Smart Watches: Will they impact the watch business?

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We Will Briefly Cover:

• The current and future (projected) jewelry industry
• The past, present and future watch industry
• The current and projected Smart Watch industry
• The anticipated birth of the heralded iWatch
• Discuss strategies to meet the potential industry changes, (opportunities?) of the Smart Watch and iWatch
The Multifaceted U.S. Jewelry Industry

- **U.S. Department of Commerce** says in 2012..
  - There were 20,546 jewelry stores
  - Selling $69.1 billion total sales
- Consumers now returning to jewelry stores with voracious appetites
- Industry is again fast-growing and dynamic
- Responding to:
  - Globalization - China, Thailand, Canada, etc.
  - Consolidation (M&A driver of growth)
    - The Zale merger with Signet are good examples
    - Other mergers were finalized in ‘14 and several ‘roll-outs’ are in the works.
The Multifaceted U.S. Jewelry Industry

- Branded jewelry
  - 40% of the market by 2020
- Jewelers becoming adept at using social networking marketing tools
- Online jewelry will continue to grow
  - 10% through 2020
- High-end jewelry will be strong
- Low-end solid

• By 2020
  - US Jewelry industry should grow from 4%-6% and should total between $90 to $100 bln
The Multifaceted U.S. Jewelry Industry

Retail Jewelry Historical Sales Growth - Census Bureau
Current U.S. Watch Industry

• U.S. Department of Commerce says in 2012...
  — There were 20,000 stores selling watches
  — With total sales of $9.4 billion

• Industry slowed in 2013 after double-digit growth in 2011 and 2012
  — During the Recession sales plunged 10%
  — 2014 Sales moved past pre-recession highs

• Now strong demand for luxury ($1,000 - $5,000)
  — But low-end (<$50) remains weak
Some Current Watch Trends

- Watch industry extremely sensitive to:
  - Technological change (i.e. Innovative Quartz movement of the 60’s)
  - Economic conditions
  - Prices, (4-P’s)
  - Brands
  - Political conditions
  - Culture / Geographic's
  - Good or poor design
Some Current Watch Trends

• Collectors are now an important segment
• China high demand for luxury watches
• Low-end watches are price sensitive
  – Consumers seek value
  – Mass-produced, low cost watches do better in recession
• Middle-priced ($50 - $299) watches are fastest growing segment. (A segment at peril)
• Luxury watches the largest US segment in $
Some Current Watch Trends

• Innovation is flourishing in the industry....
  – Here are but a few..
Some Current Watch Trends

Some High-End Watch Brands

- Rolex
- Cartier
- Breitling
- Chopard
- Omega
- TAG Heuer
- Ebel
- Bell & Ross
- Baume & Mercier
- Longines
- Dior
- Tiffany & Co.
Future of Watch Industry

• U.S. watch industry should reach $11.4 billion by 2017, (US Dept. of Commerce), due to....
  – Design content of mid-priced watches
  – The design improvements of high-end watches
  – The impact of technological innovations
  – An improving economy and discretionary spending
  – Global Distribution
  – Consumer confidence
  – Wearable Technology (What’s this?)
What is WEARABLE TECHNOLOGY?

• Tech companies discovered that humans are an inviting market
  – “A mobile computing and communications platform”
  – The easiest pickings are watches....
Smart Watch and Wearable Technology: “The Next Big Thing”

A simple combination....

Your Smart Phone

+ Bluetooth

= Smart Watch
Smart Watch and Wearable Technology: “The Next Big Thing”

- Combines a Smart Phone with Bluetooth Technology to become Smart Watch
- 15+ Tech companies jumped on the ‘Wearable Technology’ bandwagon. Like an ‘exploding’ corporate ‘jail break’
- Led by Samsung, Nike and Garmin
  - Samsung now ‘owns’ 34% of the Smart Watch market
- In 2013, global Smart Watch industry was a $700 million market - was only $70 million in 2012.
- In 2014, the global industry should be at $2.5 billion.
Smart Watch and Wearable Technology: “The Next Big Thing”

Market Share Smartwatch Industry 2013
100% = USD 700 million

Company | Units Ship’d
---|---
Samsung | 800,000
Nike | 400,000
Garmin | 200,000
Fitbit | 450,000
Sony | 250,000
Pebble | 300,000

Hoover & Co. Research ‘14
Smart Watch and Wearable Technology: “The Next Big Thing”

• Analyzing Industry leader Samsung’s ‘Gear 1 & 2’ ‘underwhelming’ Brand
  – Sold at Wal-Mart, Yahoo, Lowe’s, QVC, & others
  – Heavily Discounted from $299
  – Weak marketing campaign
  – Feeble digital design content
  – Timing of launch questionable
    • Attempting to use classic market strategy.... “First In”
  – Market lead linked to Samsung’s own Smart Phone?
  – Apple, (“The Gorilla”) is taking notes
Smart Watch and Wearable Technology: “The Next Big Thing”

