CASE 8

Tiffany's Little Blue Box: Does It Have Any Strategic Significance?

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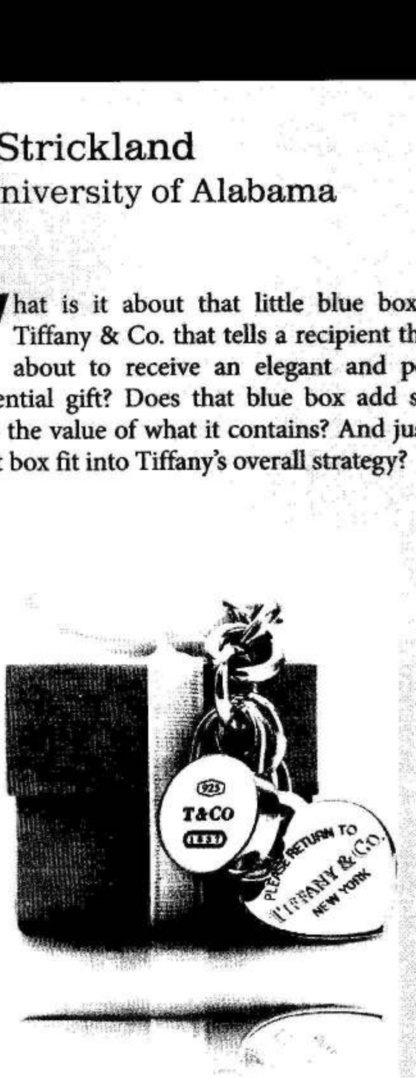
What is it about that little blue box from Tiffany & Co. that tells a recipient they are about to receive an elegant and perhaps quintessential gift? Does that blue box add significantly to the value of what it contains? And just how does that box fit into Tiffany's overall strategy?



From sales of only $4.98 on its opening day in 1837 to becoming one of the most well-known jewelers in the world, Tiffany & Co. has long been viewed as a premier retailer of distinctive and luxurious jewelry, chiefly for very well-to-do consumers. But according to some analysts, both the Internet and big-box retailers have forever impacted the way many consumers shop for jewelry, and there are signs that the lingering effects of the global recession may have diminished the appeal of powerful global brand names because budget-conscious consumers have increasingly begun seeking out products that deliver more value for their money. Given this, could it be that the old saying "don't judge a book by its cover" is coming back in style where high-end jewelry is concerned? Can Tiffany confidently count upon customers concluding that a one-carat diamond ring in a Tiffany blue box delivers more value than, say, a comparably priced three-carat diamond ring from Costco Wholesale or an Internet jewelry retailer like Blue Nile? Might recessionary or slow-growth economic conditions precipitate such significant and sweeping shifts in consumer preferences and buying habits for jewelry that it will become difficult for Tiffany to sustain its plans for international expansion and continue with its premium-priced differentiation strategy of producing and marketing distinctive jewelry for the affluent?

COMPANY BACKGROUND

Tiffany & Co. was founded in New York City in 1837 by Charles Lewis Tiffany and John Young. The company, which was then called Tiffany & Young was originally set up as a "stationery and fine goods emporium" that sold a variety of fine stationery and costume jewelry. It wasn't until 1845 that the company began selling everyday fine jewelry. In the 1840s, the company also published its first mail-order catalog, "The Blue Book," and also added timepieces, silverware, perfumes, and other luxury goods to its product line. Throughout the 1800s, Lewis and Young quickly and greatly expanded their company and business operations. In 1851, Lewis and Young bought out the city's silversmith operations and added the design and manufacture of silver to their business. With the new manufacturing capabilities, Tiffany & Co. became the first company to institute the 925/1000 silver standard, which later was adopted as the silver standard for the U.S. Shortly after in 1853, Charles Lewis bought out his two partners, John Young and J. L. Ellis, and renamed the company to what we know it as today: Tiffany & Co. Tiffany & Co. found its main consumer base to be wealthy Americans who desired the finer things in life. It won multiple awards at jewelry and silverware conventions, which only further solidified the Tiffany & Co. name in the ever-growing jewelry industry. In 1878, the company acquired the Tiffany Diamond, one of the largest yellow diamonds in the world, weighing in at 287 carats. In 1886, Lewis introduced the signature Tiffany engagement ring setting, which is still a best-seller at Tiffany & Co. By 1887, the company had more than $40 million dollars of precious stones. In 1902, Charles Lewis Tiffany passed away and his son Louis Comfort Tiffany joined the firm and became the company's first design director. Louis later died in 1933.

Following the Great Depression, the company moved into its famous flagship store on 5th Avenue in the heart of Manhattan, where it remains today. In 1955, the Tiffany heirs sold their interest in the company to Walter Hoving, who became the new CEO and opened stores in San Francisco and Beverly Hills, California, as well as Houston, Texas. Sales continued to grow in the 1970s and the company was then sold to Avon Cosmetics in 1979. Avon increased Tiffany & Co.'s line of less expensive items, which was criticized by many as turning the store into an average department store rather than a fine jewelry and silver retailer. In 1984, the company was then sold again to a group of investors, including then-CEO William Chaney. Chaney immediately began trying to reinstate the exclusivity and luxury that once was Tiffany & Co.

