

Smartwatches, challenge and opportunity for the Swiss Watch Industry

It is amazing that the traditional Swiss watch industry has still not developed a strategy to add connectivity to their products. Even though the arrival of the Apple watch was heralded years ahead, the industry was largely dumbfounded when it actually happened; it needs yet to realize that future watches will not be what they are now.

Some say, that connectivity brings to the industry a similar paradigm change as did the Japanese quartz watches in the seventies. They are wrong: Things will be much worse and they'll happen much faster. In fact, the only similarity between then and now is the widely spread complacency among the Swiss watchmakers; they keep on betting on a never-ending success of mechanical timepieces sold at horrendous prices.

To understand the fundamental difference of today's challenge, we need to look at what happened 30-plus years ago. Having easily won the battle of supremacy over the German camera industry, the Japanese seemed determined to similarly conquer the Swiss leadership in watches. Here are the two reasons why they eventually failed to succeed: Firstly, the quartz technology and the LC Display both were actually invented years before in Switzerland, enabling a quick technical catch up. The second reason was the inability of the Japanese technocrats to comprehend the concept of life-style, fashion and luxury then, many say even today.

For a century, the wristwatch was much more than just a technical instrument; it was synonymous with wealth, taste, luxury, jewelry. The quartz watch, –meanwhile also successfully marketed as fashion item by Swatch–, brought precision and reliability. But inexpensive as it was, it left a big emotional gap of desire for luxury.

The Swiss brands like to believe that it was their ingenuity of producing mechanical precision and complication movements that finally brought the Japanese down. This is utter nonsense. The cheap perfection of quartz watches did not keep the consumers attention for long. Soon enough they yearned for cherished personal objects of value and status, that quartz-watches were unable to fulfill; clever marketing did the rest. Hence the incredible renaissance of the mechanical luxury-watch, which once again lulled the Swiss into complacency to the point of arrogance.

Oblivious of the dawning era of the all-engulfing Information technology, the watch manufacturers kept to their little world of ridiculously priced mechanical gears and springs, believing that the demand of emerging markets like the Middle-East, Russia and China with their new-rich appetite for bling would last forever. While they largely remained in a time capsule, IT has

transformed the world.

Today's most precious value is information and the ways and means to access it. The fancy gold watches with all their mechanical complication will rapidly evolve into toys of eccentric, fewer and older collectors. Along with miniaturization from floor-top to desktop to laptop, the human wrist is now the prime, most sought-after real-estate, too valuable to just be occupied by a «passive» single-information timepiece; this privileged space is being conquered by actively connected objects linking today's consumers with their vibrating world and life-style, faster than lasted the reign of mighty Nokia in mobile phones.

The highly paid CEO's and managers of Swiss watch companies yet need to grasp that such «connected objects» are bound to resemble traditional watches in order to comfortably fit to the same old wrist. An industry, that has for more than a century developed unique methods and techniques to beautifully integrate its products with men's and women's wrists, to protect these objects from wear, tear, heat, cold, altitude and even from water pressure while diving has the capabilities to compete against the electronics giants, who still have a long way to acquire this knowhow.

There is yet another untapped technology of traditional mechanical watch-making that has the potential of recapturing that strategic space on the wrist: To transform its constant motions not to only mechanically power the venerable watch-movement but to harvest electrical energy to enable connectivity at the same time. While this energy may not suffice to mimic the power-hungry Apple watch that mostly just duplicates iPhone functions, it remains to be seen if the need to daily re-charge the batteries will win over a majority of consumers.

Given their inherently different physical characteristics, wristwatches and handheld devices will eventually feature a different kind of connected utilities. The ball is however in the courtyard of the Swiss watch industry to firstly use the mostly available technology of mechanically harvesting kinetic energy; and to secondly define low-consumption connective functions that take full advantage of the location, size, convenience. The acquired software savvy will also enable competitiveness with very economic, (battery-operated-) connected fashion-timepieces.

The battle however will not be won on technical level alone. Over the last decades, the Swiss luxury watch industry has steadily receded toward the peak of the price-pyramid and this trend is not limited to intricately hand-made, unique masterpieces. The cost of trivial, mass-produced steel watches typically exceeds that of a top-of-the-line laptop computer several times over. What a discrepancy: On one side a product to merely give time; on the other side a high-tech device providing a wealth of advanced software, utilities, functionality, information and memory to make it an absolutely indispensable companion in our work- and leisure time!

The prices of branded wristwatches are governed by relatively high production cost and healthy, mostly archaic, hierarchic margins; retail alone is used to take 50% from top. Traditional retailing in prime locations is indeed extremely expensive. Apple with its very profitable mixture of high volume, brick-and-mortar retailing and online business has succeeded to largely eliminate middle-men.

The watch-industry too has vertically integrated, but shuns e-business almost categorically; this may be justifiable when it comes to emphasizing the exclusivity, luxury and image of the likes of Rolex, Cartier and other top manufactures.

For lower- and mid-priced brands, the retail-space has become however too costly, forcing them to apply un-proportionally high prices no longer justified by production cost. As this is only possible with expensive advertising- and marketing, the industry is locked in a vicious circle.

The new category of connected watches presents a unique opportunity to enter parallel virtual retailing and direct-sale without risk of image-loss, allowing a complete re-structuring, re-positioning to reach attractive pricing and acceleration of volume, to gain new markets without loosing the existing. E-commerce is also necessary to support faster product-cycles, which the traditional retail stores cannot cope with.

Is the Swiss watch industry facing the same challenges as back in the seventies? No, the challenges today are of a different nature and come along with tremendous new opportunities. Those recognizing them will be the future leaders of a reformed and rejuvenated sector of an industry so important for the Swiss economy and labor.

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