

Marketing swatch watch flashcard



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This analysis is based on the theories from the books Essentials of Global Marketing by Seven Hellholes(2008) and Principles of Marketing written by Philip Kettle and Gerry Armstrong(2006). Additional research was conducted throughout the internet. Each chapter involves different theories and relates it to the company. Rather than focusing on a high quantity of theories the report covers the most relevant theories and explains them in detail. First of all, the company will be assessed as an entity. Research has been conducted on their performance over the last five years and their external and internal environment will be considered.

After that an in-depth look into the marketing strategies of the Swatch company will be given. Based on the results and findings recommendations are proposed at the end of the report. 1. 2. Introduction to the company In the sass, Swiss watchmakers had a grim time , because the Japanese watchmakers had captured the European market with cheap watches of a high quality. The difference in accuracy and size between bottom line and top line watches had decreased to a level where a customer did not mind the difference. For that reason, expensive Swiss watches had no extra value anymore.

As a response, in 983, two struggling Swiss companies, SHIH and ASSUAGE, merged and developed a new strategy, in which the focus was placed on the design of the watch. From 1983, the company commenced to manufacture watches out of plastic and composed of only 51 components, instead of the usual 91 parts or more. The CEO of the company, Mr.. Nicolas Hayes, later changed the name of the company into Swatch Group Ltd. The strength of

the company, beside its inexpensiveness, is the wide variety of the products, together with the availability all over the world.

Nowadays, the Swatch Group owns nineteen different watch-brands, together addressing all segments of the watch market. Five specific product sectors can be identified, which are explained below. The primary range, addressed to the highest market niche, is the Prestige and Luxury Range. This range aims at the upper class of the market and specializes in designing and manufacturing with supreme excellence. One famous example of a Swatch Group brand in this range is Omega. The second range, just below the Prestige and Luxury Range, is the High Range. The brands in this range maintain to address a premium market segment.

One example of a brand in this range is Radio. Thirdly, the Middle Range aims, as the name already implies, at the middle segment of the market. One of the brands serving a middle range price segment is Hamilton. The fourth range, the Basic Range, is the range aiming at a market segment that either has less money to spend, or a segment that is highly influenced by fashion and current trends. One of the brands in this range is Swatch, which designs “throwaway” watches for everyone and every possible special occasion. Finally, the Private-Label is a totally different range.

This range aims at third parties demanding a large amount of commonly designed watches. In this label, Endure is the only brand by Swatch Group. 2. 1 Market Since Swatch Group contains 19 separate watch-manufacturing brands, together producing watches of all price categories for all segments in society, the market in which they operate is huge. Especially, when taking

into consideration that the activities of the company are geographically dispersed over almost a hundred countries all over the world, Swatch Group can reach practically every person around the globe with a suitable product.

Together with two other Swiss watch manufacturers, Role and Richmond, Swatch Group represents the largest share in the global watch market and its sales are still growing in all its markets around the world. Therefore, it can be concluded that Swatch Group has a leadership position in its segment.

Performance analysis The first impression of the company is very positive due to the performance over the past five years. The graph in figure 1 of the appendix is a reflection of the stock value of Swatch Group Ltd., on the Swiss stock exchange Virtue-X, over the past 5 years.

Swatch Group has suffered a huge fall of the value of the stock around the beginning of 2009. However, over the past 5 years, Swatch Group has steadily grown. A more extended analysis of the performance of the company can be conducted by looking at the annual reports, published on the website of the company, starting with the annual report of 2005. To analyse the performance, the change in net sales is a significant factor. In combination, the net income in relation to the net sales is a good implication of the profitability of the company.

In 2005, as shown in the chart, the value of the stock grew slightly from around 175 CHF (Swiss Francs) to 200 CHF. This is, looking at the financial statement in the financial report halfway 2005, very well explainable. The net sales grew with an amount of 5.5% in relation to the net sales halfway 2004, mainly due to the increased demand for watches in the upper price

bracket. Additionally, Swatch Group seems to have overcome the previous-year decline, which was primarily caused by high amounts of watches in the inventory of third parties.

