

THE SWATCH GROUP: ON INTERNET TIME

[Swatch Internet Time is a] great idea! We are living in one world so we should use one time . . . I'm just wondering when this will become our official time? Darn, I'll have to buy a new watch!

I really would like to put Internet Time on my homepage, but I can't have banners all over my site saying "Swatch" and linking back to your site. Dump the banners. Okay, it was your idea. So what? If you want this idea to really break through, it can't be connected with a company.

—Comments from visitors to the Swatch Web site

Swatch is a triumph of engineering, but even more so one of fantasy and imagination. If you combine powerful technology with fantasy, you can create miracles. The secret is to keep the creativity, the dreams, and the imagination of a child. My wife refers to me as a six-year-old boy with the experience of a 66-year-old man.

—Nicolas G. Hayek, Chairman and CEO,
The Swatch Group

In November 1998, 90 children from 54 countries attended the Massachusetts Institute of Technology's (MIT) Junior Summit. Another 3,000 participated online. The purpose of the summit was to promote international dialogue about advanced technology among children worldwide. Attendees of the 1998 summit were the first to test a new universal unit of time called Swatch Internet Time (SIT). Their week-long schedule was driven by SIT and each participant was given a Swatch Beat, the newest Swatch watch model that

Research Associate Cate Reavis prepared this case under the supervision of Carin-Isabel Knoop, Director, Research and Development, Executive Education and Assistant Professor Luc Wathieu as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

kept both Internet and local time, and also counted down days until the new millennium (see Exhibit 1).

Pioneered by The Swatch Group, makers of the Swatch watch, SIT divided every day into 1,000 "beats" equivalent to 86.4 seconds each. Each day began @000 (@ was the abbreviation for beats) and noon was @500. A new day in Tokyo, for instance, began at @667 BMT. A new meridian line was created that passed over Swatch headquarters in Biel, Switzerland, making Biel Mean Time (BMT) the official reference for Internet time. "Internet time is absolute time for everybody," explained Nicholas Negroponte, founder and director of the MIT's Media Laboratory and a proponent of SIT. "Now is now and the same time for all people and places. Later is the same subsequent period for everybody. The numbers are the same for all."¹

SIT was the latest entrepreneurial move by The Swatch Group, led by Chairman and CEO Nicolas G. Hayek. "The Greenwich people told us this is blasphemous," Swatch CFO Edgar Geiser recounted. "They asked, 'How is this scientific?' We told them that it was not but we went ahead anyway."² "Since we basically reinvented the concept of time with Swatch in the early 1980s," added Yann Gamard, president of Swatch USA, "it is only natural that Swatch comes up with a concept of time that addresses cyberspace in the digital era. Since you can download it for free, there are no direct dollars *per se*, but in terms of brand enhancement and brand awareness, it's exactly in line."

Many nevertheless questioned the motive behind SIT. In 1991, the company initiated a series of telecommunications joint ventures (JVs), and an ecologically friendly car was in conception by 1994. None of these ventures, however, had met expectations. Some believed that launching SIT was merely a way to reenergize the Swatch brand in markets such as the United States where sales and the Swatch image were suffering. Others questioned whether the concept of SIT would catch on.

¹Mark Gibbs, "Internet time: Old wine, new bottles," *Network World* (November 16, 1998).

²For SIT to be accepted as an official time measurement, Swatch needed endorsement from the worldwide body of standards and keepers coordinated by France's Bureau International des Poids et Mesures.

“Controlled Chaos”³

In 1998, The Swatch Group was the world’s largest watch company. With total production of 119 million watches and watch components, it accounted, in value terms, for 20% to 25% of worldwide watch sales (and 37% of the Swiss watch industry). Europe accounted for 35% of sales, followed by Asia with 32%, North America with 25%, and 8% for the rest of the world. In volume terms, The Swatch Group’s worldwide market share was 14% (see Exhibit 2). In addition to watch production, the company’s activities included microelectronics (67% of revenues from the production of 1.5 volt chips came from markets outside the watch industry),⁴ production services, automobile, R&D, telecommunications, and JVs (see Exhibit 3). In 1998, company revenues totaled \$2.2 billion (a 9% increase in local currencies) with profits of \$230 million (see Exhibit 4). On the 1998 *Business Week* Global 1000 list, The Swatch Group ranked 713 in market value (\$5.82 billion).

