

Lessons learnt from the Marketing Strategy of Swatch

Watch in 1980s

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1. Introduction

When Swatch was introduced, it changed the Swiss watch industry drastically. For a long time, Swiss watches were perceived by consumers as luxury watches. Swatch broke the tradition of the Swiss watch industry and opened the way for subsequent development of new market and products. Swatch launched the legendary plastic watch on the Swiss market in 1983, with 12 models priced at between 39 and 50 Swiss francs. Traditional watches contained 90 components on average, but the Swatch plastic watch only contained 51 components, assembled on a single automated line. It was the first time this had been done in Switzerland, and Swatch Group became the world's largest producer of watches. By the end of the 1990s, Thanks to the success of Swatch, Switzerland was again the world's major watch exporter; around half of global watch export revenue was generated by the Swiss watchmaking industry. This paper focuses on the main factors that led Swatch to be successful in the 1980s. First, the macro-environment surrounding the Swiss watch industry in the 1970s will be explained. Next, the paper shows the internal factors that brought Swatch to success in the 1980s. Finally, the major factors which contributed to maintaining its position in the watch industry will be discussed.

2. The Decline of the Swiss Watch Industry in the 1970's

After the first oil crisis in the 1970s, advanced nations in the West lost their economic vitality and unemployment increased (MOFA, 1982). On the other hand, Japan and some other Asian countries such as Hong Kong, Korea, Taiwan and Singapore were able to maintain relatively high growth through export due to their relatively cheaper exchange rates and lower wages than advanced Western countries.

Immediately after the oil crisis in 1973, the Japanese currency switched from a fixed exchange

rate, pegged at 360 yen to the dollar, to a floating exchange rate (McKinnon, 1997, p.164). The Yen began appreciating after that and Japanese companies invested enormous amounts in R&D. This led to a flourishing high tech industry, and increased Japan's international competitiveness. The Japanese government also supported commercial sectors for the shift from heavy chemical industries, which demand great quantities of oil, to the electronics industry, which uses less oil (Pempel, 1997, p. 345).

Western countries, on the other hand, had fewer manufacturers in specific industries compared to Japan, so they were less competitive in terms of low cost performance and time efficiency based on automated systems. For example, both the United States and Germany had three major passenger car manufacturers, and France had two, while Japan had nine (NHK & Daiwa, 1995). Advances in the electronics industry in Japan were brought about by high-precision processing technology. This added further impetus to the shift from humans to machines in Asian countries while Western countries were depending on a skilled workforce.

The Swiss watchmakers misunderstand the potential of new competing technology in the 1970s, thinking that the quartz watch was a fad. However, the U.S. and Japan responded quickly to establish market share in this new industry. There were a number of related technological improvements in the 1970s that contributed to increased production and low cost. Japan and the U.S. applied their existing electronics manufacturing concepts into watch production. As a result, Japanese and U.S. watchmakers gained the dominant market share in the mid-1970s, and the Swiss were shut out of the market for budget-priced watches by a wave of electronic models. The failure to embrace the market trend in the 1970s called for the Swiss watchmakers to take great care foreseeing the next trend in the watch industry.

3. Marketing Strategy of Swatch and its Major Competitors

Consumers in the early 1980s were looking for new trends that would match their lifestyle and status. However, existing watchmakers ignored consumers' emotional attachment to the products, especially for in low price range. Japanese and Hong Kong watchmakers solved consumers' problems in terms of accuracy and low price, but they did not realize that consumers were seeking fashionable budget watches. Even Timex, the first maker of fashionable watches in the U.S. did not realize this trend. Swiss watchmakers did not ignore these facts and attempted to launch a new product. Table 1 shows the market foresights of the watch industry in the early 1980s.

Table 1: Market Foresights of the Watch Industry in the Early 1980s

Fact	The end of the quartz technology was coming: the level of technological complexity and the stage of innovative development for quartz technology reached an end. Technological improvement in the 1970s contributed to increased production and lower costs (Pitta, 1998, p.468).
Force	Quartz solved problems such as reliability, accuracy, longer battery life and low cost. Quartz watchmakers such as Hattori-Seiko, Citizen and Casio in Japan and Texas Instruments and National Semiconductor emphasized improving functional attributes (Barrett, 2000, pp.358-365) while they ignored emotional aspects of watches for end users.
Trend	Consumers thought that watches were accurate enough. They were waiting for new trends coming that represented their lifestyle and status. US and Japanese brands were offering similar models at considerably lower prices that everyone could own (Barrett, 2000, p.366). Consumers could afford more than one style of watch, and demand for wrist watches was increasing.
Signpost	Timex watches were the first to impact fashion with the introduction of their low-cost pin-lever movement. However, Timex chose to turn down the opportunity to market Swatch because they misunderstood consumer trends (Roush, 1993).
Wildcard	Hong Kong and Japanese watchmakers were selling extremely cheap watches (Donzé, 2012, pp. 22-23) at drug stores and discount shops in order to increase their market share.

