, they like to buy fake goods there in a low price. The counterfeiting of branded goods not only result in the lost of brand revenue, but also the reputation of the company is ruined.
Future Profile

In the future, Swatch Group is still focus on manufacturing watches. It will ceaselessly produced new and innovative watches to its producing line. And it will maintain the tradition of the high quality of Swiss watches and the craftsmanship. The development team will keep on working on the research of new watches. The successfully introducing of jewelry to its market enables Swatch Group to become a diversified company. It will still make necessary components of watch to its 19 brands, Swiss watch manufacturers and those watch makers all over the world.

Swatch Group still makes great contribution to the computer components, telecommunications, and medical applications, automotive and electronic industries. In the future, Swatch Group will further strengthen the sales in its luxury brands, such as Brequet and Omega. Due to the successful cooperation with Tourneau, the world’s largest watch retailer, Swatch Group will continue the relationship with Tourneau. And at the same time, Tourneau will provide Swatch Group a better designed environment.

Current Situation & Global Market

For 25 years, the Swatch Group has achieved a miraculous success. Today, the Swatch Group is ranked the number one in the watch making industry all around the world. Except for finished watches, it produces movements and components used to manufacture watches, as well as jewelry and electronic system. Almost all the Swatch-owned watch brands and the entire watch industry in Switzerland are adopting the components offered by Swatch group to manufacture. Swatch distributes its productions via its independent distribution network.
At present, the Swatch Group holds dozens of watch brands covering all kinds of price ranges to meet needs of different consumers with different consume ability.

The spirit of innovation has stimulated the Swatch Group dedicates to release variety of new designed watches with high quality every year. Thus, the company allocates a lot of its funds in research and development; all of these watches are designed with abundant artist imagination and manufactured with high technology.

All the elements stated above enable the corporation expands new market overseas and possess the leading position in the worldwide watch industry, and attracts consumers from all over the world with different preferences and consumption abilities.

**Global market**

By the end of 2007, the corporation had already had about hundreds of manufacturing centers located all over the world, mainly in Switzerland, German, France, Italy, the U.S., Virgin Islands, Thailand, Malaysia and China. Its distributors are dispersed in Europe, Americas, Oceania, Far East, Middle East and Africa; meanwhile, its subsidiaries are located in these regions as well except Africa. The average amount of its employees had reached more than 23,000 worldwide. And the sales of the Swatch Group account for roughly 25% of the entire global watch market. (Exhibit 1)

The Swatch Group divides its organization into several major segments, each of which is a company specializes in its field whose subsidiaries dispersed all around the world. These separated companies cooperate with each other to serve for all the products and global brands

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10 brandinfo.xtpo.cn
11 Moodie Report.com
12 Swatchgroup_2007_annual report
of the Swatch Group, forming an independent mature producing and distribution system.\textsuperscript{13}

The Swatch Group created several retailing approaches to keep close contact with customers and implement its retailing strategies. One of which is called Monobrand Stores, stretching arms into all the fashion shopping centers in the world, including Paris, Milan and London in Europe, New York City in the U.S., and Beijing, Shanghai and Hong Kong in Asia. Another selling entity is known as Tourbillion Boutiques. The corporation has opened more than ten Tourbillion Boutiques in the world to retail famous brand watches, including all the honored brands own by the Swatch Group. The majority of boutiques are in the Europe. In 2007, it opened its largest Tourbillion Boutique in Beijing, China. \textsuperscript{14}

For the purpose of enhancing its standards of retailing capability and brand awareness, the group set up Tech-Airport Company to display its variety brands in airports, known as tax free stores. Until now, the company is available in international airports in France.

Moreover, more and more physical stores of the Swatch Group are entitled by one brand name to sell products with a single brand. These boutiques are managed by the local country other than the Swatch Group.

\textit{Swatch in Switzerland and the Europe}

In its domestic market, the Swatch Group accounted for nearly half share of the watch market as it evolved in the past 25 years (Exhibit2). Actually, watch making industry originates in Switzerland, and keep flourishing up to now. A great many of famous watch brands come from Switzerland, among which Rolex, Cartier, Tudor, Zenith and Piaget are well known.

\textsuperscript{13} [www.swatchgroup.com]
\textsuperscript{14} [www.sofun.com]
Intense competition in the domestic country is a tremendous pressure to the Swatch Group, while it forces Swatch to innovate and try to improve its competitive.

It is noteworthy that most of the top watch brands are in luxury range and Companies own theses brands are always specialist, which narrows their market relatively. Since Swatch expands the range of its products, it can keep its position in different market levels. It is true not only in Switzerland, but also in the entire European regions. More than half of its entire sales profits come from Europe.

