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INDUSTRY REPORT

# Retail Jewelry Industry in the U.S. 2015

## A Current Portrait:

Retail Jewelry Sales

Wholesale & Retail Price Trends

Chain Store & Holiday Sales

Precious Metals & Diamonds

Brands in the News

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# THE RETAIL JEWELRY INDUSTRY IN THE U.S.

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Price deflation affected both jewelry retailers and suppliers in 2014.

## EXECUTIVE SUMMARY

Retail jewelers in the United States continued to adapt to challenges and changes throughout the industry in 2014, with price deflation, slow sales and a growing market share among online retailers standing out as the most significant obstacles for traditional brick-and-mortar jewelers.

For the first time in 15 years, simultaneous price deflation affected both jewelry consumers and jewelry suppliers. Prices of retail jewelry fell by 3% in 2014, while supplier-side prices plummeted 7%, resulting in slimmer margins for retail jewelers and suppliers.

While overall jewelry sales in the U.S. rose to \$78.1 billion in 2014, jewelry industry analysts calculated that individual jewelers' sales would have had to increase by 5% to retain their market share as a result of the 3% drop in retail jewelry prices.

Importantly, the majority of U.S. jewelry sales figures from 2013 were revised downward in 2014, significantly affecting previously published year-over-year comparisons of jewelry sales in the United States.

Online retail sales continued to rise, with online transactions during the holiday season and Cyber Monday especially continuing to generate record numbers. Online-only jewelry retailer Blue Nile also announced plans to open its first brick-and-mortar store in a major U.S. shopping center.

Imports of gold bullion to China dropped considerably in 2014, allowing India to reclaim the title of the world's largest importer of gold.

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The Department of Commerce issued significant revisions to 2013 sales figures.

## REVISIONS

In 2014, the U.S. Department of Commerce issued multiple revisions to 2013 jewelry sales figures. While slight adjustments to yearly U.S. sales figures are normal and expected, the number and amount of the revisions to 2013 figures were significant.

In 2013, total U.S. fine jewelry and watch sales were originally reported to be \$80.1 billion; that figure has since been revised downward to \$76.9 billion.

U.S. jewelry store sales for 2013 were originally reported to be \$34.01 billion. This figure has also been revised downward to \$33.25 billion.

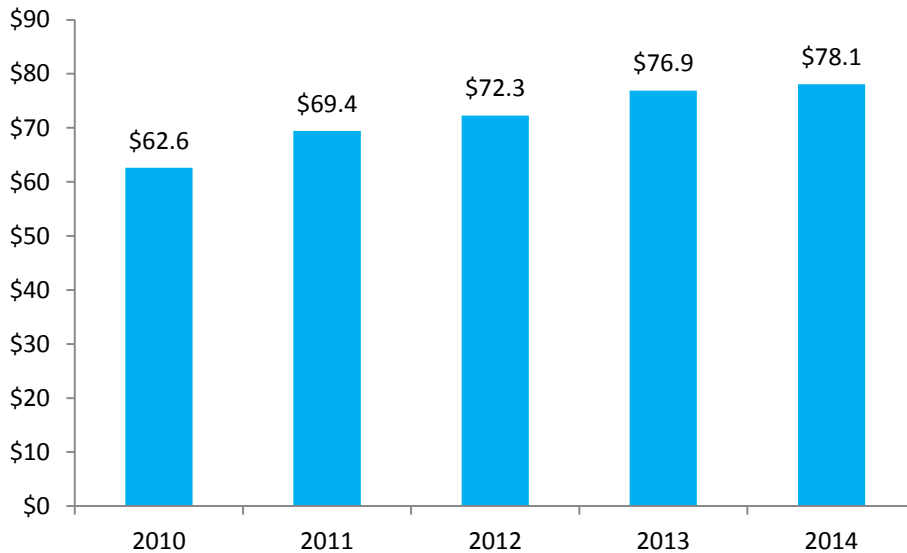
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Total fine jewelry and watch sales in the U.S. reached \$78.1 billion in 2014.

## U.S. FINE JEWELRY AND WATCH SALES

Total fine jewelry and watch sales in the U.S. reached \$78.1 billion in 2014, a slight increase over revised 2013 sales figures of \$76.9 billion.

