Polygon

the jewelry industry's largest e-marketplace™

DEC. 2014
www.polygon.net

STRATEGY

Trends in the Global Jewelry Industry

Information and Analysis:

Key Global Markets
Gold & Silver
Diamonds
Consolidation & Globalization
Online Sales & Omni-Channel
Brand Profiles

By Lindsay Watkin, Polygon.net

TRENDS IN THE GLOBAL JEWELRY INDUSTRY

Contents

Executive Summary

The face of the jewelry industry has changed greatly since the global financial crisis hit in 2008. The environment has become increasingly competitive, particularly for smaller independent retail jewelers, and competition is no longer only local but has gone global in scale.

Though the United States is still #1 in terms of demand for diamond jewelry, China and India are quickly emerging as strong demand markets. Rapid population growth, an emerging middle class and an increase in discretionary income in both countries is shifting their economies from production to consumption driven. China and India are the world's largest consumers of gold and gold jewelry, and it is expected that China will surpass America in demand for diamond jewelry by 2020.

With precious metal and diamond prices spiking in 2010-11, prices of fine jewelry also shot up. In an already shaky U.S. retail economy where consumer confidence and spending was low, fine jewelry and watch sales in 2010 dipped below 2008 levels. Nonetheless, sales came back up in 2011 to hit an all-time high.

In the meantime, as prices of gold, silver and diamonds started declining in 2011, demand from China and India began to grow.

Greater demand and high prices has not, however, translated to more profit for most. Diamonds, in particular, are becoming increasingly commoditized and pricing transparent for consumers. The food chain is gradually condensing as wholesalers sell direct to consumers via online channels. Pricing is more competitive and margins smaller.

The industry has witnessed increasing consolidation through store closures, strategic alliances and M&A activities. The traditionally fragmented, local market is transitioning to a consolidated global one. Now the world's largest jewelry store, Chinese retailer Chow Tai Fook recently acquired the longstanding American diamond company Hearts on Fire. Earlier in the year, British company Signet Jewelers acquired Zale.

As in most industries, the jewelry retail environment is evolving as consumers change their shopping and spending habits. More and more customers are shopping online; if not to purchase, at the very least to research and engage with the brand. Modern customers interact with companies at multiple touchpoints, both digital and physical. Successful retailers are thus starting to understand the importance of developing a consistent presence in both spheres, via multiple channels.

Brands are also driving sales growth in jewelry, and it is expected that the biggest growth will come from branded lines. Brand sales will be driven by new wealth and emerging market consumers, for whom brands represent trust and status, as well as customers of younger generations, who turn to brands for self-realization and expression.

The Jewelry Industry & Key Global Markets

Most world economies are steadily recovering from the global financial crash of 2008. Consumer confidence is on the rise, unemployment is improving, and the U.S. dollar is strengthening.

At the same time, the emerging markets in China and India continue to grow, with a burgeoning middle-class, more discretionary income per capita, and increasing populations. These remain key opportunity markets in the jewelry industry.

Though the U.S. still occupies the first position in terms of demand for diamond jewelry, China and India are quickly increasing their share and represent the two fastest growing markets.

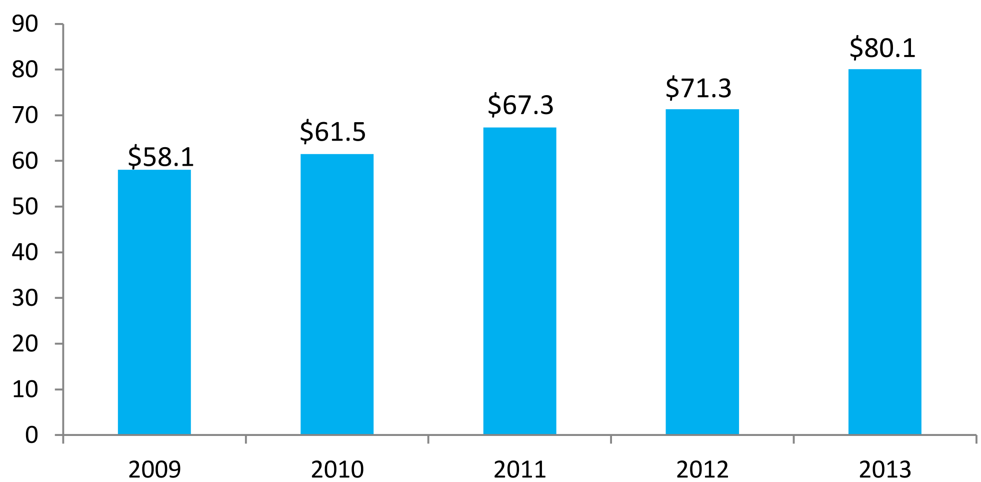
America: A Changing Landscape

The global financial crisis had a serious impact on the jewelry industry in America. In 2009-2010, sales for fine jewelry & watches in the U.S. dipped below those for 2008, as people had less discretionary income and consumer confidence was low.

Amidst lower sales, the industry witnessed store closures and consolidation, as well as diversification into new product categories (mostly lower priced silver jewelry). Coupled with this, globalization was also impacting the industry as international companies acquired long-standing American businesses, and demand from emerging markets – namely, China and India – grew.

Nonetheless, in 2011, fine jewelry & watch sales hit an all-time high and have since continued to increase year over year. From 2012 to 2013, total sales in this category grew by over 12%.

Total U.S. Fine Jewelry & Watch Sales (US$ B)[1]



[1] US Dept of Commerce, US Census

Though trending upward, demand growth for fine jewelry in America continues to be outpaced by China and India. Currently, demand for diamond jewelry is highest in the U.S., accounting for approximately 40% of global demand. However, should growth in the China and India continue at its present pace, it is expected that these markets will take the lead positions by 2020.[2]

China: Fastest Growing Market

China is experiencing rapid population growth, a rise in urban concentration, and an expanding middle class. The upper class in China is also growing as the society shifts from production to consumption driven.