In 1986, the company expanded into Europe, and in 1987 it went public with approximately 30 retail locations worldwide. The 1990s proved to be a decade of expansion for Tiffany & Co. as well. They opened over 20 new retail stores nationwide. In 1999, Michael Kolwaski became CEO and the company bought stakes in a diamond supplier, Aber Diamonds. Tiffany & Co. also launched their first online store and website in 1999. In 2000, the company founded the Tiffany & Co. Foundation, which provides grants to nonprofit organizations working in the environment and the arts. The company also discontinued sales to retailers in the U.S. and Europe in order to try to regain control of their image and pristine brand name. In 2010, the company continued to expand into the Asia-Pacific region, opening eight stores, and then another three stores in Europe. In 2012, Tiffany & Co. celebrated 175 years of excellence with sales worldwide totaling over $3 billion.

COMPANY STRATEGY

Tiffany & Co. has made it a priority to maintain the luxury brand and service that Charles Lewis Tiffany founded the company on in 1837. It still targets the more affluent population and still maintains their no-haggling policy, something which dates back to the original store. Today, its mission statement remains the same: "to be the world's most respected jeweler." Focused on customer service, Tiffany & Co. abides by strict hiring standards. Every employee must complete six to eight weeks of training in knowledge, skills, and product training, as well as pass a written test before they are allowed to meet with customers and work on the Tiffany & Co. sales floor. The company is also very proud of the high-quality standards instilled in its culture since its founding by Charles Lewis. The blue box created by Charles Lewis Tiffany himself is still given to each customer upon the purchase of a product. To the company, the little blue box is a symbol of Tiffany's high-quality products, its commitment to excellence, solid tradition and consistency, its respect for customers and their needs, and of course Tiffany's pristine reputation.

Over the years, Tiffany has insisted on opening its doors to all types of buyers. It has vastly expanded its product offering, and even added low-priced "tourist" items, such as a deck of cards for those individuals just looking for a glimpse of the Tiffany experience. Approximately 90 percent of its overall sales, however, comes from its jewelry selection. The sale of silver and gold items makes up about a third of the company's revenues. Another third of its revenue stream comes from their quintessential engagement rings and wedding bands. Although a large portion of Tiffany's sales are generated from jewelry, much of their revenue also comes from their ever-expanding product line. Currently, its main business strategy is to continue expanding that product line, but in a way that does not diminish Tiffany's prestigious brand name. In order to achieve this goal, the company is very selective in the types of products it chooses to carry, while continuing to expand its target market through its Blue Book Catalog, website, and new retail markets. In expanding its accessories line, Tiffany & Co. acquired the luxury handbag and footwear line Lambertson Truex from Samsonite in 2009. Previously, in 2006, Tiffany linked with luxury eyewear company Luxottica to begin production of a Tiffany-branded ophthalmic and sun eyewear collection. Starting in 2008, this eyewear collection was carried in all of Tiffany's retail stores. In addition, Tiffany's product line includes a variety of men's and women's jewelry, as well as key chains, handbags, eyewear, scarves, leather goods, table wear, vases, and other items.

Tiffany & Co. isn't just about jewelry, however. Since 1860, the company has also made a variety of silver products for multiple sporting event awards. For instance, in 1909 Tiffany created an eight-foot trophy for the Indianapolis 500 and continues to make the NASCAR Sprint Cup today. Tiffany has also created the NFL Vince Lombardi Super Bowl Trophy since 1967, the first world championship baseball trophy since 1988, and has produced the World Series Trophy since 2000. Tiffany also makes trophies for the U.S. Tennis Association and PGA Tour championships, along with a variety of other sporting tournaments.

TIFFANY FINANCIALS

Tiffany & Co.'s U.S. retail stores account for 50 percent of the company's overall revenue, and the company spends roughly 6 percent of its revenues on advertising and marketing. It also manufactures 60 percent of its jewelry in order to maintain its high-quality standards, while typically outsourcing the non-jewelry items in its product line.

Like many businesses in the U.S., Tiffany & Co. suffered a financial downturn during the most recent recession, with U.S. sales declining in both 2008 and 2009. In 2007 and 2006, the company increased their retail prices due to the rising costs of gold and diamonds, sporting an average sales price of $3,400. With higher prices, the company was able to drastically increase their net income, showing a growth of 18.5 percent from 2006 to 2007. It was not until 2008 that the company began to feel the effects of the recession on their profit and growth. In 2009, company sales were down 4.9 percent from 2008. Although Tiffany & Co. definitely felt the effects of the recession in the U.S., it fared much better than many of its competitors, with its overall revenue decreasing only 2.7 percent. However, in 2010 the company rebounded and outperformed the market with a growth of 10.9 percent. This spurt in growth was mainly due to the increased prices of their jewelry. Since 2010, the company has shown strong growth potential for the future. For instance, the company's U.S. sales grew 15 percent to $1.8 billion by fiscal year-end 2011, and overall net sales rose 18 percent to $3.6 billion. The company's net earnings also increased 19 percent to $439 million.