### TOTAL U.S. FINE JEWELRY AND WATCH SALES (BILLIONS)



Source: U.S. Dept. of Commerce

Sales of **fine jewelry** were basically unchanged in 2014, down 0.1% to \$69.19 billion, compared with revised 2013 fine jewelry sales figures which were down to \$67.8 billion from \$70.65 billion.

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U.S. retail jewelry stores reported total sales of \$33.61 billion in 2014.

### U.S. FINE JEWELRY AND WATCH SALES (CONT'D.)

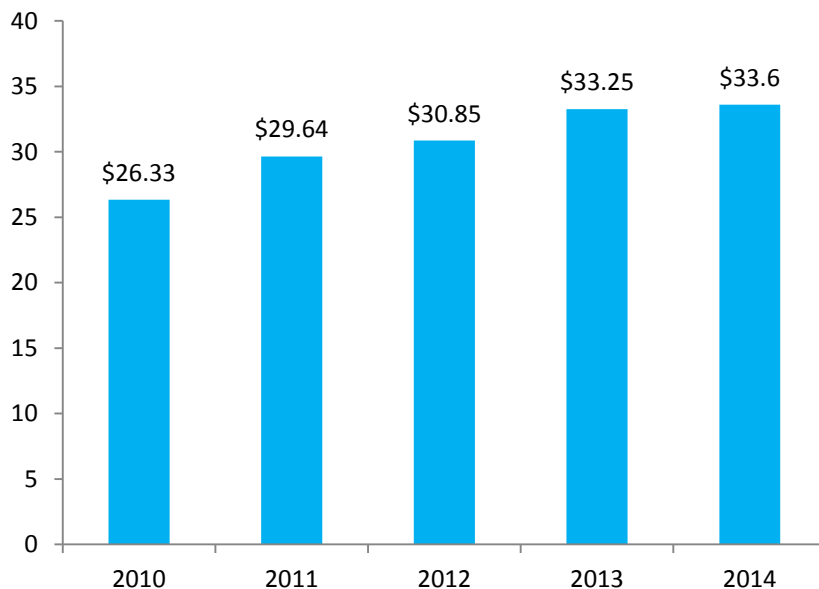
Sales of **watches** began to fall before the holiday season, dropping 2.8% in October year-over-year. Slow sales continued into the holidays, with November posting a 2.2% decline and December posting a 2.5% decline year-over-year.

In all, watch sales increased 1.4% from 2013, reaching a total of \$9.46 billion in 2014.

### RETAIL JEWELRY STORE SALES

Total sales at specialty jewelry stores in the U.S. reached \$33.61 billion in 2014, an increase of 1.1% over 2013.

### TOTAL U.S. RETAIL JEWELRY STORE SALES (BILLIONS)



Source: U.S. Dept. of Commerce, U.S. Census

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Price deflation affected both retail and wholesale jewelry prices in 2014.

## WHOLESALE AND RETAIL JEWELRY PRICES

2014 saw deflation affect both retail and wholesale jewelry prices in the U.S., resulting in a rare dual-deflation scenario. For the first time since 1999, price deflation occurred on both the consumer and the supplier sides of the jewelry industry.

Retail jewelry prices dropped 3% in 2014, while supplier prices dropped by 7%, squeezing margins on both sides and creating a deflationary trend that was significant and pronounced.

Analysts noted that the law of price elasticity - which states that as prices fall for a product, demand will increase – did not apply to the jewelry market in 2014.

The average Jewelry Consumer Price Index for 2014 dropped by 4.1%, to 170.58 points. The average Consumer Price Index for watches rose 0.5% in 2014 to reach a record 122.2 points.

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In 2014, holiday season sales at U.S. jewelry stores declined significantly.

## ONLINE AND HOLIDAY SEASON SALES

October, November and December 2014 sales of fine jewelry and watches all declined from the previous year. December U.S. jewelry store sales fell by 4% year-over-year to \$6.11 billion, while similar steep declines in year-over-year sales also occurred in November (down 6.2% from 2013) and October (down 3.7% from 2013).

Holiday season sales made from desktop computers reached \$53.3 billion in 2014, up 15% year-over-year. Cyber Monday was once again the heaviest online spending day of the year, accounting for \$2 billion in purchases made from desktops.

