

swatch®

THE MARKET

Traditionally, Switzerland has been the watchmaker to the world. That changed in the 1970s, just as the international market was experiencing significant gains. Swiss exports dropped off sharply, and in less than ten years – from 1977 to 1983 – exports halved in value. The number of units produced as a proportion of the global market dropped from 43 to 15 percent.

Hong Kong and Japan had challenged the Swiss watch industry for the top spot, pushing the Swiss into third place. Employment in the Swiss watch industry dropped from 90,000 to fewer than 40,000 jobs. The Swiss, who had actually developed the quartz wrist-watch, nevertheless stayed focused on traditional mechanical movements, and that was a mistake.

Then, in December 1982, the Swatch watch was introduced. It was a real sensation. Never before had there been a single watch product that combined so many amazing qualities at once. The proof of the concept is in the numbers; the Swatch is now the most successful watch of all time.

The Swiss share of the global watch market has largely regained its solid footing, at 51 percent. The world's largest watchmaker, The Swatch Group Ltd. (annual sales: 3.053 billion Swiss francs in 1997, representing 22 to 25 percent of the global market) laid the foundations for this spectacular turnaround.

ACHIEVEMENTS

Two hundred million of the stylish watches with the unmistakable look of the Swatch brand have been sold worldwide. That took just 18 years.

The path Swatch took during its development is paved with pioneering technological innovations. The very design principle on which the original Swatch watch was based came as something totally new in the watch industry: a watch that looked as though it were made in a single casting, made up of just 51 parts.

Swatch offered a low price, unimaginable in Switzerland for a quartz watch with an analog display; a level of quality previously available only in expensive watches; a brand that



gave Swiss watchmaking a real boost, and that stands for an exciting lifestyle; and a product that never ceases to change, fulfilling all the criteria of a true fashion accessory.

That was just the beginning of the endless Swatch story of evolution. The emphasis in development is not on what is “doable”, but on the wishes of demanding target groups. All these “impossible” product ideas, however, must focus on a single criterion that expresses the Swatch philosophy: the price/performance ratio. High quality at the best possible price is a must for every Swatch product in development.

Multifunctionality is another key word: watches that dive, alarms that play music, watches with smart chips, and pagers in a watch, for example. Ten years ago, Swatch's creator

Nicolas G. Hayek, Sr. dreamed of a telephone in a watch. At the CeBIT '98 World Telecommunications exhibition in Hanover (Germany), he showed “Swatch Talk” to an amazed audience of journalists and industry specialists.

HISTORY

In 1978, the Japanese introduced a watch that stood just 2.5 millimetres high, a challenge for Swiss watchmakers who decided to create an even thinner timepiece, setting a new world record. Their watch was to be no thicker than a match – just 2 millimetres high.

In late 1979, after five months of intensive development, they produced the “Delirium Tremens. At a height of 0.98 millimeters, it is still the world's thinnest gold wristwatch. The secret of this expensive luxury watch lay in its radical simplification, and it is precisely this concept that Swatch then brought to the market – but in a far more affordable form.

The success of this watch encouraged Swiss designers to try to create a less expensive but still high quality watch out of plastic. The result was made of a synthetic material, shock-proof, accurate,



perfect for mass production, inexpensive, and available in a wide range of colors.

The final breakthrough came in 1984. Models were no longer referred to by their reference numbers; instead, each watch was given its own name. They were called "Don't be too late", "Chrono-Tech", "Nicholson" and "Black Magic", and they caused quite a sensation. The young, innovative product became a symbol for an exciting lifestyle, made in Switzerland.

In the same year, the pioneering companies joined forces to form the SMH Swiss Corporation for Microelectronics and Watchmaking Industries Ltd. group. Since 1998, this has been known as The Swatch Group Ltd. with headquarters in Biel, Switzerland.

New developments continually take their place alongside the standard Swatch - from the Swatch Chrono to the Irony (the Metal Swatch), from the light-powered Swatch Solar to the world's most melodious alarm clock, the Swatch MusiCall. From the Swatch Automatic to the world's first pager in a wristwatch, Swatch the Beep, Swatch Access, a watch with a built-in access control function that works as a ski pass at most of the world's ski resorts and Swatch Beat featuring the revolutionary internet time.

Swatch capped off a great start to the millennium as the official timekeeper to the Olympic Games in Sydney.

THE PRODUCT

Swatch means Swiss quality. Swiss watches have an outstanding reputation around the world. Their "quality secret" is based on innovative technology.

When it comes to accuracy, Swatch can hold its own against any luxury chronometer. In late 1980, the plastic watch was submitted to a chronometer test. The COSC (Contrôle Officiel Suisse des Chronomètres) subjected it to the same exacting criteria that it uses for luxury watches. The



test results were striking: 4,843 out of 5,000 Swatch watches passed the test. In 1996, the second round of chronometer testing took place at the COSC, this time with an aluminium Swatch Irony. The 1,500 watches in the Irony Chrono "Time Cut" edition all passed the stringent test.

RECENT DEVELOPMENTS

To celebrate 20 years of wearable art from Swatch, the company introduced Diaphane One, a captivating timepiece whose signature idea is of rotating all wheels around a centre movement. The revolving centre cage that houses all the movements completes one full revolution every 30 minutes. What this creates is a watch that "changes face" all the time.

Only 2222 examples of this timepiece are being manufactured. 1999 are graced with a single diamond for worldwide sale and 223 with a sapphire, a diamond and a ruby, signifying the French Tricolore - an exclusive sight viewable and for sale at the equally exclusive location of the Swatch Store at the Place Vendôme in Paris.