In addition to the Swatch brand, ranked globally as the 30th most well-known brand overall and 6th in fashion, the company owned luxury brands Blancpain, Omega, Rado, and Longines, plus medium- and low-end brands Tissot, Certina, Mido, Pierre Balmain, Calvin Klein, Hamilton, Flik Flak, Lanco, and Endura. (See Exhibit 5 for sales breakdown by brand.) All brands were managed (and housed) separately, and were responsible for their own design, marketing, communications, and distribution. Hayek explained that each watch brand was promoted with its own message: “We are not just offering people a style. We are offering them a message that tells people who you are and why you do what you do. Ultimately we are not just offering watches. We are offering our personal culture.”⁵ For example, according to Hayek, Omega watches were for “people who are somebody because they make themselves somebody, not because their grandfather left them a trust fund or because they made money from insider trading.”⁶ In the case of Swatch, the message was high quality, low cost, joy of life, and challenging society.

³Background for this section was drawn from Nicholas G. Hayek, HBS case No. 495-005.

⁴“Swatch: Cash is what you make of it,” *Dresdner Kleinwort Benson* (February 22, 1999).

⁵William Taylor, “An interview with Swatch titan Nicholas Hayek,” *Harvard Business Review* (March/April 1993).

⁶*Ibid.*

Along with the standard Swatch that retailed for \$40 (the same price as in 1983), Swatch retailers carried the Swatch Chrono (\$70 plastic, \$110 metal); the Swatch BEEP, the world’s first pager in a wrist watch that retailed for \$99; the Swatch Access, a \$50 watch that included an integrated microchip that enabled wearers to enter concerts, museums, or ski lifts, to order meals in restaurants, or to ride public transportation; the Swatch Skin, the world’s thinnest plastic watch, that sold for \$70; the Swatch Talk, a cellphone/wristwatch that retailed for \$350;⁷ and finally the \$80 Swatch Beat, which, along with its utilitarian features also included one of three animation scenes designed by world-renowned cartoonists: Switzerland’s Gerald Poisson, J. Otto from the United States, and KM 7 from Japan. One animated scene depicted a dog jumping around the dial, playing with a bone until it became tired, concluding its routine by relieving itself against a lamppost. The company also developed Irony Beat and Skin Beat models. The company predicted that by 2001, 10% of watch revenues would come from Swatch Beat.

Culture

“Impatient,” “convincing,” “confrontational” and “dedicated” were a few of the adjectives colleagues used to describe Hayek. Top management saw him as a challenging and demanding boss. “Hayek has ideas and then people have to implement them,” Geiser explained:

Sometimes he needs to be reminded that “it is an excellent idea but. . . .” He is a teacher of unique and special skill. He always checks things from different angles. He has not changed at all, perhaps gotten better with age. His weak points are that he is very impatient, and is always three steps ahead while the rest of the company tries to follow. He cannot understand that the battleship that is the company cannot move as fast as he can.

Born in 1928 in Beirut of a Lebanese mother and an American father, Hayek went on to study mathematics, physics, and chemistry at the University of Lyon, France. He then worked as an actuary and, soon after, a mathematician trainee. After a brief stint directing his father-in-law’s foundry in Switzerland, he worked as a consultant in Zurich in 1957, and in 1963 founded Hayek

⁷The Swatch Talk would not be available in the United States until after the millennium due to incompatible telecom frequencies.

Engineering AG⁸ to consult on product and marketing development strategies.

Through his consulting experience, Hayek developed a management philosophy around which he eventually built The Swatch Group. “I learned that you should never think that people cannot change, because there is always a chance to start over,” he stated. “You should also never think that things are cut in stone. Keep your mind open.”

Hayek attributed his success to his even-handed skills as an entrepreneur and manager:

An entrepreneur is like a composer: he builds and creates things. He hears and sees things that other people don't hear or see. A manager is like a conductor: he executes and implements music. He can make a vision come true. Very rarely do you find people who can do both successfully. People usually excel in one of the two.

As a consultant, I saw that management and leadership cultures were extremely important. Positive targets and easy-to-understand messages draw people to your company and into your stores. Previously successful companies stopped being successful because they forgot that a company has to have an emotional message. If ambitious goals are sought persistently as well as with heart and emotion, you motivate people.

Being fiscally conservative was also important. “It is said that our management is obsessed with productivity,” Hayek stated. “We're not obsessed. But we do keep our eye on what matters. We don't spend a penny that we don't have to spend. My mother hated debts, and I promised myself never to have debts. And this is exactly how I run my company today, with virtually no debt.”