Individual day sales during the holiday season all recorded jumps in online transactions. Thanksgiving Day saw a 32% increase in online sales; Black Friday, 26%; Holiday Weekend, 26%; Cyber Monday, 17%; and Free Shipping day – Dec. 18 – up 7%.

In the United States, De Beers estimated that 13 percent of women's diamond jewelry sales were made via an online transaction in 2013, an increase of 8% over the company's previous 2006 estimate that placed online women's diamond jewelry sales at about 5% of total sales.

Despite steady year-over-year gains in online jewelry sales in the U.S., McKinsey & Company expect that ecommerce will continue to account for only a fraction of jewelry sales that will be made in the years leading up to 2020. After tallying the results of a survey conducted with twenty top executives in the jewelry industry, McKinsey & Company concluded that online transactions will continue to account for 10 percent or less of all fine jewelry sales for the remainder of the decade.

*Cont'd. >>*

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Tiffany & Co. reported a 1% decline in holiday season sales in 2014.

## ONLINE AND HOLIDAY SEASON SALES (CONT'D.)

Analysts at Nomura Securities have reported that of the approximate 4% of Signet Jewelers customers who make purchases online, 30% to 40% of them choose to pick up their purchase in person at a brick-and-mortar retail store, indicating the importance that real-world stores have even as part of the online buying experience.

## HOLIDAY SALES – U.S. CHAIN STORES

**Tiffany and Co.** reported a 1% decline in year-over-year sales for the period of November-December, with global net sales totaling \$1.02 billion. By region, U.S. sales fell 1% to \$544 million while the retailer enjoyed a 7% sales increase in the Asia-Pacific region, with significant growth in Singapore and China.

Sales in Japan dropped 16%, while sales in Europe increased by 1%. Tiffany has warned investors that a stronger U.S. dollar will likely contribute to negative stock performance for the first months of 2015.

**Signet** reported that same store sales rose by 3.6% during the holiday season of November-December 2014, compared with 2013. The newly-acquired Zale's chain reported that same store sales up 3.5% year-over-year, while Sterling Jewelers recorded a 2.5% year-over-year same store increase in sales.

Kay Jewelers reported a 3.4% increase in same store sales for the 2014 holiday season, while Jared the Galleria posted a year-over-year same store sales increase of 1.5%.

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EGL International lab reports were de-listed from Polygon in 2014.

## BRANDS IN THE NEWS

### **Pandora**

In February 2015 Pandora Americas laid off 70 employees, about 6 percent of the company's total workforce in the United States, Canada and Latin America. Pandora also was handed a large fine in December 2014 by a court in Denmark, where Pandora is based, for failing to warn the company's investors about a projected drop in revenues in a timely fashion.

### **Blue Nile**

After an in-store partnership with Nordstrom yielded mixed results, Blue Nile is taking the plunge into the brick-and-mortar business by announcing plans for the company's first stand-alone retail outlet. The company hasn't yet disclosed where the store will be located, revealing only that it will be in a major U.S. shopping center.

Customers will not be able to make conventional purchases at the store – jewelry items will be available for customers to try on, but purchases will be made through the Blue Nile website using in-store iPads. Purchased jewelry will then be shipped to customers like any other Blue Nile purchase.

### **EGL International Labs**

Reports from all EGL International labs were de-listed from both Polygon and RapNet in September 2014. As well, members can no longer list goods that have been certified by any EGL International lab on Polygon's Buy/Sell channels. The restrictions were imposed following concern from many industry players with regards to the lack of grading standards and nomenclature in diamond lab reports. EGL USA goods are still accepted on Polygon's databases and trading channels.

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Shareholders of Movado launched a class-action lawsuit against the company.

## BRANDS IN THE NEWS (CONT'D.)

### **MOVADO**

Shareholders of luxury watchmaker Movado launched a class-action lawsuit against the company early in 2015, claiming that executives expressed unfounded optimism about future earnings, causing Movado shares to rise and then collapse more than 30% when actual figures were announced. Movado CEO Efraim Grinberg is also accused in the suit of selling 200,000 shares of the company at the peak of the stock price.

