

# A Business History of the Swatch Group

*Also by Pierre-Yves Donzé*

ORGANIZING GLOBAL TECHNOLOGY FLOWS: Institutions, Actors, and Processes (*edited with Shigehiro Nishimura*)

FROM FAMILY BUSINESS TO GLOBAL BRAND: Longines

HISTORY OF THE SWISS WATCH INDUSTRY FROM JACQUES DAVID TO NICOLAS HAYEK

LES PATRONS HORLOGERS DE LA CHAUX-DE-FONDS (1840–1920):  
Dynamique sociale d'une élite industrielle

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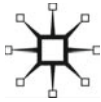
# **A Business History of the Swatch Group**

**The Rebirth of Swiss Watchmaking and  
the Globalization of the Luxury Industry**

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# Preface and Acknowledgements

For more than two decades, the luxury industry has posted one of the fastest growth rates among all economic sectors – a trend which most financial analysts expect to continue. According to the consulting firm Bain & Company, for example, global luxury sales exploded in less than two decades, rising from 77 billion euros in 1995 to 212 billion in 2012.<sup>1</sup> However, the companies producing luxury goods – champagne, fashion articles, perfume, jewellery, and watches – have undergone a radical change since the 1980s that is not always easy to define, as a result of a communication strategy designed precisely to reinforce the timeless nature of the industry and its products. History, tradition, and legends are the essential resources for marketing and added value in the luxury industry, so much so that it is often difficult to go beyond conventional brand language to analyse the development of these firms and this industry.

This book takes as an example watchmaking, an industrial sector whose recent dynamic performance is relatively unexplored. Of course, the Swiss and global watchmaking industry, from the 18th century up to the sea changes of the 1960s and 1970s, has been the subject of many works, which provide a clear explanation of the key points of the history of this economic sector over the long term.<sup>2</sup> Yet recent developments in this industry, from the crisis of 1975–1985 to the present, are not well known, and paradoxically have not given rise to many in-depth studies. There are two – perhaps surprising – reasons for this lack of interest. First, it is a reflection of the specific characteristics of Swiss academia: historians rarely extend their research up to the present moment, and economists display a certain lack of interest in applied economic approaches. Second, it mirrors the attitude of the media, as few watchmaking journalists compile thorough analyses of developments in the industry, limiting themselves to passing on the viewpoint of the communication departments of the major watchmaking groups. As a result, the history of the Swiss watchmaking industry over the past three decades is often confined to images which have become virtually legendary: a

revolutionary product (the Swatch), a brilliant entrepreneur (Nicolas Hayek), and a time-honoured culture particular to the Swiss Jura Arc (mechanical watchmaking).

We must look beyond these images to determine how Swiss watchmakers have staged a comeback on world markets since the late 1980s. There are several viable approaches to tackling this topic. This book chooses to deal with the Swatch Group and offers an applied business history analysis inspired by the work of Takeo Kikkawa. In his publications covering the Japanese petroleum industry, Kikkawa showed how a historical perspective was useful for understanding firms' current ability (or inability) to compete.<sup>3</sup> An advocate of a historical approach extending up to the present, he defined his perspective as follows: "The study of applied business history is about identifying the dynamism of industrial and corporate growth through an examination of business history; then, based on the findings, such studies explore solutions to the contemporary problems encountered by relevant industries and companies."<sup>4</sup> In the case of this analysis of the Swiss watchmaking industry, even if the objective is purely cognitive and thus significantly different, on the grounds set out above such an approach firmly rooted in the present appears both relevant and necessary.

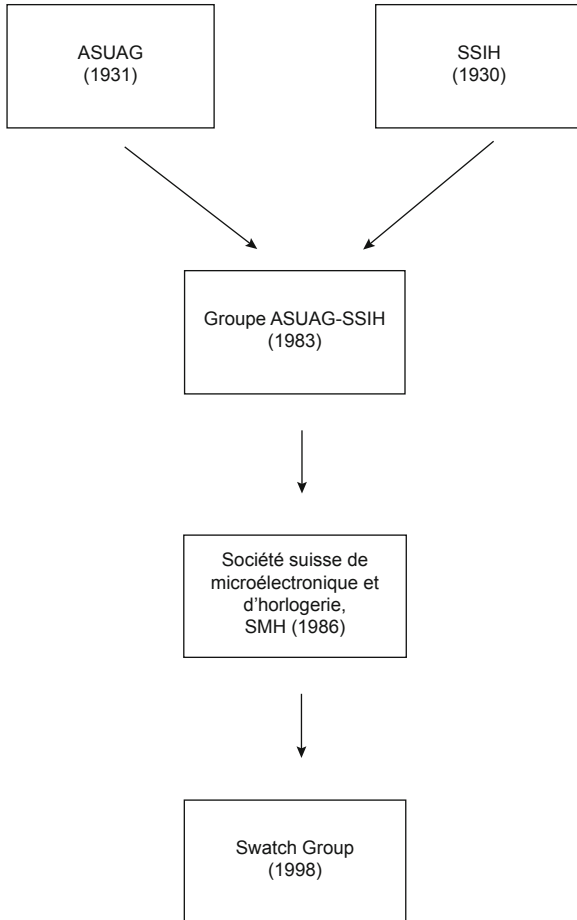
There are two main reasons for choosing the Swatch Group as the subject of this book. First, it is the world's leading watchmaking group. In Switzerland, it has employed approximately 25–30 per cent of all those working in the industry over the past 30 years (26.6 per cent of all Swiss watchmaking jobs in 1990; 28.9 per cent in 2000). Accordingly, the firm has considerable influence within the industry as a whole.