Hayek believed for creativity and innovation to thrive, a company had to be lean and hierarchy flat. “Multilayer hierarchies don't guarantee innovation; they stifle it,” he stated. “Look at any hierarchical company: every time an idea has to move one step up the corporate ladder of hierarchies, chances are that it won't advance, or only in a scaled-down version. This takes away dynamism, innovation, and speed to change.” The Swatch Group, comprised of 211 profit centers, had 450 managers and a 21-member extended Management Board (two of whom were female), for some 18,000 employees worldwide. The majority were Swiss.

⁸Hayek Engineering consulted to a wide variety of clients, ranging from U.S. Steel and Dow Chemical to Krupp, Siemens, the Chinese and the Swiss governments, Olivetti, Nestlé, BMW, and Daimler-Benz.

Finally, Hayek sought to hire resourceful people. He often asked candidates what they would do if he asked them to get a book in a neighboring town but their car broke down on the way. “If the candidate answers, ‘I go home and try tomorrow,’” Hayek explained, “they don't get the job.”

If they say, “What should I do?” and run through options, then they may be idea-rich individuals but I still would not hire them. If the person says, “I leave the car in traffic, take the train, get the book and come back,” that is the person I need. But there are very few such people.

“Among four people that we hire, two understand our culture, two don't,” Gamard added. “One of the two who understood our culture will not like it, and one of the two who did not will stay. Out of the two who are left after three or four years, one will use the experience and will go somewhere else. With success comes turnover.” Gamard continued:

Our company culture is “controlled chaos.” We are in an ever-changing environment that forces us to challenge ourselves every six months. At Swatch, the same rhythm of the collection exists as in the fashion industry and every time we are on our knees because we come up with a new collection from scratch each time. The spirit of the people has to be the same: “*Toujours se remettre en question*,” constantly putting oneself in question. That is why Swatch is a very young brand even though it's 16 years old. As a company we always have to remain young.

The Birth of Swatch

The Swatch Group was established in the midst of crisis in the Swiss watch industry. In the late 1970s, Japanese and Hong Kong manufacturers, with access to cheap labor, mass production, and quartz technology (developed—but not used—in Switzerland), penetrated the world watch market with low cost watches that eroded the market share of Swiss-made watches.

By the end of the 1970s, the Swiss had no presence in the low-end/high-volume market segment where watches were priced up to \$75 and comprised 90% of world unit sales. The Swiss held just 3% of the mid-market segment of \$75 to \$400 watches that accounted for 8.5% of world unit sales. Only in the over \$400 luxury market did the Swiss retain 97% share, though these accounted for just 1.5% of world unit sales.

Despite rapid world market growth, Swiss exports fell from 91 million watches and movements in 1974 to 43 million in 1983 (from a market share of 43% to less than 15%). This poor performance was attributed to an inability to adapt to the changing market conditions, a reluctance to focus on building innovative and competitive new products, as well as poor R&D and brand management. Watch companies attempted to restore profitability by raising prices, restructuring, and laying off workers. In the 1970s, almost 1,000 of the 1,600 Swiss watch companies closed and the watch labor market contracted by two-thirds.

Hayek's Diagnosis

In 1981, three major Swiss banks—Swiss Bank Corporation, Union Bank of Switzerland, and Credit Suisse—retained Hayek Engineering to conduct a worldwide market and consumer psychology study of the watch industry. At the time, the banks were ready to write off their losses, selling off all assets of SSIH (Société Suisse de l'Industrie Horlogère), and ASUAG (Allgemeine Schweizerische Uhrenindustrie AG), two of Switzerland's most prestigious watch manufacturers. A Japanese company had offered CHF 400 million to buy Omega from SSIH, which also owned the Tissot and Hamilton brands. A number of Omega managers believed that the brand, which had proliferated to more than 2,000 different models, should be taken down market to compete with Japan's Seiko and Citizen. Hayek believed there was another answer.