### **OMEGA & COSTCO**

A court ruling in the U.S. has affirmed that bulk retailer Costco can legally sell 'grey market' Omega watches purchased from a third-party foreign distributor, despite the fact that Costco is not an authorized dealer of Omega products.

The ruling capped the end of an 11-year legal battle that began when Omega sold a discounted shipment of watches to distributor ENE Limited with the understanding that the watches would be sold in Europe. ENE sold the watches to Costco instead, which then sold the watches in U.S. stores at reduced prices, to the chagrin of authorized Omega dealers. Omega began slightly altering the design of its watches in order to sue Costco for copyright infringement, in an attempt to stop the grey market distribution.

After several rulings and appeals, including a split decision from the Supreme Court, a judge in an appeals court ultimately sided with Costco, noting that "Omega's copyright distribution and importation rights expired after an authorized first sale of the watches in a foreign jurisdiction."

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The price of gold fell by 1.4% in 2014, following a drop of 28% in 2013.

## DIAMONDS & PRECIOUS METALS

### DIAMONDS

Reduced credit availability for diamond dealers was a major theme in 2014. After being purchased by Shanghai-based Yinren Group in December 2013, the Antwerp Diamond Bank closed its doors in 2014 due to newfound reluctance among banks to work with companies in the diamond industry, citing concerns about transparency and profitability.

Demand for polished diamonds in China slowed considerably in 2014, contributing to falling polished prices. Polished prices were also pushed downward thanks to high market prices for rough diamonds. Inventory levels across the diamond supply chain remained high, putting further pressure on polished prices.

### PRECIOUS METALS

Gold prices in January 2015 sat about 6% lower year-over-year, while platinum dropped 15% year-over-year. However, it was silver that took the greatest plunge, dropping 19% from January 2014 to January 2015.

All in all, gold prices fell 1.4% in 2014, following a dramatic fall of 28% in 2013. Reflecting the trend within the jewelry industry at large, lower bullion prices still generally failed to stimulate increased demand.

In the global market, China imported 750 metric tons of gold from Hong Kong in 2014, down 32% from a record 1108.8 tons in 2013. India re-took the title of the world's largest importer of gold in 2014, importing 842.7 tons of the precious metal. However, this figure still represents a 14% year-over-year drop in the country's total gold imports.

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973 jewelry businesses ceased operations in the U.S. in 2014.

## CLOSURES

The Jewelers Board of Trade reports that 973 jewelry businesses ceased operations in 2014, compared with 739 in 2013. The reasons for ceasing operations include mergers, business being sold, or filing for bankruptcy. JBT president Dione Kenyon stated in an interview with JCK that the falling price of gold and slow gold sales have had a negative impact on many jewelers, some of which were simply not strong enough to stay in business as sales dropped.

One positive aspect of the situation in the industry is the lower number of bankruptcies, which dropped by 20% - from 41 in 2013, to 33 in 2014. Kenyon noted that he has never seen bankruptcy numbers so low, but that the reason is likely indicative of people who do not want to spend the money involved with filing for bankruptcy.

## CONCLUSION

2014 brought a convergence of rare occurrences to the jewelry industry, from price deflation for both retail and wholesale jewelers to the rise of financial industry pressure on diamond dealers to improve transparency and profitability. Combined with the steady rise in online sales and the adoption of omni-channel retailing strategies by most major retail outlets, it is clear that the jewelry industry is undergoing rapid change.

Despite these changes, however, we can see that online sales still make up only a small percentage of total sales for even the most web-savvy major jewelry retailers.

While informal polls show that younger customers tend to prefer electronic devices and travel over jewelry when it comes to big-ticket purchases, this doesn't mean that jewelry is falling by the wayside in our modern culture. Bridal, vintage and colored stone jewelry remain popular and seem to inspire interest from millennial customers.

Retail jewelers can improve margin in 2015 by sourcing goods from established online trading networks, allowing them to increase inventory and fulfill customer requests on-demand. As well, the use of local promotional strategies – sales, community partnerships, charitable and holiday events – work well to increase the presence of jewelry stores with residents and other businesses in the area without incurring heavy advertising costs.

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## SOURCES

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*McKinsey & Company*

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*Nomura Securities*

*Signet Jewelers*

*Tiffany & Co.*

*Bloomberg.com*

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