Swatch in the United States

The Swatch Group spends less than ten years to conquer the U.S. market, from indeed weak strength to extraordinary influence. Swatch penetrated into the North America market aggressively and opened a specialty store in 5th Avenue in New York in the year of 1996. At the same year, Swatch made a contract with Tourneau, the largest watch store in the world, to establish watch stores in high-grade malls across America. As mentioned before, Swatch was assigned as the official timekeeper of the Atlanta Olympic Games, which was a significant symbol that it began to acquire shares of American watch market.

Over years, it possesses a substantial share of sales in the United States. Its sales in America account for more than 10% of its worldwide sales in 2007. Most of these sales came from some high-end brands.

Though its brand in the higher range still keep leading positions in the U.S. market, sales of some low-end brands owned by Swatch such as Swatch have continuously declined in recent years. At the very beginning, Swatch indicated to young people chasing fashion and colorful

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15 Bbs.yahoo.com
16 Datamonitor.com
items. Nowadays, this consumer group in the U.S. began to pursue high-tech electronic products which equipped with time functions as well. So Swatch loses a fraction of its market of young people in America. As a consequence, Swatch Group has taken actions to improve its products so that it can adapt to the quickly changed country.

**Swatch in Asia**

Asian market is an important strategic market for the Swatch Group across the world. It has taken multiple actions to maintain its position and advantages in this region, especially in China, Japan and India.

In China, the Swatch Group develops its business in different ways. Apart from establish flagship stores in some key cities like Beijing, Shanghai and Hong Kong and retail counters in other cities, the corporation operates a factory to manufacture quartz clock movement, facilitating local market in Zhuhai. Actually, the Swatch Group has dominated Chinese watch market for a very long time. Some of Swatch brands have been listed in the top brands in sales for several years in China. 17Marvelously, roughly half of Chinese imported watches come from the Swatch Group. Omega, owned by the Swatch group is the unique commercial brand displayed in the Tiananmen Square. Chinese government began to open more and more markets for foreign corporations since it joined into the WTO, so more opportunities in China is available to the Swatch Group. 18In recent years, knowledge property and patent protection are main tasks for international corporations to protect their revenue; the Swatch Group is not exception. However, Chinese law lacks terms to protect these kinds of properties of corporations both in domestically and from abroad, which seems to be a huge risk for the

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17 Europa Star.com  
18 Forbes.com
Swatch Group to do business in China.

Japanese watch making industry is well developed; some famous brands such as Seiko and Citizen are the major competitors for the Swatch Group. Usually, some upper-end watches in Japan compete with the lower-end watches manufactured by Swiss corporations, including Swatch. The lower price and high quality of these brands threats Swatch’s performance in the market. Nevertheless, the Group still wins a great market quota by taking advantages of its abundant resources and strong brand name.

India is an emerging market for the Swatch Group, it landed in India in 2000. The advanced communication technology in this country enhances the speed to distribute products, which has made an attractive advantage for the Swatch Group. As a matter of fact, the sales of Swatch watch has already exceeded the gross quantity other foreign watch brands sold. The potential profits in India drive the Swatch Group expand its market here. So the corporation has decided to establish a complete distribution network in India. As reported some time ago, the Swatch Group planned to enter a joint venture in the market. Currently, however, there are merely seven outlets in India, mainly sell Swatch brand; other sales are through plenty of multi-brands watch counters by a local company called Titan. Swatch is a relatively cheap brand in some countries, but in India, the price is considered too high. This challenge has force the Swatch Group to reset its position according to the real market.

**Swatch in Australia**

Actually, Australians is not a luxury consumer group. As Mark Watson, the CEO of Swatch Australia, commented, compared with luxury goods, Australians would rather spend more on

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19 spoonfeedin.blogspot.com
investment, entertainment and property. Even so, along with the changing times, more and more Australians turn to luxury watches. Example is that Omega has achieved a huge success in the years since it landed in Australian market. Furthermore, Australia is the host of many international sport events, which are treated as Swatch’s major audiences in this continent. Swatch has made well connections with them, and become the official timekeeper of these events, helping both the Swatch Group and these events to establish excellent reputation. Sales here accounts for about 2% of its worldwide sales in 2007.

Swatch in Africa

Swatch primarily sells Swatch watch in Africa, and its design and quality have been appealing elements for African, which makes this brand become the most popular watch brand in this zone. Though Swatch has performed its business in Africa, it’s still face plenty of blocks, such as consumers’ preference and relative low consumption capability. So in its entire marketing shares, sales in Africa only seize 1%, which is much smaller than in other zones.

Competitor Analysis

In the watch market World, the major competitors of the Swatch Group include the Rolex Group, the Richemont Group, the LVMH Group, the Citizen Group, the Seiko Group, and the Desco Group.