China is now the second largest world economy by GDP, behind the United States and followed by Japan and Germany. It is also the world's second largest retail market, and is expected to surpass the U.S. by 2017. [3]

GDP by Country 2013[4]		
Ranking	**Economy**	**Trillion US$**
1	United States	16,800,000
2	China	9,240,270
3	Japan	4,901,530
4	Germany	3,634,823
5	France	2,734,949
6	United Kingdom	2,521,381
7	Brazil	2,245,673
8	Russian Federation	2,096,777
9	Italy	2,071,307
10	India	1,876,797

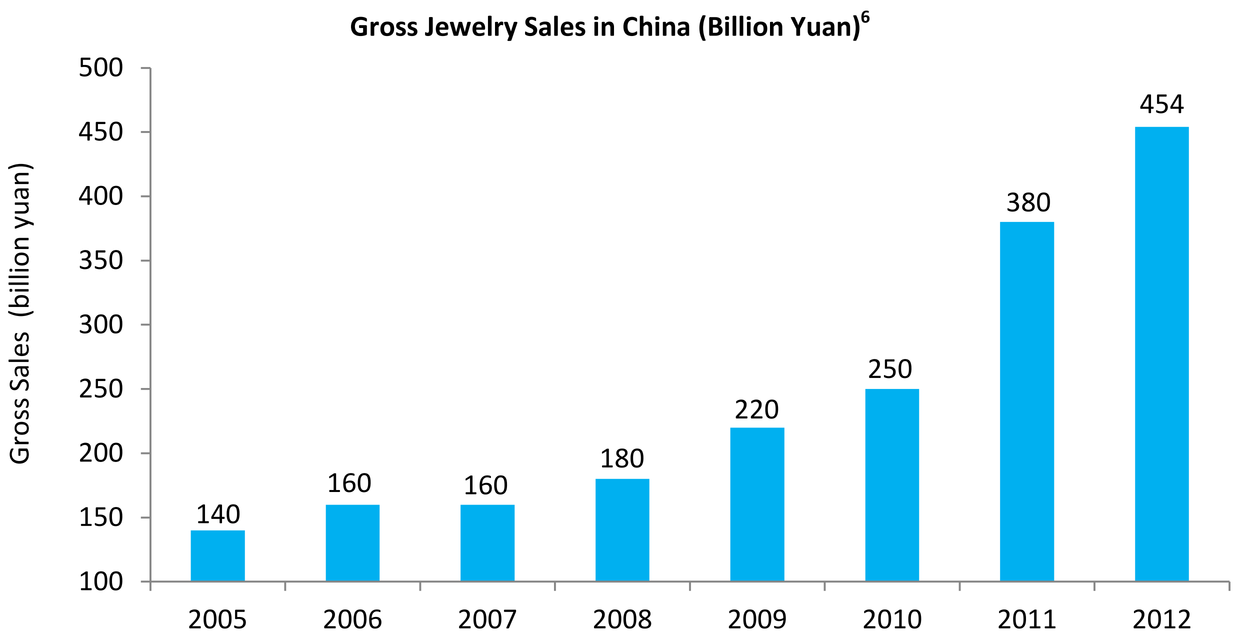
Demand and jewelry sales in China continue to grow: Between 2005 and 2012, sales grew 224%. Greater China (including Hong Kong & Macau) is now the world's second largest consumer of luxury products. Jewelry is also the third largest investment category in China, behind real estate and automobiles.

In Q1 2014 China overtook India as the world's largest consumer of gold, however, Q3 reports from the World Gold Council show India once again in the number one place. Nonetheless, though India remains

[2] http://www.rough-polished.com/en/analytics/91483.html
[3] http://www.funggroup.com/eng/knowledge/research/china_dis_issue114.pdf
[4] http://databank.worldbank.org/data/download/GDP.pdf

traditionally the top consumer of gold, it is clear that China's growing market will continue to jockey for this position.[5]

With a market value of $15 billion USD, Hong Kong jewelry retailer Chow Tai Fook has grown to become the world's largest after the 2014 acquisition of the American diamond company Hearts on Fire.



India: Largest Consumer of Gold, Growing Jewelry Demand

India is the second largest country by population, behind China. The population – of over 1.273 billion – is more than those of the U.S., Indonesia, Brazil, Pakistan and Bangladesh combined. As in China, India's growing population is moving away from rural areas to urban centers: In 2000, 28% of the population was based in cities, while in 2014, it had increased to 32%.[7]

The Indian economy is still somewhat shaky, but outlook is positive. Currently, India has a high fiscal deficit, a record high Current Account Deficit (CAD), and high inflation & interest rates. Additionally, the

---

[5] http://www.gold.org/supply-and-demand/gold-demand-trends/back-issues/gold-demand-trends-q3-2014
[6] http://www.gia.edu/gems-gemology/spring-2014-lucas-chinese-gem-industry
[7] http://www.worldometers.info/world-population/india-population

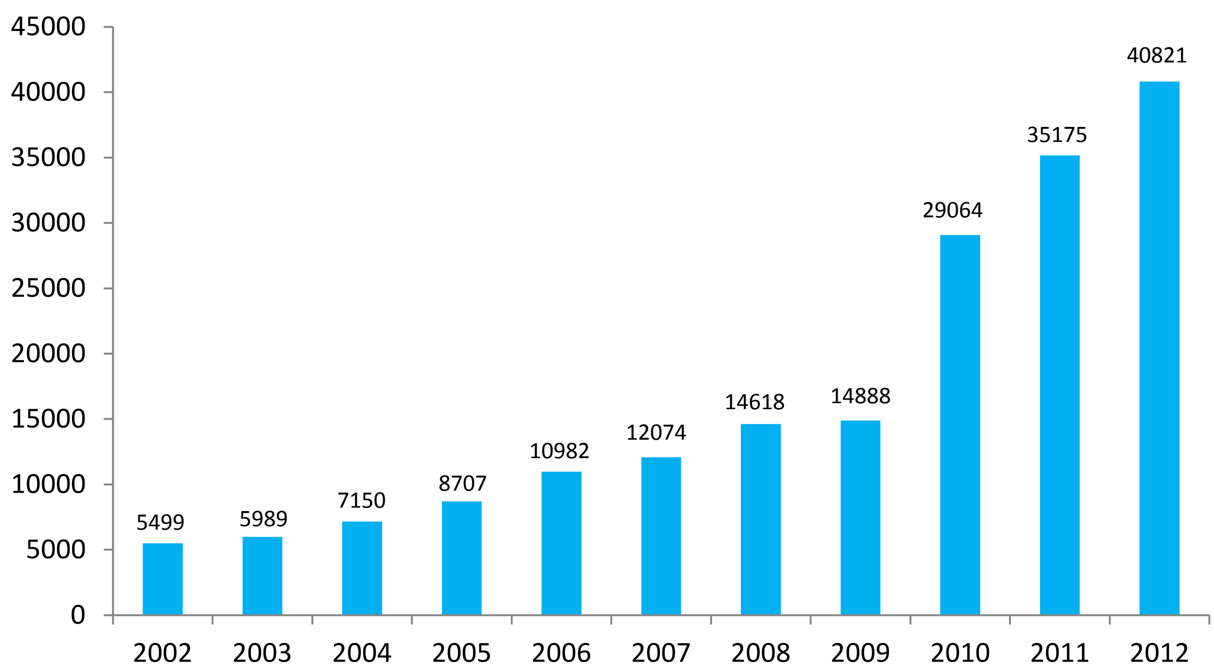
GDP is not growing as quickly as anticipated. However, gradual economic recovery is in sight as the CAD is set to improve, and inflation and interest rates to soften.[8]

Future economic growth will translate to a greater percentage of the population moving into higher wealth categories, the development of the middle class, and more people with a larger discretionary income for luxury items.