The percentage of net income, related to the net sales, are 13.5%, against 11.7% in the previous year. Altogether, 2005 has been a steady, profitable year for the company. In 2006, there is a further increase of the stock value to 270 CHF, with a downfall in the middle of the year. The half-year report indicates a growth of 13.1% in net sales. More importantly, the company achieved to attain a net income, related to the net sales, of 14.7%, which is almost 1.5%-point higher than the year before.

The downfall of the stock value in the middle of the year can be dedicated to the gradual closure of production facilities in the Far East earlier that year. However, this issue affected the profitable situation of Swatch Group only marginally since the company, overall, achieved a significant growth in 2006. The 2007 chart shows that the steady growth is continued in the first three quarters of the year, but where the last quarter shows the start of a bigger downfall in the following period. Indeed, in the financial statement of the first half of the year, there is an even bigger growth in the net sales of 16.%, and more importantly an even higher profit margin of 17.7%. This growth can be dedicated to an increased market share, due to the opening of additional shops all over the world. The reasons for the downfall in the second half of the year are assumed to be the same as in 2008. In 2008, the value of the stock declined from a high amount of 280 CHF to a low of 125 CHF. A reason for this is that the net sales did continue to grow this year, but on a far smaller speed than the years before. In this year, the net sales grew by ‘
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only 8. %, which may have been below expectations of Swatch shareholders, since the profitable, previous years have raised expectations. Furthermore, the net income of the company decreased significantly, which made it a percentage of 14. 8% of the net sales, against 17. 7% halfway 2007.

Furthermore, sales decreased in the Electronic Systems segments due to a trend towards cheaper cell-phones and a decline of demand in the car industry. Altogether, Swatch Group did still make progression in its market share over 2008, but at the expense of a lower profit margin, which makes the situation less positive than in the previous years.

In 2009 , the chart of the stock exchange obviously shows that Swatch Group has overcome its difficulties and has attained to raise the value of the stock from 125 CHF to 295 CHF, while the value is still projected to be growing in the coming period. However, as is calculated in the financial statement, net sales have declined by 16. 7% and the net income as a percentage of the net sales decreased to 12. %. In 2009, the world economy was in a serious financial crisis and Swatch Group clearly suffers from this.

The company faced a drop in demand and a decline in the customer confidence worldwide. However, the reason that the stock value did not decrease might be that the company seems to be more resistant to the crisis than the rest of the market. This resistance is due to the worldwide presence of the company in all price segments, which make the company less vulnerable to crises than other companies. Therefore, although Swatch Group has suffered under a drop in demand, the many is expected to rise out of the crisis in an even stronger financial position in comparison to its competitors.

2. Product adaptation Focusing on the brand Swatch, the

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products require little modification to adopt to different cultures, since the products are made for a global segment. Swatch produces watches for every season, every age and every special occasion and that is the reason why the product lines of the company are interesting to people all over the world. Due to relatively inexpensive products that are made for every occasion, the life cycle of a Swatch watch is short, which causes a high amount of sales. Consequently, Swatch can permit to keep the profit margin relatively low, since they sell so many products. 3.

Environmental analysis Prior to determining an international marketing plan, a company first needs to consider the environment it operates in. Therefore, companies should conduct an environmental analysis, not only to understand the environment around them, but also within the company . In this part of the report, the focus will be on analyzing Swatch's environment. This process will be divided into two parts: An external and an internal environmental analysis. 3. 1 External environmental analysis The main goal of an external environmental analysis is to better understand the markets that the company, in this case Swatch, operates in.