Although Tiffany took a hit from the U.S. recession, the company was able to rebound by increasing prices and continuing with their original strategy of attracting and marketing to the more affluent consumers. It was also able to remain one of the top high-quality players (along with companies like Bulgari and Cartier) mainly due to the fact that all these companies were also impacted by the recession in some manner.

EXHIBIT 1 Financial Performance Summary for Tiffany & Company's U.S. Segment, 2006–2011

Year	Revenue ($ million)	% Change	EBIT ($ million)	% Change
2006	$1,560.9	8.0%	$250.3	0.7%
2007	1,734.1	11.1	343.4	37.2
2008	1,547.0	−10.8	228.3	−33.5
2009	1,338.2	−13.5	226.4	−0.8
2010	1,484.5	10.9	352.1	55.5
2011	1,764.2	18.8	477.1	35.5

Note: EBIT = Earnings before interest and taxes.

* *Source:* http://clients.ibisworld.com.libdata.lib.ua.edu/industryus/Majorcompanies.aspx?indid51075#MP8953.

THE 4 C'S OF DIAMONDS

When it comes to choosing a diamond, there are a few things consumers need to be aware of before entering a store or purchasing items online. These characteristics are referred to as the 4 C's: carat, color, clarity, and cut. Created by the GIA, the Gemological Institute of America, the 4 C's are the international standard for describing the quality of the diamond. The creation of the 4 C's permitted universal communication when describing diamonds and also provided customers with a way of understanding what they were looking at in jewelry stores.

The first C, *carat*, refers to the actual weight of the diamond. One carat is equal to 200 milligrams, and each carat can be subdivided into 100 points. This allows for very precise measurements, to the hundredth decimal place. Diamond weights greater than one carat are expressed in carats and decimals, such as 1.25 carats or one point twenty-five carats. The greater the carat weight, the more expensive the diamond. This being said, two diamonds of the same weight can have very different values depending on the other three C's.

The second C, *color*, actually refers to the diamond's *lack* of color. A chemically and structurally perfect diamond is completely absent of color. Consequently, the clearer the diamond, the greater its value. GIA developed a color rating system ranked from D–Z, with D being colorless. This color rating system measures the degree of colorlessness by comparing a diamond under both controlled lighting and viewing conditions to a "master" diamond that has a perfect established color. Color differences can be almost indeterminable using the naked eye; however, a minor difference in color rating can create a large difference in value.

The third C, *clarity*, refers to the purity of the diamond and its absence of natural inclusions and blemishes. Determining a diamond's clarity is based on evaluating the number, size, relief, nature, and position of these defects, as well as how they affect the overall appearance of the stone. The greater the clarity of the diamond, the greater its value. The GIA clarity scale includes six different categories: *flawlessness (FL)*, no inclusions or blemishes under 10x magnification; *internally flawless (IF)*, no inclusions visible under 10x magnification; *very very slightly included (VVS1 and VVS2)*, inclusions so slight that they are difficult for a skilled grader to see under 10x magnification; *very slightly included (VS1 and VS2)*, inclusions are clearly visible under 10x magnification, but can be characterized as minor; *slightly included (S1 and S2)*, inclusions are noticeable under 10x magnification; and *included (I1, I2, I3)*, inclusions are obvious under 10x magnification, which may affect transparency and brilliance. Identifying blemishes and inclusions can be very difficult to see with the naked eye, but make an enormous difference in the value of the diamond. This is why it is so important for consumers to receive a professional appraisal.

To many people, the fourth C, *cut*, refers to the shape (round, princess, emerald, pearl) of the diamond. In truth, the cut of the diamond actually refers to how the diamond's facets interact with light—in essence, how it sparkles. The cut determines a diamond's final beauty and ultimately its value. In determining the cut of a diamond, GIA calculates the proportions of the facets that influence the diamond's face-up appearance, which lets an expert determine how the diamond interacts with light to create the most visually appealing diamond. The brightness of a diamond is also considered, which is how internal and external white light reflects from a diamond. Fire is also taken into consideration, which is how the diamond scatters white light into all the colors of the rainbow. Scintillation is the final characteristic considered, which is the amount of sparkle a diamond produces and the pattern of light and dark areas caused by reflections within the diamond. The cut is measured using a scale of five, from excellent to poor.

Considering the way the diamond industry is changing, with the ability to purchase items online and at big-box stores, consumers need to be aware now more than ever what constitutes a good quality diamond. GIA gives guidelines for consumers on how someone should go about purchasing a diamond:

- Choose a jeweler that has training from an accredited diploma program that can answer questions clearly and effectively, as well as explain the 4 C's.
- The consumer should understand what the 4 C's mean.
- Insist on being presented with a grading report of the chosen diamond.
- Protect the purchase by having your diamond appraised and insured.