Second, the Swatch Group has a virtual monopoly – which is much more a relic of the past than a deliberate choice, as we will see – on the production of movement blanks (*ébauches*) and movement components through its subsidiary ETA SA, whose headquarters are in Granges. Thus, for historical rather than legal reasons (because Swiss legislation on monopolies has never been very restrictive from an international perspective), the Swatch Group supplies not only its own watchmaking factories but also those of the main rival groups, including some prestigious *manufactures* (watchmaking workshops). As a result of its control over movement-related technologies, the Swatch Group is a leader in this industry.

Casting an analytical eye over the modern watchmaking industry is not an easy task. It poses a number of methodological problems, the most difficult of which is gaining access to primary sources. Most companies, including the Swatch Group, do not grant access to their archives and publish only a limited amount of data in their annual reports. Even though they are meant for investors, these documents turned into communication tools during the 2000s and now contain less and less quantitative information that might be of use in understanding how a company works. By way of example, in 2005 the Swatch Group stopped publishing information on its sales volume (number of watches and watch movements) and the share of its employees in Asia. However, these limitations do not preclude an analysis of the modern Swiss watchmaking industry. The main documents used for this study are the Swatch Group's annual reports and official Swiss foreign trade statistics. To avoid making the text excessively lengthy and awkward, references are generally not given for information taken from these sources.

This book is an expanded and revised version in English of a book originally published in French in 2012 by Éditions Alphil-Presses Universitaires Suisses under the title *Histoire du Swatch Group*. Draft versions of the manuscript which formed the basis of this book were prepared as working papers at the University of Osaka (in English) and at the University of Neuchâtel (in French), as well as in the form of an article published in the *Journal of Strategic Management Education* under the title "The Comeback of the Swiss Watch Industry on the World Market: A Business History of the Swatch Group (1983–2010)" (vol. 8, no. 2, 2012, pp. 1–32). Finally, the bulk of Chapter 2 is taken from an essay entitled "Global Competition and Technological Innovation: A New Interpretation of the Watch Crisis, 1970s–1980s," published in 2012 as part of a collection edited by Thomas David, Jon Mathieu, Janick Marina Schaufelbuehl, and Tobias Straumann, *Crises – Causes, interprétations et conséquences* (Zurich: Chronos, pp. 275–289). Previous drafts of this book benefited from the close reading, criticism, and comments of many people, to whom I am very grateful. My special thanks go to Nicolas Babey, Jean-Claude Biver, Bastien Buss, Olivier Crevoisier, Nicolas Hanssens, Laurence Marti, Christelle Roks, and Minoru Sawai. I also wish to express my gratitude to the Federation of the Swiss Watch Industry (FHS) for providing me with a great many statistics on watch exports. My heartfelt thanks

go to my friend Alain Cortat, the publisher of the French version, for providing constructive criticism and advice. Finally, I want to thank David Neal for his kind support in translating this book and making it available to a worldwide audience. However, as author, I remain solely responsible for the views expressed and any errors.



*Figure 0.1* Name changes for the Swatch Group

*Note:* With a view to avoiding confusion and simplifying matters, only the name “the Swatch Group” is used in this book to refer to the company since its founding in 1983.

## Notes

1. Bain & Company, *2012 Luxury Goods*. Bain's analysis covers only spending on luxury apparel, accessories, leather goods, shoes, jewellery, watches, perfume, and cosmetics. It excludes luxury services, hotels, restaurants, wines and spirits, luxury cars, and yachts/private jets.
2. See, for example, Landes, *Revolution in Time*; Glasmeier, *Manufacturing Time*; and Donzé, *History of the Swiss Watch Industry*.
3. Kikkawa, *Nihon sekiyu sangyo*.
4. Kikkawa, "International competitiveness", forthcoming.