Jewelry remains an integral part of Indian tradition. Beaded jewelry has been found in ruins of the Indus Valley Civilization, dating back 5,000 years. Gold jewelry is still a central part of the culture; women are adorned in gold jewelry at their wedding not only as decoration, but also to serve as financial security.[9]

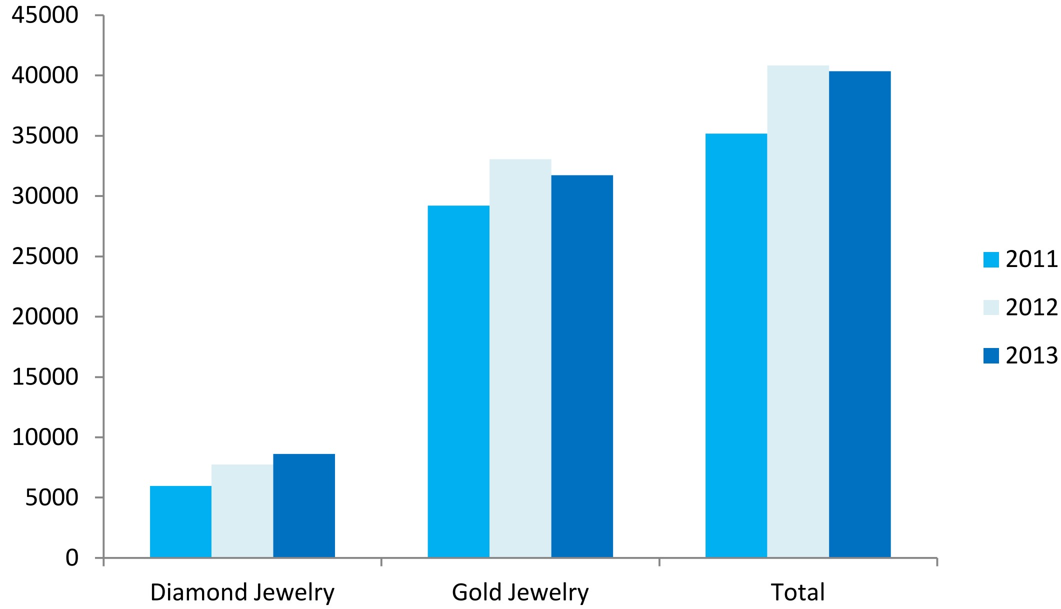
Jewelry sales grew 22% between 2002 and 2012, and saw unprecedented growth between 2009 and 2012, when they increased at a rate of nearly 40%. Lower diamond and metal prices, combined with a strengthening economy contributed to the surge in demand. Sales are expected to continue upwards, though at a somewhat slower pace.

Fine Jewelry Sales in India (US$ Millions)[10]



[8] http://www.imcnet.org/cms/public/content/activitypresentation/Mr.%20Anand%20Rathi,%20Chairman,%20Anand%20Rathi%20Group.pdf
[9] http://moneymorning.com/2012/02/13/how-this-indian-wedding-tradition-drives-global-gold-demand/
[10] http://www.slideshare.net/Lorna_Doone/india-final-29150904

Retail Sales for Precious Jewelry in India (Us$ Millions)[11]



[11] http://www.slideshare.net/Lorna_Doone/india-final-29150904

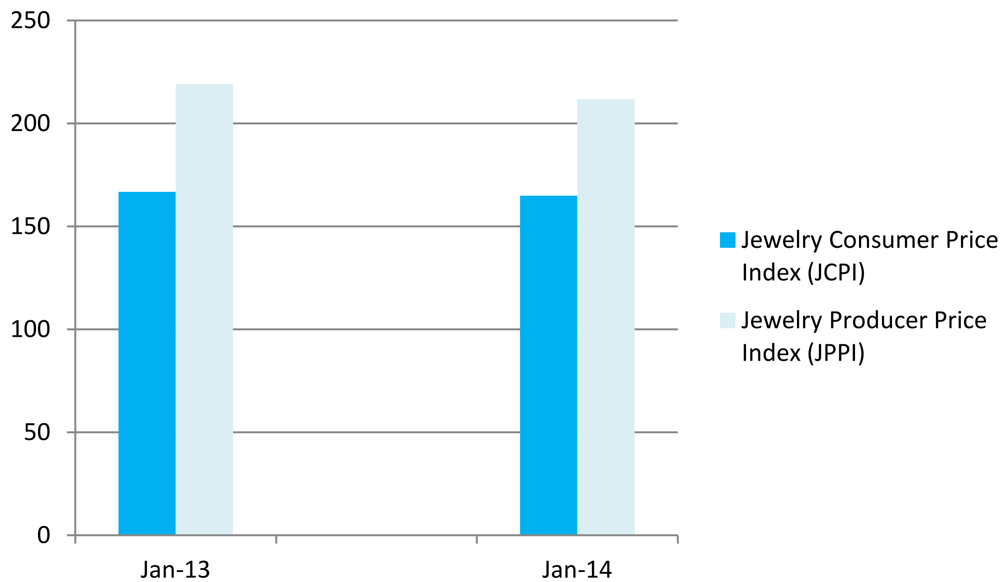
Gold & Silver

Generally, high metal prices signal economic recession periods, as people look to invest in gold and silver as a safe haven asset and store of value. Positive economic developments in the last few years have had a negative effect on gold and silver prices.

When gold prices spiked in 2010-2011, it corresponded to an increase in average jewelry prices. Many jewelers looked to diversify into different products – like silver – to offer jewelry at lower price points.

Similarly, as metal prices came down in the following years, wholesale and retail jewelry prices followed.

JCPI – JPPI: Jan 2014 vs. Jan 2013[12]



Coupled with growing demand, declining metal prices could represent opportunities for jewelers to improve margins and sales.

Gold

With gold prices soaring in 2011 – reaching a high point of US$1813.50/oz – and remaining strong throughout 2012, Q1 2013 also started strong. Prices quickly plummeted, however, dropping to just over US$1192/oz by the end of Q2 2013.