Just as quartz technology revolutionized the 1970s, fashion changed the face of the watch business in the 1980s. Swatch started the fashion trend when it was introduced in 1983. Seiko, Citizen and Timex had captured the low and middle range of the world watch market. Consumer trends in the 1980s meant the technology focus was a poor strategic decision. Accuracy was no more major concerns of consumers. In the 1980s, watches became lifestyle statements and status symbols, rather than just functional timepieces (De Mooij & Hofstede, 2002, p.65). This was the critical marketplace transition that had been missed by Seiko, Citizen and Timex. Swatch understood this trend and launched Swatch WATCH to counter Japanese and the U.S. Dominance.

Table 2: Comparison of Marketing Mix of Swatch and its Major Competitors

	Swatch	Seiko, Citizen and Timex
	New Market Creator: watches as fashion and lifestyle statements	Market dominators till early 1980s-Watches as reliable and accurate timepieces
Product	<p align="center"><u>Fashion Accessory</u></p> <p>Emotional (image): novel, pop, trendy, young, active, sporty, cool, clean, stylish, colorful, unique</p> <p>Economic (price): affordable for 12 to 24 year olds, inexpensive</p> <p>Functional (performance): Light weight, shock-proof, water resistant, electronic, plastic, small-faced or large-faced, thin, seasonal, analogue</p> <p align="center">↓</p> <p><i>A fun and useful fashion accessory</i></p>	<p align="center"><u>Quartz Technology</u></p> <p>Functional (performance): mechanical features (perpetual calendars, moon phases, minute repeater, stopwatch timing, power reserve indicator) electronic, technological</p> <p>Economic (price): low consumption of battery, good value for high-tech products</p> <p>Emotional (image): innovative, reliable, accurate</p> <p align="center">↓</p> <p><i>A low-cost and accurate timepiece</i></p>
Price	Low range	Low range to mid range
Place	Upscale department stores, exclusive shops	Department stores, supermarkets, drug stores, discount stores
Promotion	Colorfully printed advertisements, multi-page advertising (Vogue, Rolling Stones), concert and event sponsorship, use of music videos and MTV, rap music, collaborative work with contemporary artists such as Keith Haring	Advertisements designed to show new functional attributes such as lower battery consumption
Overall Evaluation	Limited production of a wide variety of watches, clear brand personality similar to its users	Mass production of a limited variety of watches, brand personality similar to competitors

Swatch was launched targeting young people who love to wear wristwatches for their fashion accessories. While its major competitors focused much on their mechanical attributes such as accuracy and lower battery consumption, the watch produced by Swatch was not only a tool to measure time. According to the Swatch website, “A Swatch watch was an expression of joy, a provocative statement, a warm smile delivered with a flick of the wrist”. In other words, the watch became an item to represent the wearer’s personality, mood expression and creativity.

Swatch's adaptation to use new materials such as plastic, stainless steel, aluminum, synthetic fabrics, rubber and silicone for its timepieces made it possible for customers to purchase a cheap fashionable watch which also incorporated state of the art technology such as innovation in design.

Swatch not only maintained its controls on design and production, but also marketing, branding, channel management and retailing. Swatch opened hundreds of retail outlets exclusively selling Swatch watches around the world. The company especially focused on the travel retail sector, introducing kiosks in busy airports (Mudambi, 2005). Retail outlets also included dedicated Swatch stores as well as shop-in-shops.

As far as promotion was concerned, the effective usage of mass media was critical in terms of good resource allocation and effective promotion. When Swatch was introduced in 1983, television and other media such as magazines, posters and signboards helped to create customer demand. Also, the timing was good for Swatch to choose MTV as its promotion media. MTV had more than 55 million subscribers on over 7,700 cable affiliates in the U.S. It drew the consciousness of 12 to 24-year-olds with such programming as "Unplugged" and "Liquid TV", and launched and revitalized the careers of many musical artists. At that time, MTV moved forth in expanding its influence on pop culture by becoming the first global network in 1984. Swatch found it advantageous to use MTV as its promotion media (MTV, 1986) since MTV targeted a similar segment of the market as Swatch did, and it was effective to reach its target customers who loved fashion and fads. MTV's clear vision for advertising helped Swatch to succeed as a fashion accessory.

4. Changing the Corporate Cultural Dimension of the Swatch Story

Swatch could improve its business process and products by drawing on talent from different cultures and traditions. Steven Rechtschaffner, for example, was as a member of the U.S. Freestyle Ski Team from 1977-1981. He joined the Swatch marketing team in 1983 and wrote and directed a lot of TV and print commercials and brought hip hop and extreme sports to the masses together with the fashionable and innovative Swatch timepieces. His positive-minded lifestyle created the new corporate culture to break down the traditional corporate culture.