PURCHASING A DIAMOND

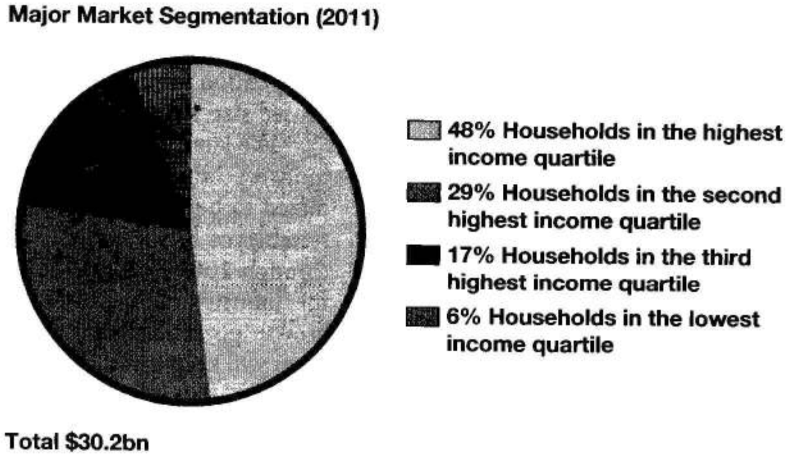
Thanks to the growing power of the Internet, the way consumers purchase goods is changing drastically. This includes how people buy diamonds. There is a multitude of retail jewelers, fine jewelers such as Tiffany & Co., online jewelers, and big-box warehouse jewelers.

Online stores, such as Blue Nile, have many advantages in the eyes of consumers. Buying online not only provides convenience, but also allows consumers the greatest selection of retailers and merchandise. Diamonds can be found in all shapes and sizes at all different price points, allowing the consumer to customize their shopping experience. Online shoppers are also able to easily compare prices from retailer to retailer. Online retailers also offer reasonable return policies in case the consumer is not satisfied with their original purchase. Though consumers are able to purchase diamonds without ever leaving their couch, the downside of online buying is the customization factor. If a buyer purchases a diamond in a store, they are able to have a one-on-one discussion about the diamond's 4 C's and pick a specific setting for it. So although online retailers are becoming more and more popular, many consumers still feel more comfortable making such a large purchase at a brick-and-mortar jeweler.

People purchase jewelry for many reasons, one of the biggest being its status affect. Jewelry has always denoted wealth, class, and status and is synonymous with affluent individuals. According to *JCK* magazine, 67 percent of all jewelry is a planned purchase, making price the most important factor to consumers. More than 50 percent of responders to *JCK*'s survey reported that product quality, a salesperson's honesty, the service they received in the store, the store's reputation, and the salesperson's knowledge were the most important factors when purchasing jewelry. Less than 50 percent of respondents ranked store display, brand name, store location, the recommendation of another shopper, advertising, and store hours as the most important factors. Although many high-end brands exist, such as Tiffany & Co, Harry Winston, and David Yurman, many more unbranded stores make up a large chunk of the jewelry market. However, given the magnitude of a jewelry purchase, a well-known brand can give the consumer confidence in the purchase and more willingness to purchase jewelry based upon brand rather than price point.

For Tiffany & Co., the brand is everything. When Charles Lewis Tiffany permanently took over the company in 1853, he defined the Tiffany brand as one of prestige and wealth, making the Tiffany name and the little blue box that accompanied it something that people not only coveted, but that many couldn't afford. This set Tiffany & Co. apart from other jewelry companies and elevated them into the upper echelon of fine jewelry and silver. It is easy to see that Tiffany takes pride in its brand and the quality of their products. In 2004, Tiffany & Co. sued eBay for alleged trademark infringement, trademark dilution, and false advertising, given that the majority of Tiffany items on eBay being sold were counterfeits. The courts ruled in eBay's favor, and in 2010 Tiffany appealed to the U.S. Supreme Court, saying that eBay should be held liable for trademark infringement on Tiffany's brand. However, the Supreme Court rejected Tiffany & Co.'s appeal and eBay was not held liable for any charges of fraud or trademark infringement. When it comes to jewelry, Tiffany believes that cost

EXHIBIT 2 Jewelry Sales by Income Segment, 2011



Source: www.ibisworld.com.

does not matter when you are getting a well-known, high-quality brand that will last a lifetime.

The largest segment of consumers in the jewelry market tends to be more affluent individuals. According to Exhibit 2, households are the primary market for jewelry purchases, because most jewelry is purchased as a gift. Therefore, sales tend to fluctuate around holidays such as Christmas and Valentine's Day. Medium-high-income households make up the largest market segment for jewelry retailers at 48 percent of total industry revenue. The top 50 percent of all income-producing households accounts for 70 percent of industry revenue, while the lowest 25 percent of income-producing households only makes up 6 percent of industry revenue. The revenues generated by the medium-high-income households showed signs of increasing during the recessionary period, because the recession tended to impact lower-income households more dramatically than higher-income individuals. Therefore, jewelry retailers tend to aim to gain the most revenue from the top 20 percent of premier customers. As far as age, individuals between the ages of 45 and 64 make up the majority of jewelry sales because they have established disposable incomes. Due to the aging population, jewelry purchases in this segment are expected to increase in the future. The next largest market segment is individuals between the ages of 20 and 30 years old, most likely due to the increased marriage rate in that age segment.