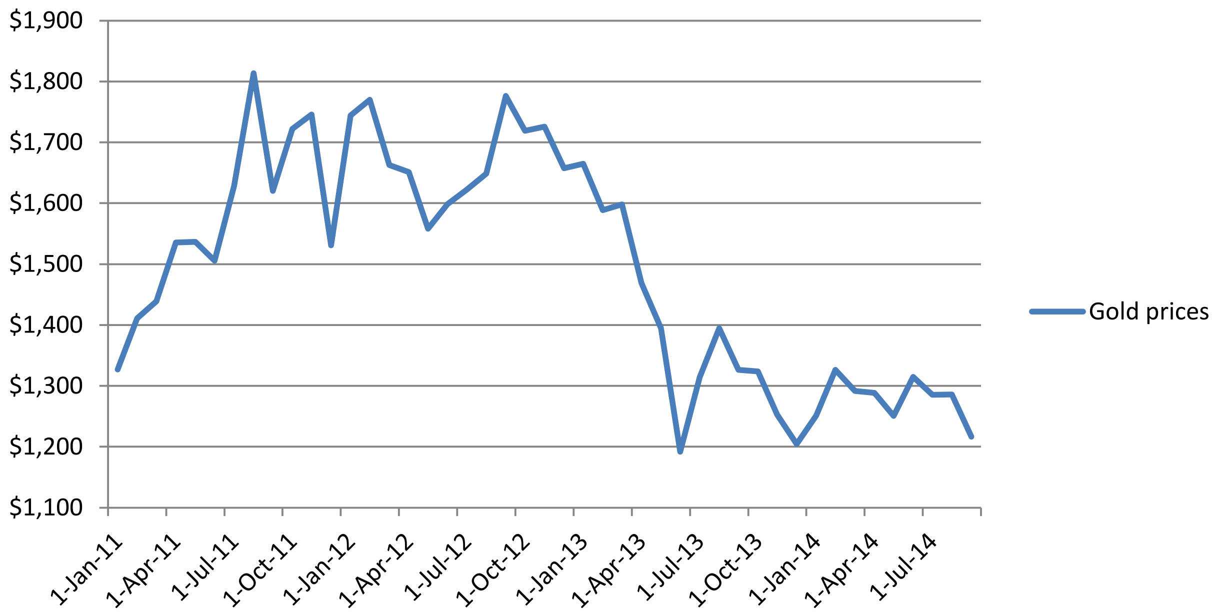
[12] http://www.polygon.net/jwl/public/documents/resource-center/industry-reports/Jewelry%20Retail%20IndU.S.try%20in%20America_Report%202014-PPT-final-2.pdf

Though prices struggled to come back up for the remainder of the year, they reached only about US$1395/oz by the end of August 2013. By year end, prices were just under US$1200 /oz, the lowest they had been since 2010.

With reports of the U.S. labor market improving at a higher than anticipated rate, and the strength of the U.S. dollar increasing, gold prices in 2014 have been adversely affected.

Prices reached a high towards the end of February at about US$1326/oz, but they have also plunged below the US$1200/oz mark. Gold closed as lows as 1142 U.S.D/oz mid-November.

Gold Prices 2011-2014[13]

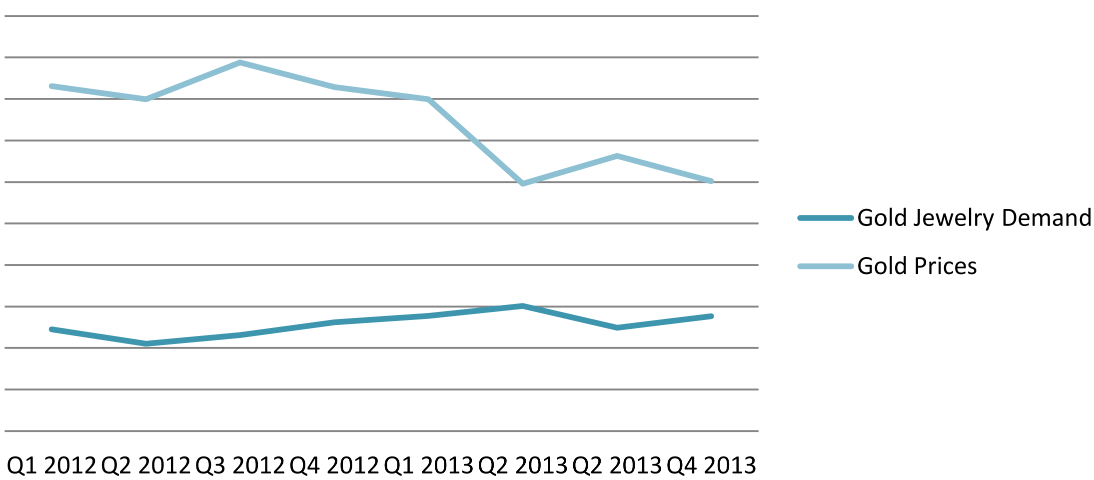


Demand[14]

2013 remained an unprecedented year in terms of global gold buying by consumers and selling by investors. Descending prices corresponded to ascending demand, particularly in regards to gold jewelry and bar and coin investment. Though overall gold demand dropped just over 11% from 2012 to 2013, demand from gold jewelry rose 18%, and was at its highest point since the global financial crisis of 2008. Demand for gold bar and coin investment in 2013 was the highest on record, at 1,654.1 tons.

[13] www.gold.org
[14] Ibid

Gold Jewelry Demand vs. Gold Prices 2012-13



The upward trend in demand for gold jewelry in 2013 vs. 2012 was observed globally:

Demand for Gold Jewelry 2013 vs. 2012	
Country	**% change**
China	**+29%**
USA	**+13%**
India	**+11%**
UK	**+10%**
Russia	**+5%**

In China, lower prices combined with macro-economic factors – including the rapidly emerging middle class, greater discretionary income, increasing urban populations, and lower government restrictions on gold buying – set new records for jewelry and bar and coin demand, which reached at 1065.8 tons. Compared with 2004, demand for gold jewelry in China in 2013 increased nearly 200% from 224 tons to 669 tons.

Demand in Q1 2014 started strong and was virtually unchanged from the same quarter 2013. Demand for gold jewelry increased 3% for this period vs. 2013.

Overall gold demand decreased 16% for Q2 2014 vs. the same quarter in 2013. Most demand came from Central bank net purchases, which remained strong, however, demand for gold jewelry dropped by 30%. Most of this decline came from decreased demand from China and India; in fact, demand in the U.K., U.S.A. and Russia grew.

Q2 2014 vs. Q2 2013 Gold Jewelry Demand:	
Country	**% change**
Russia	**+4%**
USA	**+15%**
UK	**+21%**
China	**-45%**
India	**-18%**

The trend continued for Q3 2014, with overall gold demand down 2% and demand for gold jewelry losing 4% vs. the same period last year. Gold investment was up 6%.