His study led to two proposals. One was to merge SSIH with ASUAG, the owner of Rado, Longines, and Ebauches (ETA), a clock workings and movement manufacturer. The merger was approved in 1984 with the stipulation that Hayek would buy the majority of the shares. Hayek convinced a few Swiss investors to join him in the so-called Hayek Pool and together they bought 51% of the new company's shares. The combined companies were renamed SMH (Swiss Corporation of Microelectronics and Watchmaking Industries, Ltd.) in 1986.⁹ Before joining forces, the two companies had combined revenues of CHF 1.5 billion and losses of CHF 173 million.¹⁰

The other proposal was to develop a low-cost, high-quality plastic watch brand. Hayek's study revealed that

the same watch model would sell substantially better if it carried the "Made in Switzerland" label; he determined that 75% to 95% of European consumers and 51% to 75% of U.S. consumers were willing to pay a 7% to 10% premium for a Swiss watch over one made in Japan, and a 20% premium over one made in Hong Kong. The majority of Japanese consumers preferred Japanese to Swiss-made watches. Hayek concluded that Switzerland was uniquely positioned to win back the low-margin, high-volume market. He believed a low-cost, high-quality plastic watch was the answer. "There were four reasons for my believing this," he recalled:

One, if you sell high volumes, you can automate and keep improving on productivity. Second, young people, the future consumers, are most likely to buy low-priced watches. Third, the biggest communication for a brand is the consumer himself and a mass-market brand allows that. And lastly, if you occupy a large part of the lower end, you keep your competitors fighting there instead of moving up. In emotional products like watches, the lower end is very important.¹¹

A prototype of such a watch already existed. In the fall of 1979, the executive team of ASUAG had granted ETA engineers permission to develop a low-cost watch from synthetic material. At this time, no manufacturer thought of manufacturing or selling this watch as a proprietary brand. Racing with the Japanese to develop the world's thinnest analog watch in the late 1970s, Swiss engineers reduced a watch's thickness from over 4mm to .98mm. They also discovered that by placing part of the movement into the lower part of the watch case they could design a watch with 51 parts, compared to traditional watches that had 151 parts.

In 1982, after three years of research, ETA presented a waterproof, shock-resistant, accurate timepiece in synthetic material, one that could be mass-produced at low cost in an attractive range of colors. They called it Swatch. The question remained, though, whether there really was demand for a Swiss watch made of plastic. Furthermore, many in the industry questioned whether low-cost production was possible in Western Europe, and whether this new watch would hurt sales of high-end, Swiss-made watches. Hayek was nevertheless given the go-ahead to carry out his recovery plan.

Hayek, charged with launching the watch according to his master plan, suggested to test market the new

⁹SMH was renamed The Swatch Group in 1998.

¹⁰Exchange rate, 1993: US\$1.00 = CHF 1.50.

¹¹Iqbal Singh, "A time to Swatch," *The Strategist* (April 6, 1999).

watch first in the United States because of the market potential. The JV with a Texan businessman, however, did not generate anticipated demand. In the fall of 1982, SSIH/ASUAG was ready to cancel the project, and sell everything to potential buyers in the United States (Timex, Duracell, and Armitron). They nevertheless decided to test the new watch domestically.

Introducing the Swatch

On March 1, 1983, Swatch was presented to the public in Switzerland at a press conference. Hayek was adamant that from the very beginning consumers be exposed to the Swatch “high quality, low cost, joy of life, and challenging society” message. In launching Swatch, the company relied on an unconventional marketing strategy that echoed this message. When Swatch was launched in Germany the company did not rely on TV advertisements for promotion. Instead, a 500-foot-high (working) Swatch was suspended from the tallest skyscraper in Frankfurt along with the words Swatch, Swiss, DM60 to indicate the price. The same strategy was followed in Tokyo, Japan, while in the United States the brand was promoted through department stores and advertisements.

Swatch turned timekeeping into fashion. When asked by a journalist how many Swatches one person could own and whether the market would soon put a cap on Swatch sales, a Swatch manager replied: “How many ties hang in your closet? Do you stop buying new ones just because you already have 100 of them?” There were Swatch models for various occasions and personalities: the beach and the office, athletes and music freaks, elegant dinner parties and Pop Art exhibitions. There were even scratch and sniff Swatches. In addition, every Swatch was given a name such as “Don’t be too late,” “Tutti Frutti,” and “Hollywood Dream.”

Hayek, however, believed Swatch was much more than a fashion icon. “I understood that we were not just selling a consumer product, or even a branded product,” he explained. “We were selling an emotional product. You wear a watch on your wrist, right against your skin. It shouldn’t be a commodity. I knew that if we could add genuine emotion to the product, and attack the low end with a strong message, we could succeed.”¹² Hayek noted:

Every person who is wearing a Swatch is showing it to at least 5,000 to 7,000 people a year. There is an

absolute certainty that at least 0.2% out of these 6,000 would say “he is a nice guy, he has got good taste and I like his Swatch or his car and want to buy the same one, too.”