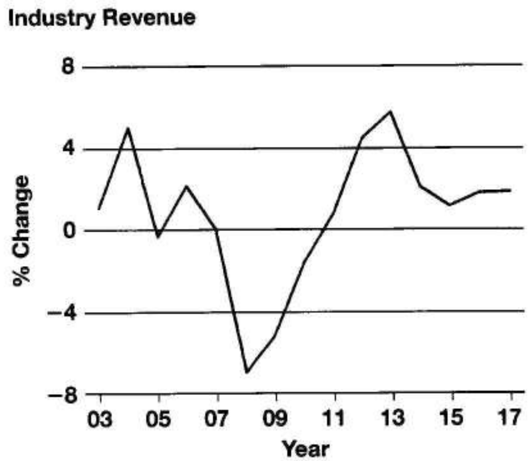
THE U.S. JEWELRY INDUSTRY

The U.S. jewelry industry is a 30-billion-dollar industry made up of over 56,000 different businesses, with an annual growth rate of 3.1 percent. Although the jewelry industry has had positive growth as of 2011, the industry took a hit due to the recession that began in 2006. The effects of the recession on the jewelry industry began to show in 2008 when luxury spending started to drop. As household earnings and expenditures tightened, the sale of luxury goods declined as well. This drop in consumer expenditures caused the sales revenue of the industry to decline at an estimated annual rate of 2.7 percent over five years from 2006 to 2011.

The jewelry industry saw a slow recovery following the economic downturn in 2008. In 2010, the annual growth rate declined 1.7 percent. However, some larger companies like Signet and Tiffany & Co. proved to be outliers and showed positive sales growth in 2010. Due to the strong brands and image ratings of the larger fine jewelry retailers, they were able to weather the effects of the recession and became leading indicators of recovery in the industry.

In addition to the reduction in consumer spending, the jewelry industry was also affected by the rising price of gold. Exhibit 3 displays the effects that the increased price of gold had on the overall jewelry industry revenue. The price of gold increased from $604.71 per ounce in 2006 to $1564.91 per ounce in

EXHIBIT 3 The Effects of Changes in Gold Prices on U.S. Jewelry Industry Revenues, Actual and Projected, 2003–2017



* *Source:* http://clients.ibisworld.com.libdata.lib.ua.edu/industryus/Majorcompanies.aspx?indid=1075#MP8952.

2011. The increased cost of gold pushed up a jeweler's overhead costs, which caused their profit to drop by 5.1 percent from 2006 to 2011. With the increased price of gold, it has become imperative for jewelry stores to manage their purchasing and overhead costs. Purchases account for over 50 percent of a firm's cost structure. Many stores had to employ budget-cutting measures in order to remain profitable. One popular tactic used by jewelry companies was to cut wages. Industry wages dropped from $5.2 billion in 2006 to $4.6 billion in 2011. Firms also suffered from default loans from borrowers, which led to sunk costs and increased debt for some firms. Harsh credit conditions as a result of the recession even caused some companies to file for bankruptcy, such as Friedman's Jewelers, which filed for bankruptcy in 2008. Some luckier firms were able to close retail locations in order to save on costs and avoid bankruptcy. This caused a large decrease in the number of operating firms in the U.S. during the recessionary period. For example, the number of retail firms in the U.S. in 2007 was 62,005, which then dropped to 56,007 by 2011.

Jewelry companies also began to face increased competition from non-jewelry outlets, such as supercenters and online retailers. These companies threatened the profits of firms like Tiffany & Co. because they offered lower prices and one-stop shopping for consumers. Threats from these competitors tended to be more intense and have a greater effect on the lower-value product segments. This increased competition from non-traditional jewelry retailers has caused size, sales growth, and profitability to slow.

The latest recession has also taken its toll on the industry, but estimated revenue growth is still predicted to be 3.1 percent per year through 2016. The number of retail stores is also expected to increase through 2016 to 70,013 stores nationwide. Although the industry is in the mature stage, the forecasted growth potential and the increasing consumer sentiment will keep this industry in working order.