Rolex Group

Now, the nearly 100-year-old Rolex Group is the Switzerland's second-largest watch

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20 Searchengine.com
Swatch Group has 24 companies, with annual sales of more than 2.0 billion Swiss francs, and an amount of 3700 employees inside. The group only produces the Rolex watches and its brother brand Tudor table which always win the first sales year after year. These two extraordinary value brands make the Rolex Group of Switzerland the largest producer of luxury watches. Nearly 50% of the national annual production of gold has been used for the Rolex watches production.

For those enterprises who want to maintain the status quo in the watch industry, Rolex is the mainstay to resist the wave of mergers. That the Rolex Group has no intention to annex or expand is on behalf of a large part of watch business who are willing to maintain independent and the traditional point of view.

Vendome Group

Vendome Luxury Group is a subsidiary of Richemont which is the of 9th largest business group in Switzerland. It has a lot of luxury brands such as Cartier, Alfred Dunhill, Montblanc, the Portland game, and so on. Since 1988, Vendome Group has acquired three Swiss luxury brand table- Famous, Count, Vacheron Constantin. Then it expanded the business of Cartier from the jewelry field to luxury watches. Thereby, it ranks among the world's largest three producers of clocks and watches, with an annual sale of 1.5 billion Swiss francs.21

Louis Vuitton Moët Hennessy Group

The group LVMH in France is the world's number one luxury group. After bought the three Swiss watch brands -Yubao, luxury, and Ci Nite last year, LVMH Group leapt to the world's fourth largest watch manufacturer immediately. From then on, together with the Switzerland's three Groups - Swatch, Rolex and Vendome, the France located enterprises controlled the

21 Hibaidu.com
world’s luxurious watches a share of 80%.

The newly created departments of jewelry watches in LVMH have begun to take a series of positive measures focused on the production, advertising, and expanding sales through the LVMH group’s worldwide distribution network and the Internet. As the world's leading luxury merchandise manufacturer, LVMH quickly becomes the rival strength to the old hegemonies.

**Fossil Incorporation**

Fossil based in the United States is at the same rank as GUESS and DKNY which mainly operate watches. Watch maker Fossil and the Swatch Company, a subsidiary of Swatch Group, brought the watch industry the fashion element together in the 1980s. Then, the two companies competed intensely both in the European and the United States market.

Fossil is a long-established brand in the United States originated in the 1950s. Its brand implicates the spirit of joy, relax, and nature. In recent years, as the Hip-hop style becomes popular, Fossil targets its products in young people who are attracted by American charming style. In addition, Fossil combines the quality and fun together to create popular watches, and provide them at a reasonable price to consumers.

**Citizen Group**

Citizen, which means to be popular in the world and be loved by people all over the world, is one of the world's most famous watch corporations, with a history of 70 years. As the Citizen always pursues the goal of high-precision, it puts a great deal of human intelligence to develop the radio watches. Through unremitting efforts, they continually introduced a variety...
of radio watches to the market. These high-quality original products established Citizen the leader image in the field of radio watch. In order to win a larger market, Citizen Companies continued their superb and meticulous process, as well as the exquisite appearance and human services.

After the previous period of mergers and acquisitions, it basically formed four separatists in luxury watch market. They are the Rolex Group, the Swatch Group, the Vendome Group, and the LVMH Group. Among them, the three Swiss watch exports accounted for four-fifths of the total exports of luxury watches.

**Recommendation**

*Short-term*

Firstly, the price of raw material is rising rapidly. There are two kinds of raw materials that Swatch Group has to use when producing its products, steel and plastic. The price of plastic is rising rapidly with the price of crude oil, which makes Swatch Group less profitable than before. Moreover, the price of iron is also increasing, and iron is one of the crucial components of steel. Facing the increasing price of tow of its major raw materials, Swatch Group has to find out another new material to replace the iron and plastic. This kind of material should be environmental friendly and low cost. And it will make things better if it is recyclable. It is a good way for the company to be more competitive in the future; environmental friendly is the trend after all.

Secondly, the changing demand of its customers heavily affects the sales of the company.

One of the reasons why Swatch Group has so big a success is that it not only can identify and
define the fashion trends, but also can react instantaneously to the changes of customer demands. The customers of Swatch Group are rapidly changeable, because they are the most fashionable urban citizens whose preferences is unpredictable. In order to attract those customers attention, Swatch Group must have the ability to anticipate and gauge the change of fashion trends and the appetites of its customers. Now it’s the customer service department and the market department that have to work. They should make more surveys either online or in the market to learn what customers like and what is the most up-to-date fashion trend.

