

Watch, meet smartwatch: Fossil and Misfit think they're a perfect match

February 10 2016, by Maria Halkias, The Dallas Morning News

It seems like everyone came back to work from Christmas vacation with a rubber or plastic band on their wrist.

High deductibles and forced wellness checkups are scaring people into better personal health habits. Doctors are telling their patients to get off their tushes and walk, and they're all buying [fitness trackers](#).

What does all that have to do with Fossil Group, a \$3.5 billion-a-year global fashion accessories brand that makes watches, leather goods, jewelry and sunglasses?

Apparently, a lot.

Don't call the Dallas-area company a dinosaur watchmaker just yet.

Fossil is taking this evolution, this reinvention business, quite seriously.

Fossil shares tanked last year, falling from above \$100 to \$50 before Christmas. Shares took another big drop to below \$30 during the holiday season when the Apple Watch cut into Fossil's traditional business, particularly men's watches. Fitbit, Garmin and other fitness trackers that do more than tell time were also hot holiday items.

That's when Fossil bought a company.

Fossil announced in November that it was buying the Burlingame,

Calif.-based wearable-technology maker Misfit. It closed the \$260 million purchase a couple of weeks before Christmas.

Each company believes it's found its match, a partner that completes it.

Misfit founder Sonny Vu said he couldn't find anyone in Silicon Valley who cared about fashion.

"We're looking to build a great company with a design view," Vu said during a panel session at the Consumer Electronics Show in January.

After co-branding a couple of products, including a waterproof tracker for swimmers branded with Speedo and a crystal-adorned tracker co-branded with Swarovski that runs on solar power, Vu discovered that the branding route wasn't easy.

"We were so happy to find Fossil," he said.

He said it was "love at first sight" when he saw Fossil's list of more than 15 licensed and owned brands, including Tory Burch, Kate Spade, Armani Exchange and Michele. "It's a treasure chest of design."

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Fossil's reaction to Misfit was just as wide-eyed.

A year ago, for example, New York-based Oscar Health Insurance started giving its clients free Misfit wristband pedometers.

"Oscar Health Insurance? How do we do that? We sell to Macy's," said Preston Moxcey, vice president and general manager of wearable technology for Fossil.

Misfit has an organization in place to sell to health care companies and corporate human resources professionals. It wants to advance the idea that fitness tracking merchandise can be part of employee benefit plans, either through discounts or custom-made trackers, said Greg McKelvey, Fossil Group's chief strategy and digital officer.

"Sonny Vu has been building these relationships with health care customers the last four years," McKelvey said.

Thanks to Misfit, Fossil was included for the first time in a session at the Consumer Electronics Show, participating in a panel called "From Geek to Chic: Digital Health Goes Mainstream."

At CES, Fossil announced its plans to launch 100 new wearables in 2016, including activity trackers and smartwatches made with Misfit.

One of the first products due out this spring will be the Ray Fitness and Sleep Monitor Sport Band. It will be compatible with the Apple and Android operating systems, and it will record steps, sleep, calories burned, distance and activity types, including running, swimming, yoga, tennis, basketball and other sports. It will have alarms for specific calls, texts and movement reminders. It can be preordered for \$99.99.

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Fossil learned a lot from its foray into wearables last year with a couple of fitness trackers and smartwatches it created. It's been working with Google and Intel and plans to continue those relationships, McKelvey said.

"We found out our customers want to wear this technology, but they care about style and what it looks like," McKelvey said. "Most of what was out there just doesn't look good with your outfit."

Some women feel they've been left out of wearable technology so far. Offering gadgets in colors besides black doesn't count as fashion.

"I don't like the Fitbit. My mother who is 86 wears it," said Athena Kolle, 60, who was in a Dallas-area Fossil store to buy a birthday gift. "I would prefer something that has more design with the function. If it looked good with my other jewelry and blended with what I was wearing, I might get one."

Shelley Smith, 21, said she thinks she's getting a Fitbit for her birthday. "But I have a lot of watches that it will have to compete with. I get the craze, but I like the classic style of leather on my wrist."

Fossil has a huge design department, but it needed a company that had the technology, McKelvey said. Misfit will continue to make products under its own brand, but the companies will share expertise and distribution.

Fossil also more than doubled its worldwide retail distribution, from 20,000 stores in 100 countries to 50,000 stores with Misfit.

"Now we're sold where watches and fashion is sold, primarily in department stores," McKelvey said. "Misfit is in Best Buy, so we can bring our fashion brands with Misfit's technology into Best Buy."

In the U.S., Misfit products are sold by major retailers including Amazon, Best Buy, Target, Wal-Mart and REI.

On the engineering front, Misfit has already figured out some of the biggest complaints customers have about fitness trackers: It solved the hassle of needing to recharge every few days with a battery that lasts six months, and its wearables are waterproof to depths of 50 meters.

When times get tough, Fossil CEO Kosta Kartsois invests in the business, McKelvey said. "We not only get out of tough times, we come out stronger."

He likened Fossil's current strategy to what it did during the recession when it built its luxury brand portfolio and Swiss watch capabilities. "Whenever there's malaise in the category, we keep investing in the business for the next five to 10 years of growth."

It takes relationships between technology companies and fashion to create a strong ecosystem, McKelvey said. "We can't be good at everything."

Harry Wang, director of mobile and health products research at Dallas-based Parks Associates, said the digital fitness tracker is the fastest-growing category in the connected health device market, and Fitbit is the clear leader, with a more than 50 percent market share. There will be demand for various types of fitness trackers. Some older people, for example, may want a wearable just for measuring walking distances and steps.

Wang said he believes that smartwatches will soon gain the lead over trackers, and that that may put Fossil in a good place.

"A smartwatch can do many things the way that the smartphone is getting rid of many other devices we own," he said.

Wang projects that this year and next, fitness bands will have a bigger market share than smartwatches, but that over time the smartwatch will grab a bigger market share.

"Fossil can give the consumer choices not only with watchbands but can put technology in rings and necklaces and then make it all match with purses and wallets," he said.

Wang is one of those people who went to the doctor late last year for his annual checkup. "My doctor said I gained a few pounds, and he told me to watch my diet and get a Fitbit."

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Citation: Watch, meet smartwatch: Fossil and Misfit think they're a perfect match (2016, February 10) retrieved 22 September 2024 from <https://phys.org/news/2016-02-smartwatch-fossil-misfit-theyre.html>

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