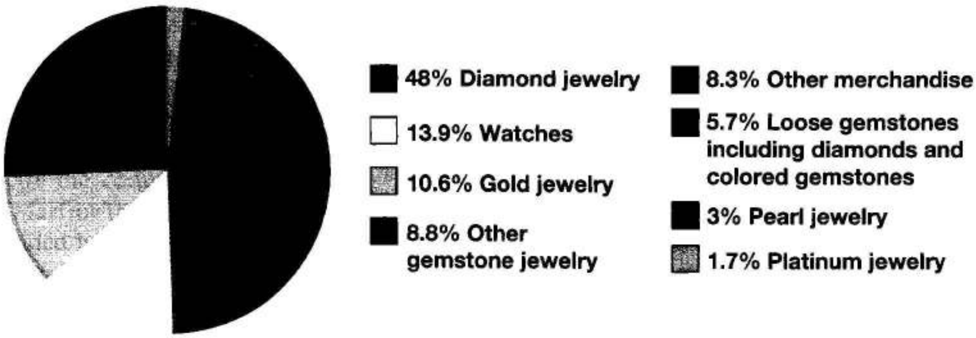
Not Just Jewelry

The jewelry industry is made up of a plethora of products, and has evolved from gemstones and diamonds to expanded product lines that include everything from accessories to luggage. However, the most common jewelry sold is still diamonds and gold. According to the product segmentation in Exhibit 4, diamond jewelry makes up the largest amount of jewelry products, accounting for 48 percent of industry revenue. This is most likely due to the increasing marriage rate, although during the recessionary period the marriage rate dropped slightly as couples postponed weddings due to lagging disposable incomes. The diamond segment of the industry includes bracelets, rings, necklaces, and so on in which diamonds make up 50 percent of the items value. Although the disposable income has decreased since the recession, the diamond segment has slightly increased due to the overall rise in personal wealth.

Gold makes up the second-largest segment of the product market. Many consumers purchase gold items because of the investment value since the price of gold has shown steady increases. The gold product segment is made up of all gold jewelry items, while diamonds, gems, and other items constitute less than 50 percent of the final items' value. Although gold makes up a large revenue segment for the industry, there has been a switch in consumer purchasing trends. For example, over the years there has been a shift from gold rings to more favorable platinum rings. This has caused yellow gold to lose market share due to the fact that gold jewelry has become less desirable for consumers. Watches make up the next largest product segment at 13.9 percent of the industry revenue. However, the demand for watches is in decline due to the increased number

EXHIBIT 4 U.S. Jewelry Industry Sales, by Product Segment, 2011

Products and Services Segmentation (2011)



Total $30.2bn

Source: www.ibisworld.com.

of smartphones and PDAs that have built-in clocks. Besides silver and gold, jewelry stores offer a wide variety of gemstones, pearls, silverware and tableware, and other accessories, ranging from eyewear to luggage, depending on the size of the retailer.

COMPETITION

The U.S. jewelry industry is mainly concentrated in the Southeast and Mid-Atlantic regions, which account for 45 percent of total industry sales. The concentration is highly dependent on population as well as per capita income. The higher the population and per capita income, the more concentrated the retail merchants in that particular area.

The four largest players in the jewelry industry have 20 percent of the total jewelry market. The jewelry industry is highly fragmented with no single dealer owning in excess of 10 percent of the total market. This is due to the high volume of retail jewelry stores and the vast availability of jewelry products and merchants. Therefore, over time, concentration in the jewelry industry has steadily increased and is expected to increase through 2016. With low barriers to entry, the jewelry industry is highly competitive and constantly growing. Due to the discretionary nature of jewelry purchases, the economy and disposable income of consumers greatly influence the competitive landscape in the jewelry industry.

Jewelry companies try to create stores in high-traffic retail areas that are near the more affluent areas of a city. The depth of the product line a company offers can differentiate them from other competitors, and a signature trademark and reputable brand name, such as Tiffany & Co.'s blue box, can give a company a leg up on its competition. With the recent recession, price has become a more important factor than ever, which has increased the pressure on big-box stores and supercenters that carry a large selection of low-priced jewelry.

Signet Group, PLC

The Signet Group is one of the largest jewelry retailers in the world with a 9.7 percent market share in the industry. Originally founded in the United Kingdom in 1862, the Signet Group operates in the jewelry retail segment through its Kay Jewelers locations, as well as Jared the Galleria of Jewelry. The company currently has more than 1,300 stores in the U.S., and the U.S. accounts for more than 75 percent of its overall sales. Signet built its empire on superb customer service, a value-driven product line, strategic marketing plans, and onsite customer financing.

Kay Jewelers is a subset of Signet based in mall locations and targets households that have a median annual income between $35,000 and $100,000. Due to the recession in 2006, Kay was forced to lower its prices in order to cater to more value-conscious customers. The division also enhanced its web presence to help boost sales and gain new customers. In addition, Signet operates other mall retail stores in order to meet a wide range of price points for customers.

EXHIBIT 5 Financial Summary for Signet Group's U.S. Operations, 2006–2011

Year	Revenue ($ million)	% Change	EBIT ($ million)	% Change
2006	$2,652.1	14.9%	$326.7	18.3%
2007	2,705.7	2.0	262.2	−19.7
2008	2,519.8	−6.9	−250.7	N/C
2009	2,540.4	0.8	224.5	N/C
2010	2,744.2	8.0	342.7	52.7
2011	2,929.3	6.7	423.7	23.6

* *Source:* http://clients.ibisworld.com.libdata.lib.ua.edu/industryus/Majorcompanies.aspx?indid=1075#MP8952.

Jared the Galleria of Jewelry is the more higher-end U.S. retail segment of Signet and targets households with a median annual income between $50,000 and $150,000. Jared is an off-mall retailer that has a higher price point than Kay Jewelers at an average price of $713. Jared is more focused on providing customer service, knowledge about the products, as well as the onsite design and repair of jewelry.