Furthermore, young people at the beginning of their career do not want to pay a very high price for a watch or a car. But they might buy a Swatch. They get used to buying your products; they get used to the good quality. They will stay with you when they become president of a large company, 20 years after, and then they will want to buy a very expensive watch.¹³

Apart from the regularly employed 20 Swatch designers, who created up to 500 different models each season (of which 140 were chosen), renowned guest artists designed limited-edition watches for special events such as Christmas, Easter, the United States Bicentenary, and Switzerland’s 700th anniversary as an independent democracy. Watches designed by Keith Haring, Kiki Picasso, Sam Francis, and Jean Michel Folon, which Swatch sold for a limited time, became highly sought-after collectors’ items. The highest price ever paid was CHF 68,200 for a limited-edition Swatch (140 releases), designed by Kiki Picasso in 1985 and sold through Christie’s auction house. The watch’s retail price was CHF 100.

ETA handled production for all Swatch Group watches, as well as those for most other Swiss watchmakers. The company also produced watches in Brazil and China, and was establishing operations in India. Assembling a Swatch took 67 seconds, and ETA’s fully automated assembly line cranked out a new Swatch every 2.5 seconds, producing up to 35,000 watches a day. From midnight to 8:00 a.m., the assembly line moved without human intervention. “The goal,” explained Hayek:

was to be able to compete with low-wage countries through capital-intensive investments, which would allow labor cost to go down to less than 10% of total costs. If labor is less than 10% of costs, there is nothing to stop us from building any product in the most expensive country in the world. Volume sales are as important as dollar revenues.

Managing the Brand

By 1990, worldwide demand exceeded supply, and people started to trade, sell, and speculate with Swatches. A Swatch collectors’ club was founded that published a

¹²Taylor.

¹³Ibid.

quarterly journal informing members of new releases, special editions, and special events. Every year, the company released a special Swatch as a badge of membership. Membership fees were \$80 plus shipping and handling charges. In early 1999, the club had 80,000 to 100,000 paying members. While Swatch relied on limited time only schemes to create consumer frenzy, the company's philosophy was to produce as many watches as the market could absorb. "Everybody should be given the opportunity to buy any Swatch model at the official retail price," Hayek explained.

By the early 1990s, rising demand required expansion of Swatch's distribution channels. The company operated wholesaler organizations (Swatch divisions within Swatch Group subsidiaries around the world) in all countries that were structured in a product-country matrix. Local division managers reported to country managers, who were responsible for the country's total profit and loss, as well as to brand headquarters in Switzerland. Distribution strategies were developed in accordance with the team in charge of the brand at headquarters and with the brand country manager in the country in question.

Initially sold through special stores and department stores, Swatch moved into regular watch stores in the mid- to late-1980s (depending on the country). During the late 1980s and early 1990s, several individual investors and entrepreneurs began opening Swatch stores that sold anything that carried the Swatch brand name. By 1999, there were 250 Swatch retail stores worldwide—20 in the United States. The company planned to have 500 retail stores, 50 flagships, and at least 2,000 kiosks in operation by 2000. While the Swatch website profiled all Swatch models, only the Swatch Beat could be purchased over the Internet; only three Beat watches were allowed per sale.

While the Swatch message seemed to capture global attention early on, by the mid-1990s, sales in the United States were faltering (see Exhibit 6). A number of department stores stopped carrying the Swatch brand. "Swatch came out with more product than the market could bear, and the consumers seemed to back off," offered one U.S. watch retailer. "I guess if you use the word 'fad' for anything, it could be used for Swatch."¹⁴ Gamard took a different position: "It's less known in the United States than it is in Europe that Swatch has 21 product lines. In the

United States, people still think of Swatch as being a youthful plastic, colorful watch. Our marketing is now communicating that we have Chrono, Skin, Access, and Beat watches."

Hayek believed that Swatch's U.S. operations, led primarily by Swiss managers and marketers, did not clearly communicate the Swatch message to the American consumer: "We were stupid to continue letting department stores sell the product as a fashion item alone. We forgot to market Swatch not only as an emotional product, but also a technically advanced product."¹⁵ Timex held 30.6% of the U.S. watch market in 1998, compared to Swatch's 1.6%. Other Swatch Group brands held less than 1%—Hamilton (0.7%), Tissot (0.7%), Omega (0.5%), and Rado (0.2%). According to Gamard, quality was less important to U.S. consumers than it was to Europeans:

Americans go for the function more than for the quality of a timepiece. The fact that it doesn't hold water is less important. So long as the price is very cheap, Americans will dress up with fashion items even if the quality is not very good. They put price first, then fashion, and then quality.