Importantly, demand for gold jewelry in India surged to its second highest Q3 on record, at 182.9 tons. A 60% growth in the sector confirms a strong appetite for gold jewelry in India.

Silver

As with gold, positive economic news – namely, the strengthening U.S. dollar and improving unemployment rates – has had a negative impact on silver prices, which have been trending downward throughout 2013-2014.

In 2013, silver prices plummeted 42% from a high point of US$32.23/oz to a low of US$18.61 /oz. Fluctuations in 2014 have been less drastic, though prices have remained between US$18.76 and US$22.05 /oz.

Demand

Driven by a strong increase in retail purchases of silver bars and coins, investment demand (physical bar investment, coins, ETF inventories) increased 27% in 2013 to 247.2 million ounces, the highest it's been in 3 years.[15]

Demand for silver jewelry in 2013 (181.4 tons) achieved record levels and saw a 9% increase when compared with 2012 (198.8 tons). [16]

[15] https://www.silverinstitute.org/site/silver-price/silver-price-history/2011-present/

[16] https://www.silverinstitute.org/site/2014/05/14/total-physical-silver-demand-achieves-record-level-in-2013/

Silver Sales Strong in the U.S.[17]

According to a survey conducted by National Jeweler and commissioned by the Silver Institute's Silver Promotion Service (SPS):

- 73% of retail jewelers reported an increase in silver sales in 2013 vs. 2012
- 50% reported the best silver sales opportunities were with female self-purchasers
- 92% were optimistic that silver would remain strong within the next 5 years
- 17% increase in 2013 silver jewelry sales vs. the previoU.S. year
- Silver jewelry had the best retail margins (vs. diamond, bridal, gold, platinum)

In a recent report issued by ***MasterCard Advisors*** – which tracks consumer spending on electronics, apparel, home furnishings and luxury items during the Christmas season – jewelry was cited as the "best performing" retail category during the 2013 holidays. Retailers noted silver as one of the top performing categories, along with diamond studs, simple diamond jewelry, Pandora and watches.

Silver in China[18]

China is the world's largest producer of silver jewelry, and jewelry manufacturing accounted for 34% of silver application in China.

Generally, silver jewelry is marketed to and aimed at younger generations in first and second-tier cities in China, and provides an opportunity for low-cost alternatives.

Rhodium-plated silver popular as it has the look of platinum, as people are interested in a higher-end look without the high price tag.

[17] http://www.nationaljeweler.com/independents/retail-surveys/Silver-strong-in-201-3194.shtml
[18] http://www.gia.edu/gems-gemology/spring-2014-lucas-chinese-gem-indU.S.try

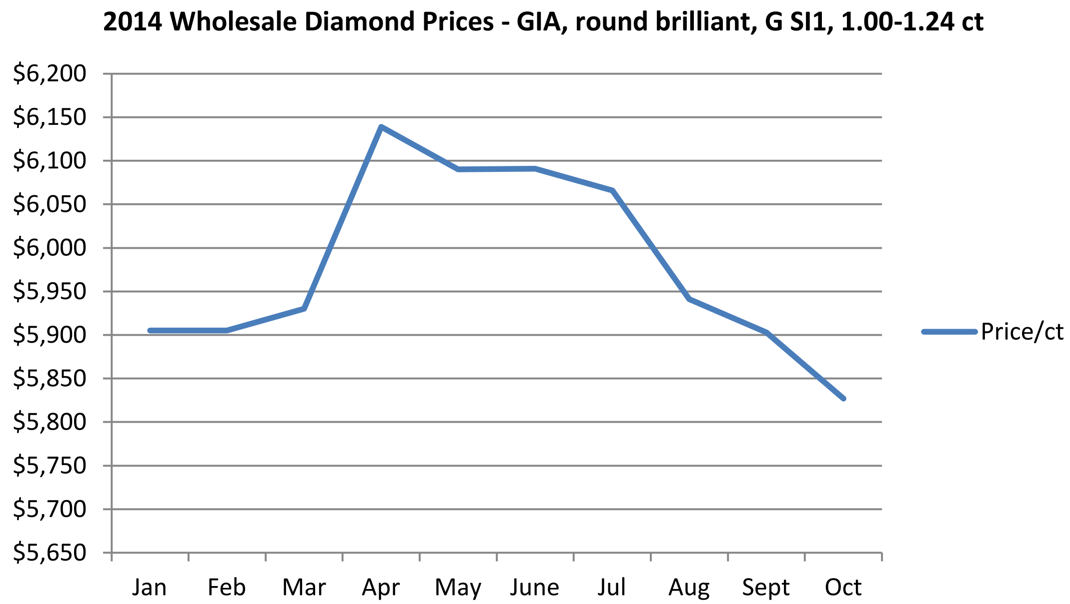
Diamonds

Prices Decreasing 2013-2014

Polished diamond prices, like gold and silver, saw increases in 2011-2012. Though prices have stabilized somewhat the last 2 years, they still remain high. The wholesale price for a GIA certified, round brilliant, G SI1, 1.00-1.24 carat diamond has averaged $5980/carat in 2014.

Similar to the price trends in gold and silver, polished diamond prices started strong in Q1 2014, but have been on the decline for Q2 and Q3.

The following chart shows the average wholesale asking price per carat for GIA, round brilliant, G SI1, 1.00-1.24ct stone, from **Polygon.net's** database.



Rough diamond prices have increased at a compound rate of 13% since 2008.

Several factors affect global diamond prices, including the supply of rough to the market and global consumer demand. The supply of rough stones can be affected by political situations in producing countries, as well as the opening of new mines or depletion of supply in existing ones. This said, market supply of rough is predicted to be stable through to 2018. [19]

[19] http://www.bain.com/Images/BAIN_REPORT_The_global_diamond_report_2013.pdf

Increasing Price Transparency, More Competitive Market

As diamonds become more commoditized, consumer prices are increasingly transparent. Online diamond sales sites like Blue Nile allow consumers to easily research and compare pricing. Although a majority of diamond sales are still completed in person, many consumers start by researching online then shopping around for the best deal.

Moreover, many diamonds listed on these websites are direct from wholesalers, thus prices are generally lower than they would be in a traditional brick & mortar retail store. The food chain in the diamond industry is effectively being shortened, as middle operators (dealers, brokers, etc) and retailers alike are increasingly cut out of the game. In addition, margins are increasingly small. All the while, consumers are more and more demanding in terms of price.

All of this adds up to an increasingly challenging environment in which independent retail jewelers, or traditional “mom & pop shops,” must operate.

Some dealers and retailers have found slightly better margins in selling non-GIA certified stones. However, it is important to proceed with caution here and ensure that the diamond is not being traded based on the “paper” of the grading report. Many labs differ greatly in their grading methods and standards.