Many external factors will influence a company's decision making processes and their relevant policy. In regard to a marketing perspective, it is very hard to devise a marketing plan without knowing the market first. Therefore, an analysis was conducted with the help of the so called PEST-analysis and an overview of the various opportunities and threats that Swatch faces is given. 3. 2. PEST-analysts The PEST-analysis consists of four factors: Political, Economical, Social and Technological. It is intended to study a company's macro environment .

The PEST- analysis for Swatch concludes the following: Political First of all, the conclusion can be made that Switzerland (the country where Swatch assembles its products) is a political stable country . This means that Swatch's assembly and production facilities are not prone to any political instabilities and the risk of operating there is relatively low. Swatch is also present in less stable countries, however the continuity of Swatch is not in danger, since none of their vital production facilities are located outside of Switzerland . Apart from this, there is also downside to operating in Switzerland.

Swiss authorities are keeping a vigilant eye on all imports, exports and merchandise in transit. Especially when it comes to the branding the products as being Swiss-made (which is a quality symbol in the watch making world), the authorities are very severe . Economic As for the economic factors affecting the Swatch company, it is clear that the recent economic downturn has its effect on almost every company. For example, it might decrease the purchasing power of consumers and they may also spend less money on luxury items such as watches. Another economic factor is the risk of foreign exchange exposure.

Seeing that all countries Swatch is present in use a different currency, and especially considering the presence of the strong Euro in neighboring countries, the exchange rates when exporting and importing goods will have a negative effect on Swatch's revenues . Social/Cultural An in-depth analysis of the social and cultural aspects will be conducted in the marketing analysis section of this report (chapter 4). Technological In regard to the technological aspect of Swatch's external environment, watch making is a

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rather technological advanced field, watches become smaller and are more advanced than ever before.

It is up to Swatch to keep up with this technological development. It can also be seen that e-commerce is becoming more prevalent in today's world, with the wide-spread use of computers, this might also be an technological development Swatch has to consider. 3. 3. Opportunities and threats Another helpful analysis of a company's environment is the SOOT-analysis that provides a picture of the external and internal environment of the examined company. For the external environment the focus will be on the TO-part, which means opportunities and threats.

A table summarizing the complete SOOT-analysis can be found in the appendix's figure 2. Opportunities There are some opportunities for Swatch that can benefit the company. The first one being e-commerce, which offers more trading opportunities for Swatch. Customers can, with the help of e-commerce, order their products online and they do not necessarily have to go to a Swatch store or a Jewelry store. This is much more convenient and will persuade the customers more easily in buying its products . A second opportunity for Swatch is to focus on the lower-end of the watches industry.

Seeing the recent economic downturn, buying power amongst consumers has creased and they will be more tempted to buy the lower-end and relatively cheaper watches than to choose for the luxury variations. Another prospect for Swatch is to strengthen its brand name even more. With the growing environmental awareness of many people in today's society, Swatch could consider the " green- concept" of making watches and thereby

strengthening its brand name. This can be done by losing mercury-containing batteries and limit the amount of nickel materials in a watch, since these are harmful for the environment .

A last opportunity is the joint venture with Tourney. This company is acknowledged by the Guinness World Record as the largest watch store around the world. Swatch steps into the retail stores all over the US under the name of Tourney. Naturally, this creates great opportunities for Swatch in the US market. Especially because these stores are located in some of the premium and luxury outlet malls in America . Threats Besides the opportunities, there are also certain threats that Swatch faces.

An obvious threat, as already mentioned before, is the current economic recession which will decrease consumer's buying power and therefore also affects Swatch's sales. Another threat that prevails in the watch market is the presence of many counterfeit products. Watches are one of the most desired items to be victims of illegal duplication by means of counterfeit and selling them on as being the “ real deal” . Furthermore, possible product failures will also have a negative effect on Swatch. Swatch and Swiss watches in general, are known for their accuracy and reliability .