The Swatch Group spent \$40 million to be the official timekeeper for the 1996 Summer Olympics in Atlanta, and was chosen to be the timekeeper for the 2000 Summer Olympics in Sydney.

Beyond Watches

Hayek always believed that The Swatch Group would eventually be about more than just watches. Nevertheless, the company moved with caution. He explained during a speech in 1994:

The Swatch Group will go into manufacturing of products only where it can add significant value, thanks to our core competencies, which lie in first-rate manufacturing of watches. Thanks to this expertise, we are also strong in microtechnology, micromechanics, and microelectronics. We get many brand licensing requests. But we want to make things that are visible. Mass brings mass. The consumer is the best advertiser. We want to use our brand for emotional consumer products.

¹⁴Keith Flamer, "Can Swatch bring back the good times?," *Jewelers' Circular Keystone* (December 1998).

¹⁵Joshua Levine, "Swatch out! (A new marketing strategy of Swatch USA)," *Forbes* (June 15, 1995).

Aside from technological know-how, The Swatch Group seemed to rely on its brand reputation to help it succeed in its nonwatch ventures. “When you talk to anybody about Swatch they automatically have a definition,” Gamard explained. “It’s going to be something innovative, high-tech, high quality, and very, very different. Whatever we get involved with it has to be very intimate to people.”

Telecom

In the late 1980s, The Swatch Group recognized analog telephones as an opportunity. Geiser explained that telecom did not require too much capital and that it was a new way to enhance the Swatch brand. “It was also close to what we understood—the micromechanical product,” he explained. Furthermore, Hayek believed the telecom industry needed new brands and a new marketing approach: “How many worldwide brands can you name for telecom products sold directly to the end customer? Alcatel or Siemens understand how to sell to governments and big companies. We understand how to sell to people.”¹⁶

In 1991, shortly after JV talks between The Swatch Group and Finland-based Nokia fell through, the company entered into a JV with German-based Siemens to manufacture analog cordless phones. Siemens provided telecom technology while Swatch contributed its expertise in manufacturing “things that are tiny” as well as a strong brand name. Product design and communication were decided in agreement with the Swatch Group marketing team in Switzerland.

The telecom venture, however, proved to be a challenge. According to Hayek, the company did not understand the distribution channels for telecom products. It also underestimated the regulatory hurdles to getting telecom products licensed and approved in different countries. Furthermore, issues arose between the JV partners. “We had some controversy regarding the multi-color concept to be adopted,” recalled Geiser. The company wanted to make phones in unusual colors to make them more than a commodity. In the end, market pressures put an end to the partnership. “A price/commodity war erupted between Philips and Siemens,” Gamard explained:

Philips strongly attacked Siemens in its core country with low-price products. Having to defend itself,

Siemens was in no position to exploit the marketing synergies and the marketing multiplication effect of the Swatch brand. We felt we were losing an opportunity there. Swatch does not become involved in commodity or price wars. We parted in good friendship.

Siemens’ share of the JV was taken over by The Swatch Group in 1996. “Looking back,” Hayek said, “we should have taken the time to find the right people to do it and not rush into it ourselves.” In 1999, The Swatch Group marketed a number of its own telecom products, with the same message as Swatch watches. The Twin phone, a dual-handset phone that enabled two people to place or answer calls together, came in blue moon, limelite, and tequila sunset colors, and retailed for US\$40. The Swatch Cordless phone came as Toxic Rosella, Frozen Kakadoo, and Loro Azul, was only sold in Europe, and retailed for DM279. The Swatch Digital Cordless phone with answering machine, retailed for DM349, and was only available in Europe. The company also marketed cellular phones and pagers. According to one Swatch executive, of the company’s telecom products that were marketed worldwide, the European and U.S. markets had first priority.

Cars

In 1994, The Swatch Group announced the formation of MCC, a JV with German automaker Mercedes-Benz to design and manufacture a two-seat, “ecological” city car that later became known as the Smart car. Using its knowledge of microelectronics, Swatch handled the car’s design and marketing strategy, while Mercedes covered mechanics, comfort, safety, and quality. Geiser recalled the context for the original negotiations with Mercedes-Benz:¹⁷

For [Mercedes] it was fantastic to see what we had achieved in technology and organization. They said, “We have the outside shape of the car, but you have the inside. So let’s join forces. We need to get younger customers and cannot do it with the Mercedes brand. We need someone from outside to give input to culture, way of thinking and projects.” Who else than Mr. Hayek to join them and bring in such ideas? We had a lot of enthusiasm and a lot of ideas. Everyone was totally excited.