Last, counterfeit goods are the devil to the company. Such as human nature, people love to buy goods with high quality and low price, so that the production of counterfeit goods is proliferating in a dramatically high speed. As a result, the branded goods which have the highest brand name and quality are greatly affected by the counterfeit goods. The counterfeiting of branded goods not only result in the lost of brand revenue, but also the reputation of the company is ruined. The best way to reduce the amount of counterfeit goods is to lower the price of its products and invent a brand of watch that has the price which can be competed with the price of counterfeit goods.

Long term

In the long run, if the Swatch Group intends to win future market and consumers, the following recommendations might be useful.

Firstly, the Swatch Group should take positive actions to control producing cost and improve efficiency. While the profits keep increasing every year, the company’s average output per person is in a relatively low level, which is a huge waste of human resource and
reduces growth rate. If the Swatch Group improves its management to operate the producing procedure, it would achieve more profits with less resource.

Secondly, the Swatch Group should **dedicate in researching and innovation** to keep the upgrading replacement rate of its products which can help the group obtain more competitive advantages. Though Swatch claims that its products will update within maximum 6 months, the so-called update concentrate on design. Actually, materials and technology need to update more urgently. In this quickly changed time, innovation is a key element to a company’s growth and development. Swatch has to strengthen the capability and marketing sense of its designers and engineers. If possible, the company could invest more funds in the phase of reaching and development.

Thirdly, **joint venture** is a new trend in today’s global market. When landing on a foreign market, a company can hardly predict all the possible situations or problems. A joint venture partner in the local market may help to improve the corporations sales and reputation while reduce risks. Furthermore, the joint venture could make the Swatch Group’s distribution methods variable.

In addition, the Swatch Group should **pay attention and adapt to the changes of consumer groups with different culture in different countries, opening and developing new markets** constantly is necessary as well. For instance, the average income level in China has grown rapidly, more and more Chinese tends to purchase luxury goods, after realizing this fact, the Swatch Group should export more luxury brands to China, rather than concentrating on some lower range brands. Another example, market in Africa is still less developed, in order to achieve more global shares, the Swatch Group had better make an appropriate plan to
expand the new market. There is no doubt that market performance is the most important factor for a company to win more profits and stable consumers.

What’s more, another recommendation to the Swatch Group is to **diversify orientations of each brand**. Through the group is known as its variety brands aiming at different consumers, the aiming consumer groups of a single brand are narrow. Excessively simplex will make the company lose some potential consumers. For example, a client may prefer a fashion designed watch, just like styles of swatch brand, with high technology, like the feature of its Rado. If the Swatch Group combine advantages of each brand and keep their characteristics at the same time, more consumers will be attracted.

**Conclusion**

In the past 25 years, the Swatch Group has achieved an unbelievable accomplishment in the watch making industry, and grown into the biggest group to manufacture and distribute finished watches and components used in watch making in the world. The high quality of every brand owned by Swatch has helped it to establish a splendid prestige in all the markets it landed. Nevertheless, some risks still threat the Swatch Group’s development. Opened markets in almost every countries and regions offer plenty of opportunities and bring substantial consumers to the group. More and more potential markets are waiting for Swatch to enter, especially some merging countries. Along with the rapid growth of global economy, people’s living level has been enhanced day after day. Some higher range watches has greater accessed to market, at the same time; the basic brands with lower brands will obtain more shares in less developing countries.
The Swatch Group is a successful international corporation with a great many of comparative and competitive advantages. If the company put the recommendations mentioned above into practice, marvelous success will be achieved in the future.

**Methodology**

Before assigning work to each member in our group, we searched for some useful information to inquire an overview of the Swatch Group. Then we get together to list an outlines and divided the work. The majority of our sources come from the Internet, primarily from the Swatch Group’s official website. Some data and graphs are from available profiles offered both online and physical materials in the Stoxen Library. Examples of former students’ case study gave us ideas to organize the structure of content, and offer a paradigm to format the entire paper.
Exhibit 1  All watch brands the Swatch Group own (Source from image.google.com)

Different ranges:

<table>
<thead>
<tr>
<th>Prestige and luxury range</th>
<th>Middle range</th>
<th>High range</th>
<th>Basic range</th>
<th>Private label</th>
</tr>
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<tr>
<td>Breguet</td>
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<td>Longines</td>
<td>Swatch</td>
<td>Endura</td>
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<td>Blancpain</td>
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<td>Rado</td>
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<td>Omega</td>
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</tbody>
</table>

Source: Swatch Group Annual Report 2005

- Exhibit 2 (source from: Swatch-2007-annual-report)
Exhibit 3 (Source from: Swatch-2007-annual report)

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index

Forecasted weekly from 01.07.1996 to 31.12.2007 — adjusted

The Swatch Group Ltd
Swiss Market Index
Bibliography