Like many U.S. jewelers, Signet Group felt the effects of the recent recession. The company had decreases in revenue in 2008 and 2009, as shown in Exhibit 5; however, its revenue has increased since then. Prior to the recession, both Kay and Jared performed well, with increasing revenues and more store locations. Signet suffered the most in 2008 and 2009, with sales dropping 6.9 percent in 2008 alone. In 2009, the company weathered the storm by shifting its focus onto its more value-driven brand, Kay. The recession forced the company to eliminate new store openings, cut advertising budgets, and lay off workers. In 2010, Signet showed signs of improving growth (8 percent) due to targeted marketing strategies and the lowering of prices in its mall-based stores. Kay was also able to reach out to the "penny pinching" consumer through their popular and inexpensive charm bracelet line. As the economy improved, the company continued to show positive growth through 2011, and had plans to continue the expansion of their Jared store locations.

Bulgari S.p.A

Bulgari is one of the top luxury goods and jewelry retailers in the world. The Bulgari Group has 41 companies in 21 different countries, 295 retail stores, and over 3,800 employees worldwide. The company offers many products, including jewelry, watches, accessories, perfumes, skin care products, and leather goods, and even has a line of hotels.

In 1884, a descendant of Greek silversmiths, Sotirio Bulgari opened his first jewelry store in Rome, Italy, where he began selling fine jewelry and antiquities. In 1905, with the help of his two sons Constantino and Georgio, he opened up what today is the flagship store in Via Condotti, Rome. In the early 20th century, Bulgari's two sons began to take an interest in precious stones, gems, jewelry, and watches. With much enthusiasm for the jewelry business, the two sons gradually took over their father's management position in the company. They then introduced a new, unique Greco-Roman style of jewelry to the store's product line. The exquisite jewelry caught the eye of many affluent and famous individuals, and by the 1950s and 1960s got Bulgari noticed as a fine luxury jewelry retailer. With the fast growth of the brand, Bulgari was soon able to expand internationally, opening stores in New York, Geneva, Paris, and Monte Carlo in the 1970s. In 1977, Bulgari's most famous watch was introduced, Bulgari-Bulgari, which remains the company's best-selling watch today. With the popularity of the company's watches, Bulgari founded the company's watch division in the early 1980s: Bulgari Time in Switzerland. In 1993, Bulgari expanded its product line and began offering fragrances along with their fine jewelry. The company went public in 1995 and was listed on the Italian Stock Exchange and the international SEAQ of London. In 1994, it expanded its product line as a luxury goods retailer further with the introduction of silk scarves. This was followed later in the decade with silk ties for men, eyewear, leather goods, and a multitude of other accessories. In 1997, in keeping with expanding the company's prestigious brand name, Bulgari joined with Ferragamo to market and distribute Ferragamo and Ungaro perfumes. The following year, Bulgari entered into the housewares market, partnering with Rosenthal to sell fine china, crystal, tableware, and stemware.

In the late 1990s and early 2000s, Bulgari continued expanding their product line and the company as a whole. In 2000, the company licensed its brand name to luggage and accessories for Cadillac's retro car, the Imaj. Shortly thereafter, Bulgari bought three Swiss watch-making units from The Hour Glass Ltd. Then in 2001 the company signed a license agreement with Marriot International to create a chain of Bulgari-branded hotels. The following year it opened its first store in Russia, and in 2007 opened its largest store ever, an 11-story building in Tokyo. This was followed by its largest store in Europe, opened in Paris, France. In 2010, Bulgari signed a contract with Hengdeli Holdings in China that will expand the company's watch lines there. In 2011, Bulgari was taken over by the French luxury goods company LVMH (Louis Vuitton Moet Hennesy).

Very much like Tiffany & Co., Bulgari prides itself on the superior quality of its products and customer service. Throughout all of the company's expansion ventures, it has still been able to maintain its sophisticated and luxurious brand name. Bulgari's main business goal today is to achieve full customer satisfaction through excellence in every aspect of their business structure. As the company states: "Excellence to Bulgari means the perfect balance between the highest quality products and impeccable service worldwide." From every aspect of the business, whether it be design, production, or distribution, Bulgari makes it a priority to instill the highest quality standards and specifications in each process, resulting in only the finest quality goods.