¹⁶Taylor.

¹⁷The Swatch Group and Volkswagen had already been in negotiations but Volkswagen’s new CEO Ferdinand Piech had shelved the deal when he took over in 1991.

When observers questioned the sensibility of the Smart car and the JV with Mercedes-Benz, Hayek's standard response was as follows:

People like to underestimate other people. Therefore, it comes as no surprise to me that I get criticized for my car. People believe only what they can see, and as long as they don't see the car and its success in the market, they won't believe me and will continue to reprove me.

On December 18, 1997, the JV's board met to discuss the start of production. The project was late and over-budget. "Everyone realized that the product was wonderful but could not be put on the market," Geiser stated. "Technical changes were necessary, they cost a lot but, in the final analysis, it is totally another product." In November 1998, just weeks after launching SIT, The Swatch Group sold its 19% interest in the JV to Mercedes.¹⁸ Nonetheless, Swatch profiled the \$10,000 Smart car at the Swatch Exhibition in Malaysia in early 1999. Between October 1998, when the Smart was launched, and the end of March 1999, DaimlerChrysler sold 30,000 Smart cars in Europe; the company estimated that 80,000 units would be sold by the end of 1999. Nicholas Hayek Jr., president of Swatch International, underlined that "the automotive section of our group remains committed to future-oriented mobility solutions."¹⁹ The company was still interested in finding a partner to develop the hybrid electric Swatchmobile.

Geiser felt the management team learned several lessons from the telecom and car JVs:

First, we must be able to pilot the venture. Second, because we are very lean, we need to be aware every day of what is going on and work around the clock. We cannot survive budget overruns or massive losses the way a larger player can. We do not want to be associated with a venture that asks for money because of losses all the time. Third, we want to have decision-making power in certain areas; we need the ability to change management if we think they do not work or do not surface problems rapidly. Finally, we need to control what is being done and control the two sides of production and distribution, as well as marketing.

¹⁸Originally Daimler-Benz owned 51% and The Swatch Group owned 49% of MCC. A capital infusion in August 1997, financed solely by Daimler-Benz, increased the German conglomerate's share in MCC to 81%.

¹⁹Lam Seng Fatt, "Staying ahead of time," *New Straits Times* (Malaysia) (February 12, 1999).

Swatch Internet Time

SIT was promoted through a variety of media including PR events, international alliances, traditional print advertisements, and the Internet. "All these activities," explained one executive, "were coordinated and carried out on an international level. The launch and promotion of SIT always went 'hand in hand' with the product. Therefore the communication had a 'double focus': SIT Evangelization and Swatch .beat promotion."

On October 23, 1998 the "Three Nicks" (Hayek Sr., Hayek Jr., and Negroponete) officially launched SIT to the international press. One month later, Swatch began offering free Internet time clock software for PCs on its website (www.swatch.com). One of the site's hyperlinks named the *Dog Award* stated the following:

If you have an excellent nose for cool innovations, join the *Dog Award* and win a Swatch .beat every 7,000 beats. You only have to put the Internet time on your home page. Every week, a special jury will pick out the coolest site. The winner will receive the *Dog Award* to show on his own home page and a Swatch .beat to show on his wrist. There will be also a "Hall of Fame" with pictures and links to all *Dog Award* participants.

Every participant who entered the contest agreed that SIT could be downloaded onto their Internet site. Winners would be selected by Swatch (company employees were not permitted to participate) and would be informed by email if they won. By the end of April 1999, SIT had been downloaded to 480,000 Internet home pages, 350,000 desktops, and 10,000 personal digital assistants.

The company had also reached agreements to display SIT on the CNN news channel, CNN's website, Sony's computer games, and Apple's iMac PCs (see Exhibit 7). Neither Sony nor Apple was paid by Swatch for using SIT. CNN, however, had a long-time advertising contract with the company.²⁰ According to one Swatch executive, CNN's endorsement, "created an amazing wave of coverage in the press and all media. The use of an international TV chain, always working across different time zones, provided an ideal medium to quickly spread the word on SIT and support and credibility to the concept."