This is of particular importance for retail jewelers selling to the public, as end consumers are generally unaware of differences in grading between labs. A consumer may think an F VS1 is of the same quality if graded by GIA, EGL Israel or any other lab. As there are no official standards (as of yet) in the industry, and given that grading still relies on subjectivity, this is of course not the case.

Generally accepted as the unofficial standard in the industry, GIA-graded stones will typically command a higher price, however, margins are usually smaller.

In an effort to increase transparency and full disclosure, Polygon recently de-listed all EGL International grading reports from the platform. It is important to distinguish EGL International labs from EGL USA, which is a separate and distinct company and whose reports are still listed on Polygon.

Retail jewelers and dealers have also gleaned value from buying diamonds off the streets, or **over-the-counter (OTC)**. Buying break-out diamonds at prices lower than wholesale allows retailers and dealers to gain better margins at resell or to re-purpose the diamonds in new jewelry pieces.

The OTC market became especially hot in the U.S. in 2008, as more people were looking to liquidate jewelry for cash. Since then, it has softened somewhat.

Global Diamond Demand on the Rise

Demand for diamonds is growing on a global scale, with China and India positioned as the biggest emerging diamond buying markets.

The U.S. still accounts for the majority of international demand – with approximately 40% of the diamond market share.[20] The Chinese market has seen the steepest growth in demand, jumping from just 3% of the world diamond market share in 2003 to 15% in 2014. India is the second fastest growing market.

Gradually, demand is expected to grow, and by 2018, it is estimated that demand will outweigh supply, in large part due to the expanding Chinese and Indian markets. Over the next decade, supply and demand are expected to grow at a compound rate of 1% and 5% respectively. In this case, it is likely that prices will increase again.

[20] http://news.yahoo.com/U.S.-diamond-market-shine-despite-china-india-growth-060842496.html

Consolidation & Globalization

Since 2008, the gem and jewelry industry has witnessed many changes, especially on a global scale. In addition to higher metal and diamond prices, smaller margins and growing competition, traditionally fragmented, local markets are shifting to consolidated global ones.

During the recessionary period of the late 2000's, nearly 3500 retail jewelry stores closed their doors permanently in the United States. Three large national chains - Friedman Jewelers, Whitehall Jewelers, and Bailey Banks & Biddle - went out of business during this time, accounting for 857 store closings nationwide. The three chains once generated over $1 billion in yearly diamond sales combined.[21]

Several major mergers, acquisitions and strategic alliances have taken place in recent years, many of which have been on an international level. The big players see growth potential and are making inroads into emerging global markets such as Asia-Pacific and India.

Key Mergers, Acquisitions, Alliances

1. **Swatch Group Acquires Harry Winston | March 2013**
   - The Swiss based jewelry group acquired the American brand Harry Winston for US$1 billion
   - Swatch now owns 20 watch & jewelry brands

2. **China's Yinren Group's Acquisition of the Antwerp Diamond Bank Falls Through**
   - Shanghai based Yinren group was set to acquire the Antwerp Diamond Bank for an undisclosed amount
   - Though it was announced in September 2014 that the deal fell through and the bank is set to close, it is significant nonetheless considering that a Chinese company was set to acquire an established Belgian diamond bank, traditionally at the center of the diamond world

3. **Signet Acquires Zale Corporation | February 2014**
   - Signet – a Bermuda-based British company – acquired Zale Corp. in February 2014 for US$1.4 billion, US$21/share

4. **Chow Tai Fook Acquires Hearts on Fire (June 2014)**
   - Chow Tai Fook, based in Hong Kong, is the world's biggest jeweler with a **US$15 billion** market value and a vast retail network in China
   - The jewelry Goliath acquired the American company Hearts on Fire in June 2014 for US$150 million

[21] http://www.polygon.net/jwl/public/documents/resource-center/industry-reports/Retail%20Jewelry%20IndU.S.try%20in%20America_Report%2020130927.pdf

- It will allow them to offer a premium, luxury product – a category for which the Chinese market is hungry – and increase average ticket prices

5. **Pandora Acquires Brazilian Retail Company City do Brasil Comércio e Importação Ltda. | 2013**
   - The company is a retail operation with 8 concept stores and an e-Store operating in 5 cities in Brazil

6. **Pandora allies with Disney | August 2014**
   - The alliance gives Pandora visibility at Disney parks
   - Pandora will create a Disney collection with sterling silver and 14karat gold charms

Global Expansion Strategies for Tiffany & Co. and Pandora

Tiffany & Co. [22]
A significant portion of Tiffany & Co.'s current sales come from international markets, and sales from these markets are growing.

Net sales for the company increased 6% in 2013 vs. 2012, totaling US$4 billion. However, only 5% of growth came from the Americas, while 18% was from Asia-Pacific. Moreover, Tiffany & Co. opened 7 new stores in Asian-Pacific countries, as opposed to 6 in the Americas. Although the Americas still count the greatest number of retail outlets (122 in 2014), the largest growth for store openings was in Asia-Pacific.

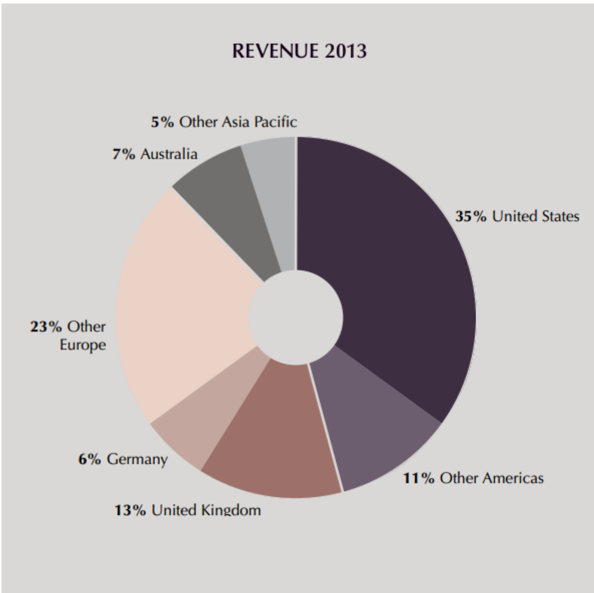
PANDORA[23]
PANDORA identifies four key strategic pillars to help them achieve their aspiration of becoming the world's most recognized jewelry brand:

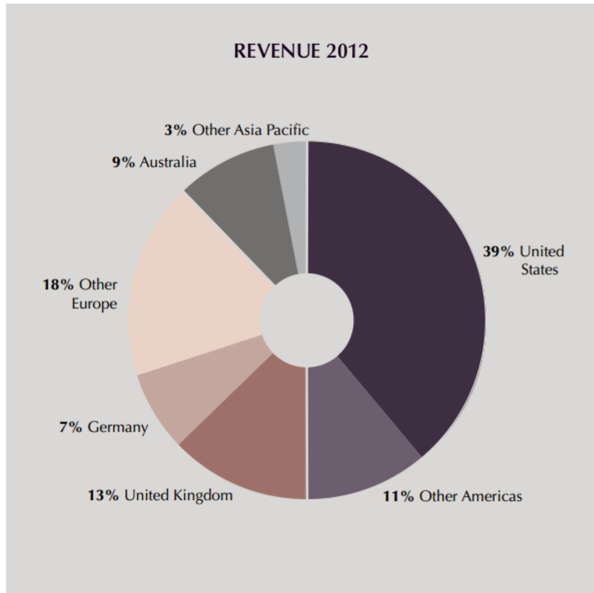
1. Focus on branded sales channels
2. Capitalize on product offering
3. Tailored approach to new markets
4. Build a global brand

Focusing specifically on the development of international markets, the last two pillars highlight just how integral this is to their overall growth strategy.

[22] http://www.shareholder.com/visitors/dynamicdoc/document.cfm?documentid=3136&companyid=TIF&page=1&pin=74035732&language=EN&resizethree=yes&scale=100&zid=a4fbbe2a
[23] http://files.shareholder.com/downloads/ABEA-4ZFRFB/3528321226x0x726400/D98BDCF4-7469-45A1-BB88-AEAE531ADBBA/PANDORA_ANNUAL_REPORT_2013_UK.PDF

Though revenue is still primarily driven by Europe and the U.S., Asian-Pacific markets are holding failry steady. In addition, PANDORA's strategic acquisition of the Brazilian retail company City do Brasil Comércio e Importação Ltda. in 2013 should enable them to establish a physical and online presence in another BRICS country; Brazil.





Online Sales & Omni-Channel Marketing

In all major markets and in all categories over the last decade, online sales have grown at double-digit rates. In the UK, for example, online sales for apparel account for 14% of the total sales volume in this category. Though the growth rate of online jewelry sales is somewhat slower, it is expected to continue to rise. Currently, online jewelry sales account for 4-5% of total sales.[24]

Online fine jewelry sales are not expected to penetrate as much as other categories due to the high-involvement in purchasing jewelry and the importance of the sensory experience; most customers still prefer to buy these items in person. Nonetheless, having an online presence is pretty much non-negotiable these days.

Polygon retail jewelers report that many Gen X and Y customers come into their stores having first researched items and prices online, and come to the store with the item ready to show on their smart phones. They are looking for a specific item and a specific price, and will shop elsewhere if their request can't be satisfied.

Digital media should, at the very least, be used as a means of conveying information and building brand identity, awareness and loyalty.

The exception could be for branded jewelry and designer collections, which may see stronger online sales growth thanks to brand association and equity.

Online Sales Strategies for Tiffany & Co. and PANDORA

As strong and recognized brands, Tiffany & Co. and PANDORA both generate some sales from online, however, surprisingly, this does not represent a significant portion of their revenues, or an area that seems to be growing year over year. This could be due to two main factors: (1) strategic focus has not been on developing online sales, and neither company have a strong e-commerce presence, (2) due to the vast network of physical stores, many customers prefer to research only online and purchase in-store.

Tiffany & Co.[25]

Tiffany & Co. currently operates e-commerce enabled websites in 13 countries. Sales transacted on their websites have not grown since 2010, and accounted for only 6% of worldwide net sales in 2010, 2011,

[24] http://www.mckinsey.com/insights/consumer_and_retail/a_multifaceted_future_the_jewelry_industry_in_2020
[25] http://files.shareholder.com/downloads/TIF/3524951261x0xS1193125-13-131168/98246/filing.pdf

2012 and 2013.

The Company periodically invests in enhancing these websites and intends to expand its e-commerce sites to additional countries in the future.

PANDORA[26]

The first PANDORA e-store was launched in the UK in 2012, and currently the American sites are not e-commerce enabled. In their 2013 annual report 2013, PANDORA says they are looking to expand and develop their online sales channel, and their acquisition of City do Brasil Comércio e Importação Ltda. may allow them to kickstart their online sales in Brazil.

Omni-Channel Marketing

Modern consumers aren't limited to a single channel; in addition to purchases in brick & mortar stores, they shop via websites, social and mobile apps on their smart phones, tablets and laptops. Retailers need to engage customers on all of these channels to develop sales and build loyalty.

The "omni-channel" experience incorporates many technologies and touchpoints to create a shopping experience that is as informative, effortless, and even sharable as possible.[27]

More and more, customers are engaging in a multi-channel shopping experience. One study showed that 55% of consumers used both physical stores and digital media throughout the entire shopping experience, and the most common scenario is one where consumers use online for initial product discovery, and the physical store is preferred for final purchase, pick-up and returns.[28]

Signet Jewelers' US division recently partnered with IBM Interactive to define and develop an omni-channel marketing strategy. They started by conducting a customer segment analysis with voice-of-customer surveys and in-store observations. The purpose was to gain a better understanding of their customers' needs and see how these might translate into opportunities online.

Following this, they launched social media profiles on Facebook and Twitter, at the same time as new mobile sites and redesigned websites. The key was to address customer needs and behavior and present a unified experience at every touchpoint. They introduced such features as live online chats with consultants and side-by-side product comparisons.

[26] http://files.shareholder.com/downloads/ABEA-4ZFRFB/3528321226x0x726400/D98BDCF4-7469-45A1-BB88-AEAE531ADBBA/PANDORA_ANNUAL_REPORT_2013_UK.PDF
[27] http://www.marketingprofs.com/articles/2013/10473/the-omni-channel-retail-experience-or-how-kay-and-jared-jewelers-upped-sales-49#ixzz3JkaPmMN7
[28] http://www.atkearney.com/documents/10192/4683364/On+Solid+Ground.pdf/f96d82ce-e40c-450d-97bb-884b017f4cd7

After launching the strategy in 2012, Signet's holiday sales increased 49% compared with the same period the previous year. [29]

Just as physical stores are expanding in the digital world, online retailers are also increasing their physical presence. Diamond online retailer **Blue Nile** has signed a deal with Nordstrom's to showcase Blue Nile goods in the retailer's downtown Seattle Wedding Suite.

[29] http://www.marketingprofs.com/articles/2013/10473/the-omni-channel-retail-experience-or-how-kay-and-jared-jewelers-upped-sales-49#ixzz3Jkxf3ui6

Brands, Brands, and More Brands

Today, most jewelry brands remain local and fragmented. The ten biggest jewelry brands capture only 12% of market share, and only Tiffany & Co and Cartier are on Interbrand's Top 100 list. Branded jewelry accounts for 20% of total jewelry sales; contrarily, 60% of watch sales are brands.