If there is a product failure that proves this image wrong, it will damage the brand image. This is because not a lot of product failures are present in the watch market, so it will be all over the media if a fundamental failure occurs. Swatch faces the threat of the high prices for raw material. Naturally, Swatch needs plastic and fine steel to produce a watch. However, these two kinds of material are very expensive at present . Lastly, Swatch has to deal with

some competition from fashion houses who have also decided to enter the watch market, e. . Gucci. These also offer high-end watches, which turns out to be the more profitable product range for Swatch. Competition will be an unwelcome threat in this regard . 3. 4. Internal environmental analysis The primary goal of an internal environmental analysis is to better understand the many itself. Many internal factors will influence a company's decision making processes and its strategies. Therefore it is vital for a company to first understand their own company before commencing with marketing activities. 3. 5.

Strengths and Weaknesses For the internal environment of Swatch, the SOOT-analysis will be used again, which can be reviewed in the appendix's figure 2. This time the emphasis will be on the SW-part, which means strengths and weaknesses. Strengths Considering Swatch's strengths, we can first conclude that Swatch has a very strong brand reputation and a predominant market position. It is a large and successful company which owns many famous watch brands. These enable Swatch to capture a world leading position in the watch market .

The fact that Swatch has such a strong brand reputation, also has to do with other strengths they possess, like their continuous innovativeness and their wide product range. These help not only to maintain, but also to further expand their already good reputation. Moreover, it will also help to keep their customers at their company, so it will create brand loyalty. Another strength of Swatch is their expertise in watch manufacturing. This will allow hem, not only to improve their own products, but also to sell individual watch

movements or other watch spare parts to third parties, including most smaller watch companies.

Therefore, Swatch has a very strong upstream position in the watch industry . It can also be concluded that Swatch has a very high level of vertical integration within their company, they own many production and manufacturing facilities themselves and also have their own distribution system, they own their own stores and are in charge of their own design department. This is a strength of Swatch because they are in control of what happens in their company and they are not pending on other outside parties, which greatly reduces the risks involved.

It also reduces the production costs involved, since there are no middle-men that also want to gain considerable profits . A last strong point of Swatch is that they have significant funds and capital at their disposal. It shows from some of their high costs marketing involvements, e. G. Sponsoring Formula 1 or other sports events, etc. That Swatch is able to go the extra distance when it comes to marketing . They have enough funds to market almost everywhere they want to, and of course this is highly beneficial for the recognition of their brand and their sales revenues.

Weaknesses Swatch is a very strong brand, but also they do have their weaknesses. One of the weaknesses that can be identified is the weak employee productivity. Official data has proven that Swatch's revenue per employee is less than most of their competitors. The low revenue per employee indicates that employees are relatively less efficient in comparison to their competitors and shows that Swatch has to work on the productivity

of its employee . Another weaknesses is the low asset turnover ratio, Swatch's turnover ratio is a lot lower than most of their competitors.

For example, in the last years the turnover ratio did not exceed one per cent, while the market average is above that. This indicates the poor management of operations and inability to deploy assets profitably . Finally, the last weakness is the high cost of production. Swatch is located in Switzerland which has a relatively high cost of production . Especially in this production category the prices for raw materials are considerably high and seeing that components of watches are small and therefore complicated to produce, they are expensive to fabricate.

This leads to Swatch having relatively low profit margin on the basic and middle ranges of their watches . 4. Marketing analysis 4. 1 Segmentation The following segmentation concerns the product line “ Swatch” which is a brand of Swatch Group. As previously mentioned, we have chosen to focus mainly on the watches of this company. The overall segmentation is based on the theory of major segmentation variables for the consumer market . The theory is divided into four subcategories: Geographic, demographic, cryptographic and behavioral.

Geographic: Because the Swatch Group is a worldwide operating enterprise, they do to base their segmentation on world regions or individual countries, but instead they have divided the world populations into different segments, which is not bound by nationalities. This also applies for Swatch. The costumer who purchases Swatch is located worldwide. Demographic: Swatch

uses the age and life-cycle segmentation, where they offer different types of products, through various types of marketing, to many different age groups .

