



Fallstudienreihe

Innovation, Servicedienstleistungen und Technologie

Case Studies on

Innovation, Services and Technology

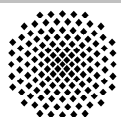


Swatch (English version)

Anastasios Stilianidis

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Swatch

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1. Case Study

In the mid 1970s, the Swiss watch industry registered the biggest crisis in its history. With the brand „Delirium“, the competitors from Japan introduced the hitherto thinnest wrist watch in the world and at the same time component-reduced technological novelty to the market.¹ At the time, low-priced (appr. USD 75) and high-precision quartz watches were capturing the mass market and forced Swiss watchmakers to rethink their position in all areas.² In order to demonstrate, how enormous the pressure was, production figures can be consulted. In 1965, for instance, the worldwide production share of Swiss watchmakers was 48%. In 1980 it fell to only 15%.³

With the establishment of the Schweizer Gesellschaft für Mikroelektronik und Uhrmacherindustrie (SMH = Swiss association for microelectronics and clock industry) and its Swatch subsidiary, the Swiss managed to find the economic answer to Asian competitors. In this way, Swatch was drawn up as an entirely new concept. As a result, the components of the watch were reduced from the usual 91 or more to only 51.⁴ Furthermore, Swatch had been designed as a light plastic watch which led to a renunciation of traditional materials such as leather and metal.⁵ In addition, new methods of production which were cheaper than the previous ones had been developed. This is how, for instance, the ultrasonic welding process for sealing the watch cases was introduced. This process replaced the sealing with screws. Due to numerous measures, Swatch was able to arrive at a cost structure some 30% lower than its rival companies.⁶

Swatch watches had been offered at a price which was only half as expensive as Asian watches.⁷ This enabled the company to redefine the watch as well as

¹ Cf. Swatch (2009), for URL see bibliography

² Cf. Kim, Mauborgne (2009), p. 122

³ Cf. Markides (2008), p. 108

⁴ Cf. Swatch (2009), for URL see bibliography

⁵ Cf. Swatch (2009), for URL see bibliography; Kim, Mauborgne (2009), p. 122

⁶ Cf. Kim, Mauborgne (2009), p. 122

⁷ Cf. Kim, Mauborgne (2009), p. 122

the customer's benefit⁸ while the watch is no longer regarded as a mere instrument to read off the time but as an accessory⁹. In this way, every six months a new product line was brought to market.¹⁰

In the meantime, Swatch has become one of the most successful watches of all times since its introduction in 1983. At the moment, the Swatch Group parent company is the world's largest watch company.¹¹ This means that Swatch's current success story is due to the fact that the company successfully lowered the costs while simultaneously making a differentiation. In times of crisis, companies – as a general rule – tend to adapt their costs to new competitors. This happens at the expense of output losses or vice versa.¹²

In the course of Swatch's existence, new developments parallel to the standard Swatch made of plastic were driven ahead. This applies, for example, to „Irony“, which belongs to the Metal Collection of Swatch or the “Swatch Skin Crono”, the thinnest chronograph in the world, ranging up to the “Swatch Snowpass” with access function, which can be used as a ski pass in skiing areas worldwide.¹³

2. Task

In a few years, Nicolas G. Hayek, founder of SMH, who is now over 70 years old, would like to entrust you with the leadership of the company. To prove, however, that you are a worthy successor, you first have to establish yourself as the new head of the Department of Innovation for the Swatch group by working out an innovation strategy called “Swatch 2020”.

⁸ Cf. Markides (2008), p. 7

⁹ Cf. Kim, Mauborgne (2009), p. 122

¹⁰ Cf. Swisworld (2009), for URL see bibliography

¹¹ Cf. Swatch (2009), for URL see bibliography

¹² Cf. Markides (2008), p. 109

¹³ Cf. Swatch (2009), for URL see bibliography

2.1 Disruptive innovation theory

In order to be able to work out the innovation strategy, you must first examine the past and try to identify the kind of innovation of the Swatch watch in 1983 by means of the disruptive innovation theory.

In a second step, you are to consider how to initiate a low-end or new-market disruption for today's Swatch group. Explain your initiation of the new product innovation in detail.

2.2 Resources processes values theory

To introduce your low-end or new-market disruptive innovation to the market, you need suitable resources, processes and customer value. Explain which of the three determinants (resources, processes or value) or maybe all three of them have to be changed or adapted due to the new innovation and which problems could arise.

In this process, please explain how the product architecture changes when thinking of the value chain evolution theory.

3. Literature

3.1 References

Kim, W. Chan, Mauborgne, Renée (2005), Blue Ocean Strategy, Harvard Business Press, Boston, Massachusetts 2005

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http://www.swissworld.org/de/schweiz/dossiers/schweizer_uhren/swatch/,
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3.2 Further readings on the theoretical subjects

Christensen, Clayton M., Anthony, Scott D., Roth, Erik A. (2004), Seeing what's next, Harvard Business Press, Boston Massachusetts 2004



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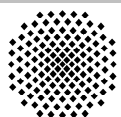
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