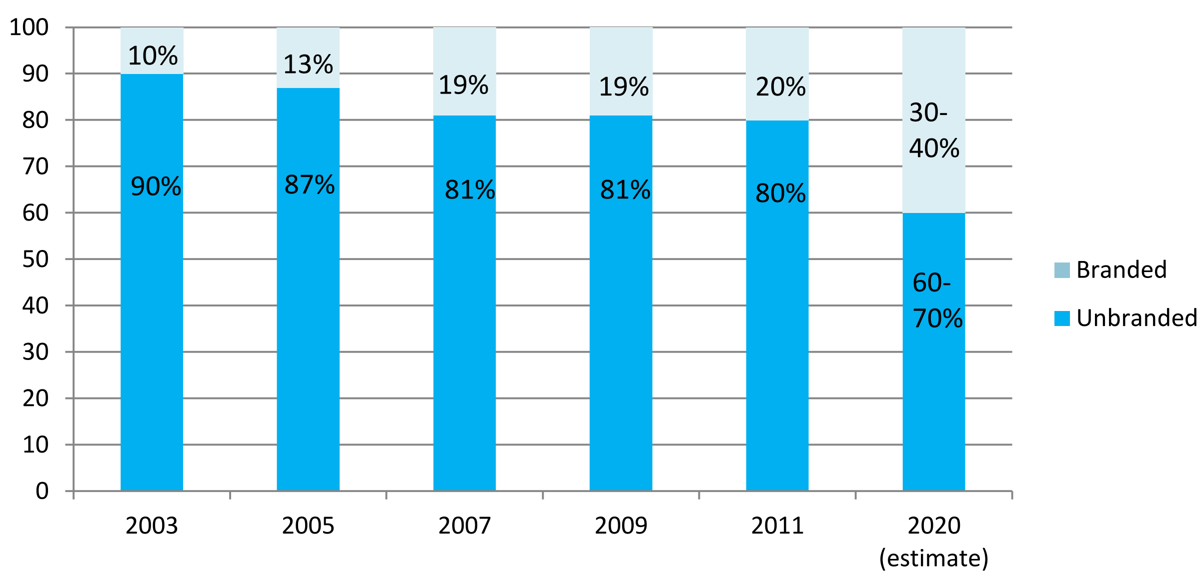
However, brands are expected to take an increasing market share for jewelry, and international brands will trump national ones. The prediction is that more jewelry brands, like Swarovski, will join the ranks of the Top 100 by 2020 through greater consolidation and M&A efforts. Between 2003 and 2012, brands doubled their share of sales in jewelry, and by 2020, it is predicted that branded jewelry sales will account for 20-30% of total jewelry sales.

In addition, jewelry sales in monobrand, or concept stores, have been increasing, while sales in this category from department stores are decreasing.

Branded sales growth in the industry has traditionally come from established jewelry companies such as Tiffany & Co. and Cartier. In the future, it is likely that branded jewelry sales growth will come from adjacent brands – that is, brands that are not only jewelry – such as Hermes, Dior and Louis Vuitton.

Brands should seek to strengthen by differentiation & unique designs. In an expanding global environment, it will be more difficult for smaller independents to compete.[30]

Branded Jewelry is on the Rise



---

30 http://www.mckinsey.com/insights/consumer_and_retail/a_multifaceted_future_the_jewelry_industry_in_2020

3 Types of Customers Identified to Grow Brand Sales:

1. New wealth – those that want to show off status
2. Emerging market consumers – brands represent trust and status
   This holds true in many emerging markets, particularly, in China
3. Young customers – turn to brands for self-realization + expression

The Importance of the Brand for Tiffany & Co. and PANDORA

Tiffany & Co.[31]

Of Tiffany & Co.'s seven key strategies, the top one is to **enhance brand awareness**. The company positions its brand in the high-end diamond and gemstone jewelry market, and endeavors to maintain this position through its product selection and excellent service.

In 2013, Tiffany & Co. introduced several new collections, including GATSBY and ZIEGFELD in the spring, a reinterpretation of the ATLAS collection in the fall, and the global debut of the TIFFANY HARMONY engagement and band ring collection.

The company does list certain challenges associated with brand positioning, including:

- Reduced overall gross margins
- Some consumers view the price range as out of reach
- Elegant stores in the best "high street" and luxury mall locations are more expensive and difficult to secure and maintain, but reinforce the Brand's luxury connotations
- In-store displays require sufficient space
- The classic positioning of much of Tiffany's product line supports the Brand, but limits the display space that can be allocated to new product introductions
- Significant advertising spend

Advertising regularly in newspapers, magazines and on digital media is done with a goal of reinforcing the brand image. In 2013, Tiffany & Co.'s advertizing, marketing, public & media relations spend totaled $247,466,000 (6.1% of expenses).

[31] http://files.shareholder.com/downloads/TIF/3524951261x0xS1193125-13-131168/98246/filing.pdf

PANDORA

One of PANDORA's key strategic pillars is to drive more branded sales. In 2013, 82% of PANDORA's revenue was generated through branded sales channels, compared with 79% in 2012 and 73% in 2011.

PANDORA products are sold through more than 10,000 points of sale in upwards of 80 markets globally. Their retail network is identified by store type. While the majority of PANDORA retailers are independent, their growth strategy has been to capitalize on their product offering by increasing their branded store network, with a particular focus on Concept stores.

PANDORA Store Types	
Concept Store	Minimum $40m^2$ PANDORA façade, fixtures, displays and staff
Shop-in-shop	Minimum $8m^2$ clearly defined area in store PANDORA fittings & displays
Gold Store	Minimum $4m^2$ clearly defined area in store PANDORA fittings & displays
Silver Store	Minimum $2m^2$ clearly defined area in store Some fittings & displays
White Store	Window space at minimum Basic PANDORA displays

Conclusion

Jewelry professionals are working in a new environment. They are faced with increasing competition, consolidation, globalization and shrinking margins. American jewelry companies can no longer rely on local markets to generate the most growth, as demand continues to grow from emerging markets like China and India.

Companies are thinking global. They need to adjust to shifting consumer shopping habits by adopting comprehensive omni-channel strategies, and consider offering brands to help drive more sales.

For the independent retail jeweler, it will be more difficult to compete. It will be all the more important to develop unique strategies that will help them stand out – offering over-the-top service and knowledge, designing unique pieces, doing good in their local communities, leveraging social media, mobile apps and other innovative marketing tools to promote their business.

There are challenges, for sure. But these challenges can also be translated into opportunities for those who are ready to seize them.