- Why will you wear a smart watch
  - To communicate with your smartphone without taking it out of your pocket. *Who’s calling?*
  - The latest innovation in health, time, messaging, information, Facebook updates on your wrist
  - 3.1 million were shipped in US, (2014) vs only 500,000, (2013)

- In a study by the JCOC, 72% of those “*polled had heard of wearable technology*”
  - 44% “would likely” purchase Smart Watch type-item
Smart Watch and Wearable Technology: “The Next Big Thing”

• Market poised to explode driven by
  – Improving Economy
  – Advances in Technology
  – Cheaper Bluetooth sensors
  – Popularity of concept
    • Many more in development

• Downside of Smart Watches
  – Styling is ugly, bulky, square
  – Technology can be quickly outdated

  – Consumers Lingering for Apple’s iWatch
Industry Implications

A Warning!

“Past developments that caused paradigm shifts in timekeeping include the sundial, mechanical clock, pocket watch, wristwatch and quartz watch and the advent of the personal electronic device. The next big change will come….. turning order into chaos but with challenges and opportunities”

– Glen B. Bowen, Publisher of The Watch Magazine
Industry Implications
(Cont’d)

• For example...

• When Seiko launched it’s infamous Quartz-driven watch in ’62...
  – 60,000 Swiss watchmakers lost their jobs
  – The entire Swiss watch industry was ‘turned up side down’
  – Could the Smart Watch spell that same type of trouble...?
Beware of the **Gorilla**. He’s coming to a store near you soon....

(A ‘selfie’ of Jan Brassem?)
The Gorilla has Entered the Room!

Apple, Inc. has entered the room...

- One of the most competitive and pathologically secretive companies in the world.
  - By way of size comparison, Apple sold 43.7 million iconic iPhones during the first quarter of ‘14.
  - Apple reported a profit of $10.2 billion for the second quarter ’14 with sales of $45.6 billion
  - When Apple launches a product it means business; it can transform an industry
  - Apple demands products with huge margins, especially with large volume
The iWatch could be a transformational product

- Led by the world’s finest industrial designer, Jony Ive, and his crew of 100 jewelry designers
- Apple makes products, (i.e. iPad, iPod, iPhone, etc.) that sell globally in large volume and with immense profits
- Other Smart Watches have been around long enough to guide Apple on...
  - Price
  - Technology
  - Distribution
  - Design
**Apple CEO Tim Cook hinted** in April, ‘14, that the company aims to be the best, not the first, with everything it makes. He said this just after discussing new “game-changing” product categories, so we couldn't help but think that Cook was talking about the *iWatch*.

--- *Wall Street Journal, May, 2014*
Here Comes Apple’s iWatch

• Rumors, rumors, rumors...
  – ... Copyrighted the name “iWatch” around the world, except in the U.S.
  – ...“..device to have round face”, maybe even analog – Ben Woods
  – ... Is negotiating with several Asian manufacturers
  – ... iWatch may have functionality of iPod music
  – ... Other expected features include curved display, Siri, longer battery life, fitness tracking, messaging, heartbeat security and others aps we haven’t even thought of yet.
• iWatch / Apple issues
  – If the past is any indication, globally Apple expects to sell 50 million iWatch units in 2014; 250 million in 2015 (Goldman Sachs report)

  – Apple distributes its fabled ‘i’ brand products in the US through 225 U.S. Apple Stores, as well as AT&T Stores and the Best Buy chain, (to name a few).
Here Comes Apple’s iWatch

• Some iWatch renderings....(Not mine) some are called ‘sweet’....
Occasionally, the watch industry, through a history of innovative technology, (sundial, clock, pocket watch, wristwatch and quartz watch), has changed the industry from Mature, possibly Declining, to an Emerging one.

Let’s discuss a distribution strategy.....

Why not distribute the iWatch through independent jewelers stores and jewelry chains?
Strategic Assumptions

<table>
<thead>
<tr>
<th>Samsung</th>
<th>Apple</th>
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<tbody>
<tr>
<td>Get ‘out-in-front’ of the market (first-in)</td>
<td>Learn from early entrants errors</td>
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<tr>
<td>Sell through low-cost outlets (ie. Wal-Mart)</td>
<td>Sell though Apple outlets, others</td>
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<tr>
<td>Focus on utility, some design</td>
<td>Focus on design, utility and apps</td>
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<tr>
<td>Target customer? (uncertain)</td>
<td>Target customer? (upscale)</td>
</tr>
<tr>
<td>Little Differentiation</td>
<td>Significant differentiation</td>
</tr>
<tr>
<td>Risk of being out flanked - high</td>
<td>Risk being outflanked - minimal</td>
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A FEW STRATEGIC IDEAS

• Strategic Ideas (if time permits)

1. John’s Strategic concept: Market iWatch in jewelry/watch stores.

   a. Positive Comment: Jewelers Immediately becomes part of the celebrated tech industry
   b. Positive Comment: Allows for add-on sales
   c. Positive Comment: Increases customer base
   d. Positive Comment: Lowers avg. age of customer base
   e. Positive Comment: Increases Margins

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