Swatch appeals to the teenagers by offering a product line called “ Create by Swatch” which is a range of products designed by street painters and other artists . At the same time Swatch targets the adults whom might prefer a more classic watch as for example from the “ Full Blooded” collection . The wide range of products appeals to both male and female consumers, especially their “ Lifestyle – for her” and “ Lifestyle – for him” makes this very clear. For females, the watches are designed more to look like a bracelet. The colors and motives used are very feminine .

For the men the watches are bigger, in colors which are assumed to be more appealing to men . The income of this segment varies from low to middle, because the watches are in the price range of € 30 to € 160 .

Cryptographic: The social class of this segment reaches from lower to upper middle class, this is based on the previously mentioned price of the products. The Swatch product range is aimed at different lifestyles. They offer products to a physical active segment, by offering a product line such as “ Swatch Snowplows” where you can store different ski passes and access ski runs simply by using your watch as access card on the watch .

At the same time, they offer watches for a different segment which might emphasis quality and the more classic design of a watch, but still within a reasonable price range. Behavioral: Swatch has made a watch for all occasions. There are watches for being active, with the “ Swatch Snowplows”, the more classical watches and watches for making a fashion

statement. Swatch has also launched products for special occasions such as: Mother's Day, Valentine and Chinese New Year.

These products are launched to create customer awareness to the Swatch brand and to give the customers of Swatch an alternative to the traditional flowers and Jewelry. If you apply the theory of Buying Decision Behavior, this segment is in the "Narrate- Seeking Buying Behavior", because when the customers purchase a Swatch watch, it is low involvement, mainly due to the low to medium price. The customers do perceive a significant difference between Swatch and other brands, what can be attributed to the distinct marketing and promotion policy of Swatch.

2 Targeting Swatch uses differentiated marketing to target its segments. When using this strategy the company chooses several market segments and then they design separate offers for each of the particular groups. It is clear that Swatch uses this strategy when you look at the many different types of product lines they have. Their marketers target everything from teenagers with the "Create Swatch", the physical active segment with "Swatch Snowplows" to the segment which requires a classical watch of good quality for a low to middle price.

Swatch has chosen this strategy to gain a strong position in various parts of the watch market, however this also means increased costs for them, since all the different product lines are marketed in various ways. (see chapter 4.5)

4.3 Positioning If Swatch were to be positioned in a positioning map, which included all of their different product lines, there can be no doubt that Swatch would dominate the map in almost all categories, since they supply many different segments with watches. Swatch enjoys the competitive

advantage of having products to offer to numerous segments, and people in different stages of the age and life-cycle. . 4 product strategies Being one of the Swatch Group's products, the Swatch line is mostly considered as the innovation in the watch market and the driving force for the success of the Swiss based holding company . But what made this brand so successful? One of the most important factors was the invention of a new production method that simplified the assembling significantly. As an outcome of the watch industry rises in the sass, SMS introduced a watch which consisted of only 51 pieces, rather than the usual 91 pieces or more of mechanic watches.

A further innovation was that these 51 spare parts were mounted directly into a durable plastic case. Thanks to this technical innovation, the Swatch group was able to produce affordable, high quality watches that apply to a wide range of customers. On the basis of those competitive advantages, the Swatch group chose a smart strategy for its product in the so called “ blue ocean”. According to Kim and Membrane (AAA, b, c) the blue oceans denote an environment where products are to well-defined yet, competitors are not structured and the market is relatively unknown.

Companies that sail in the blue oceans are those beating the competition by focusing on developing compelling value innovations that create uncontested market space. This strategy is fully applicable to Swatch watches. The CEO and founder of Swatch Group, Nicolas Hayes, once said: “ We made a message out of the Swatch brand rather than making an image out of it”. This statement reflects the strategy for the blue ocean very well and illustrates the intended product positioning, I. E. The perceived image by consumers (P. Kettle and G. Armstrong, 2006: 88).