So what's in the offing? The people at the Swatch Communication Lab in Milan (Italy) know. At their "Creative Factory", they keep an eye out for new directions, assess trends and convert them into marketing savvy. This is where the people responsible for Swatch's visual appearance meet, and where special events and other activities are thought up.

PROMOTION

The product's presentation is just like the product itself. "Always new, always different" - a motto that has been part of the Swatch philosophy at every level right from the start. Just as the product developers, technical experts, and designers always took on - and continue to take on - new challenges, the same is true for Swatch marketing. Global campaigns and unconventional presentations help communicate the Swatch message.

In June 1998, Swatch and Le Cirque du Soleil put on "fireworks" at Zabriskie Point in Death Valley, ringed by unearthly rock formations to launch the Swatch Irony Scuba 200. There have been many other exciting and different launches.

In other promotions, Swatch welcomed 700,000 visitors to its pavilion at Expo '98 in Lisbon (Portugal), focusing on the theme: "The Oceans - Heritage of the Future". Swatch supports top snowboarders, mountain bikers, kayakers, surfers, beach volleyball players, as well as wakeboarders and skateboarders. Since the mid-1980s, the Swatch ProTeam have been ambassadors of Swatch. Thanks in no small part to Swatch, some of the disciplines it sponsors have become Olympic events. Swatch organises and supports sporting events of its own, like the Swatch Boarder-X event and the Dual Slalom on mountain bikes.

Swatch has an ear for music, and sponsors concerts. It also sponsored the museum exhibition "Skin Dimension" in Milan in 1997. Demonstrating environmental and social commitment, Swatch launched the Swatch Automatic "Time to move" in order to support the 1992 Earth Summit in Rio de Janeiro (Brazil) with a portion of its proceeds.

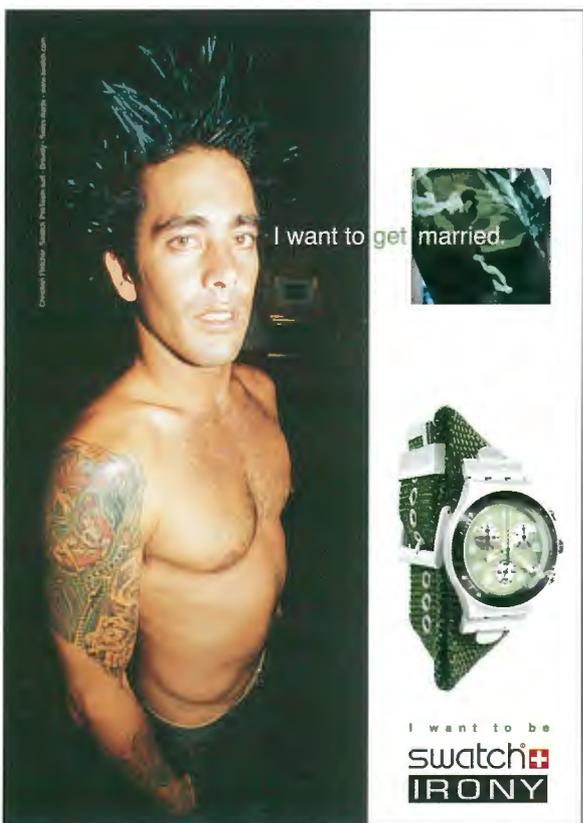
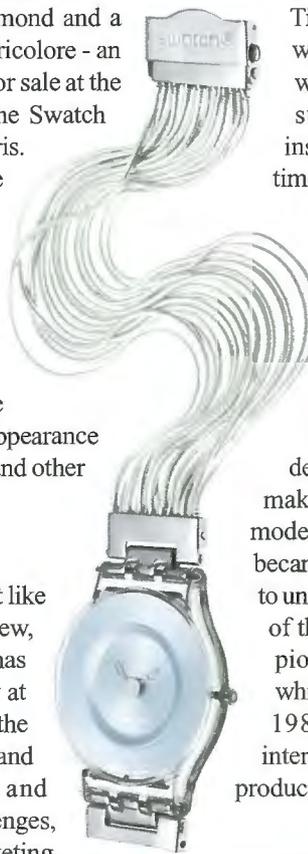


BRAND VALUES

Time is something personal, something we want and should use to do what we really enjoy. This is an idea that suits Swatch perfectly. Swatch inspires customers to engage in the time in which they live. That is because Swatch aims at being more than just another accurate timepiece.

Swatch thrives on dynamism and its commitment to exciting adventures.

Swatch has managed to capture the limelight in a unique way everywhere. Artists and designers worked on its face. Fashion makers "clothed" it. The exceptional models - Specials and Limited Editions - became a must for any collection. Thanks to unconventional marketing, a fine sense of the unusual, boldness, and plenty of pioneering spirit, this plastic watch, which ticked for the first time in the early 1980s, has developed into an internationally recognized brand name product with an unmistakable profile.



THINGS YOU DIDN'T KNOW ABOUT SWATCH

- The Swatch Access watch, with a built-in microchip, functions as a season ticket and for access control, and can be worn as an electronic wallet.
- In co-operation with Mercedes-Benz, Swatch initiated a project in 1994 to manufacture a small, environmentally sound futuristic car. Production of the smart car, as it is known, began in July 1998.
- The Swatch Group watch brands include Swatch itself and Blancpain, Omega, Longines, Rado, Tissot, Certina, Mido, Hamilton, Pierre Balmain, cK watch, Flik Flak, Breguet, Glashutte, Leon Hatot and Jaquet Droz.