The company used the traffic it drew to its website to promote SIT to the greater public. Website visitors were asked to post messages that included the word "beat."

²⁰"Swatch Group," an analyst report by Auerbach Grayson (March 5, 1999).

Swatch stored those messages in the memory of a Russian Sputnik satellite replica called the Beatnik that was launched from the Mir space station during a space walk on April 16, 1999.²¹

On April 23, 1999 at @ 375 BMT, Swatch presented a live broadcast on its website of a Russian cosmonaut reading the stored messages. The company originally planned to use the ham radio band, intended for sole use by amateur operators, to broadcast messages over one of the hammers' frequencies. A number of people, however, protested the company's plan to use airtime for commercial purposes.

Since Swatch's launch of SIT and its new line of Beat watches, hits to the Swatch homepage had increased from 13 million per month in October 1998 to over 50 million in April 1999. Hayek believed that Internet time was the "perfect measuring stick for the era." "The Internet has made human beings more globally conscious of being on a small planet where we are all really equal," he explained. But public opinion on Swatch's latest venture varied. Comments on the Swatch website included:

- .beat is the right measurement for the next millennium. The world will shrink to a village. Internet and ecommerce will explode. .beat is the right answer in the right moment. It's a revolution.
- Sorry to be against all the favorable comments you've got to the Internet time idea. I guess you have invented it [to] increase your sales. A measure of time independent of borders and places was invented [a] long time ago. It's used everyday in Aviation (civil & military) and naval business around the world. It's called UTC (Universal Time Coordinated). Be serious, please.
- I have just installed the Swatch Internet clock on my PC. Currently its 21:19 here in Melbourne, yet the swatch beat shows @513. This is 1 hour ahead of actual time! Is this due to the Swiss having daylight savings? If I turn back my PC clock 1 hour then the Swatch Beat shows @471. Maybe Swatch has forgotten to [consider] the daylight savings issue?
- Time that's dancing to a new "BEAT" . . . awesome idea. Internet time is absolutely ingenious. I also like the fashionable designs on these new Swatch

watches. I've just bought the Net-time watch and absolutely love it.

- Great idea, your netbeat. But I think it's ridiculous to call it "Biel Median Time." Just call it "Central European Time." Sorry, but I will never use the expression "bmt" . . . sounds too silly.
- Marketing knows no pompous, arrogant, self-important, conceited barrier, does it? I would advocate that it is best buried quickly, quietly.

Others questioned the logic. As one journalist wrote:

The idea is that you can arrange to talk to someone at the other side of the world by saying: "I'll call you at 500 Swatch beats." Whatever time zone you're in, Internet time is the same all over the world. What Swatch neglects to mention is that you'll still have to do the same calculation for Internet time (let's see, it's 237 beats now, so 500 beats will be in, er . . .) as when you allow 11 hours difference when calling Australia. I have a hunch that it won't catch on.²²

What Is Swatch?

"One of the problems is that Swatch doesn't have an overall brand look," explained one U.K.-based watch designer:

The different stores, the various materials, colors and finishes don't give a coherent message. When Swatch first came along and put a Swiss time movement in a plastic watch, it was unheard of. But other manufacturers have caught up. No one really understands what Swatch is about. Some of its ideas are great, but so what? I don't think people will buy into these niche ideas.²³

Hayek Jr. volunteered this answer:

Swatch is a hi-tech brand. Product development at Swatch continuously introduces exciting new innovation and state-of-the-art technology. The Smart car and Swatch telecom products (cordless phones and pagers) are good examples of this, but they are by no means the only ones. Our core business has and will

²¹The Beatnik provided emergency support to the MIR communications team and was being used by both the Russian Space Program and NASA to measure ballistic movements.

²²David Phelan, "Object lesson: Swatch beat watch," *The Independent* (January 17, 1999).

²³Paul Edwards, "Can Swatch keep up with the changing times?" *Marketing Week* (July 15, 1999).

remain “time” in all its forms, meeting the demands of the times.²⁴

“People forget that Swatch is time,” Gamard echoed:

Time is in our blood. We have found new creative ways to enhance time. The point is to illustrate the

relativity of time, not just the scientific way. I hope it catches on. Anyway, it is a fun concept. Whatever we do that lasts more than two weeks will be a success. We do not know where Swatch will go tomorrow.

²⁴Lam Seng Fatt, “Staying ahead of time,” *New Straits Times* (Malaysia) (February 12, 1999).