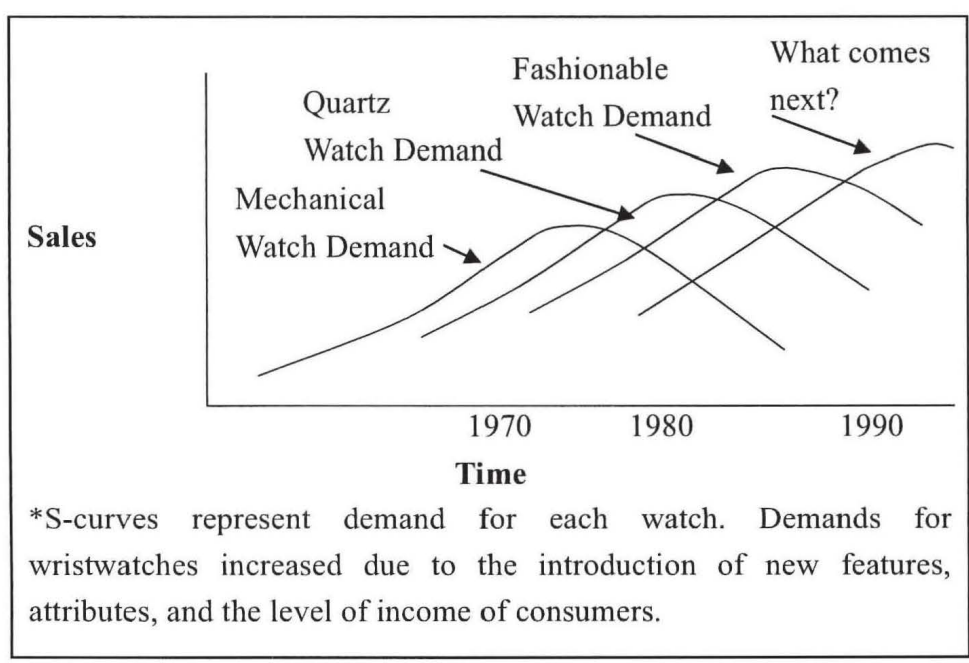
Swatch also employed several people who did not have backgrounds in the watch industry. Ernst Thomke, a physician, invented the Swatch watch and his team figured out that by reducing the number of parts in an analogue watch with automated production lines, they could produce cheap watches that were virtually disposable (Thomke & Muller, 1986).

Nicolas Hayek joined Swatch in early 1980s. At that time, he was already well-known as the founder and CEO of Hayek Engineering, a Zurich-based consulting firm that is something of a cross between Arthur D. Little and McKinsey & Company. With his clever marketing and snazzy designs, Swath watches turned into fashion accessories that allowed Swatch to beat the Japanese at the bottom end of the market (Taylor, 1993). These capable people breathed new life into the Swiss watch industry.

5. Product lifecycle Management

Swatch, as a successful product, invited competition and the company thus needed defensive strategies. The company was required to manage its product lifecycle to maintain the growth and profitability of the products. As Swatch replaced the big market share of its major competitors in the 1980s, new competitors had been replacing Swatch’s market share by introducing new products that fit consumer trends. Figure 1 shows how new trends emerged one after another and generated the impacts on the watch industry between 1970 and 1990.

Figure 1: Emerging Trends in the Watch industry between 1970 and 1990



Successful competitors such as Casio combined the concept of the digital watch and the fashion watch, and French agnès b. that positioned its brand as a total fashion coordinator for fashion-conscious young females. On the other hand, competitors from other industries were also emerging and could threaten the wrist-watch industry by substituting wrist watches in

terms of timepieces, fashion accessories or gadgets. The mobile phones and mobile computers as communication tools, for example, were gaining in popularity and were the biggest threats for Swatch.

Product lifecycle management was critical in determining appropriate marketing strategies and enhancing brand equity. Swatch needed to have innovative products to sustain its position against competition. In addition, it was critical for the company to foresee the future potential in the watch industry, redesigning their products based on opportunity identification.

6. Conclusion

For a long time, consumers' perceptions were dominated by the image of the Swiss watch as luxury, expensive and mechanical. Swatch, which was a contraction of Swiss and watch, created a new market segment with cheap fashion watches. Swatch saved the Swiss watch industry by boosting confidence in Swiss watchmaking. The creative marketing strategy was the key to their success. The use of fashion to sell watches was no longer a byproduct of watches, and the people in the company invested money on R&D, design, manufacturing and retailing. Their creativity was brought from the identification of customer benefits: low price, fashion, style and novelty. Moreover, talented people from outside the industry changed to restructure its traditional corporate culture. Swatch's success in the 1980s tells us that people in the company should assess their macro and micro environments carefully and their position against competitors to sustain relationships with their customers, increase productivity, allocate resources efficiently and manage their brand image and equity.

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