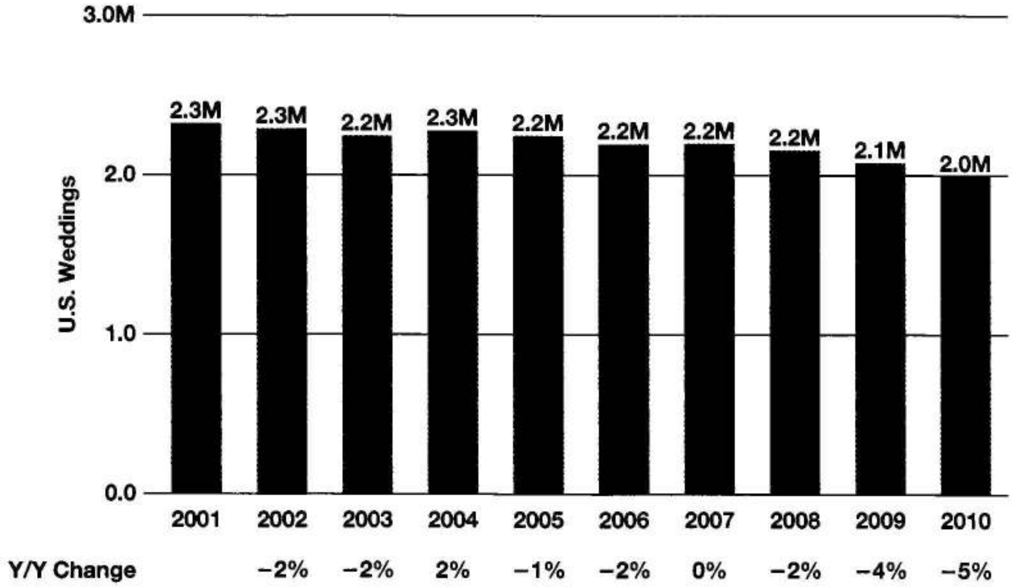
Blue Nile, Inc.

Founded in 1999, Blue Nile is now the largest online retailer of diamonds and fine jewelry. Based in Seattle, Washington, this online retailer competes with the most distinguished brands in the business, such as Tiffany & Co., Cartier, and many more. The company offers a variety of luxury jewelry items, including loose diamonds, settings, engagement rings, gold, silver, and platinum jewelry set with a variety of gemstones and pearls. Blue Nile has made choosing a diamond or a piece of jewelry a completely different, and for many, a more convenient experience. Being able to browse through thousands of diamonds and compare the 4 C's, settings, and prices, all with the click of a button or swipe of a finger, is what sets this company apart from their brick-and-mortar competitors. Many consumers find this terrifying when making such expensive purchases, but Blue Nile prides itself on educating first-time buyers and giving consumers the knowledge they need to make a well-educated purchase. In fact, Blue Nile's business model is built around the notion that "choosing an engagement ring doesn't have to be complicated." It offers over 60,000 gemologist-certified diamonds, providing all of the amenities that a brick-and-mortar retailer offers, such as sizing, gift wrapping, financing, insurance, and appraisals. The company has based its merchandising strategy on a "just-in-time" method that allows the e-tailer to save on inventory costs by advertising the diamonds on their website, and then purchasing them once the customer has actually made the order online.

Blue Nile recently expanded its website to include mobile devices. In 2010, the company launched a mobile website for users that is a scaled-down version of their main website, but that still enables consumers to browse thousands of diamonds and jewelry from anywhere they choose. This lets customers enter a brick-and-mortar firm like Tiffany & Co. and compare their prices to Blue Nile's while standing in the store. The company reported in 2011 that approximately 20 percent of their customers were using the mobile site. In 2011, the mobile site proved to have paid off when Blue Nile sold a $300,000 diamond through the iPhone application.

Like most jewelers, Blue Nile suffered from the recession. However, the company did have a slight increase in sales of 10 percent from 2009 to 2010, with international sales increasing 30 percent. With this large increase in international sales, as well as the fact that half the world's diamonds lie outside U.S. borders, Blue Nile has made it a company focus to continue expanding internationally. The company also plans to redirect its strategy and focus on non-bridal jewelry moving forward. According to Exhibit 6, the number of formal weddings in the U.S. is in decline. This is most likely an effect of the recession, as well as changing societal beliefs about marriage. Couples are also choosing to get married later in life, which has an impact on whether or not they have a wedding or buy an engagement ring. Although two-thirds of Blue Nile's sales come from engagement rings, due to the declining sales margins of the item the company has chosen to focus their strategy on other forms of jewelry, such as earrings and necklaces.

EXHIBIT 6 Number of Weddings in the United States, 2001–2010



* *Source:* http://files.shareholder.com/downloads/NILE/1718335619x0x543349/f146dfde-e306-41b6-b851-81536ee8367a/Analyst_Day_February_16_2012_FINAL.pdf.

Costco

Founded in 1983 in Seattle, Washington, Costco is now the largest membership warehouse chain in the United States with sales of over $87 billion in 2011. Costco provides customers with a one-stop discounted shopping experience. The company's product line ranges from everyday grocery and bakery items to electronics and treasure hunt items. But like many discount retailers and warehouse stores, the company also has a wide range of jewelry and diamonds for consumers to choose from. In 2011, Costco sold 103,000 carats of diamonds, with their largest diamond purchase being a 3.43-carat pink diamond ring worth $255,000. Among their other large diamond purchases was a pair of 6.56-carat diamond earrings priced at $67,900, as well as a 3.07-carat round diamond ring that sold for $67,300. Although consumers must purchase a membership to reap the benefits of Costco, upfront savings on large purchases such as diamonds and electronics seems to be worth the yearly fee.

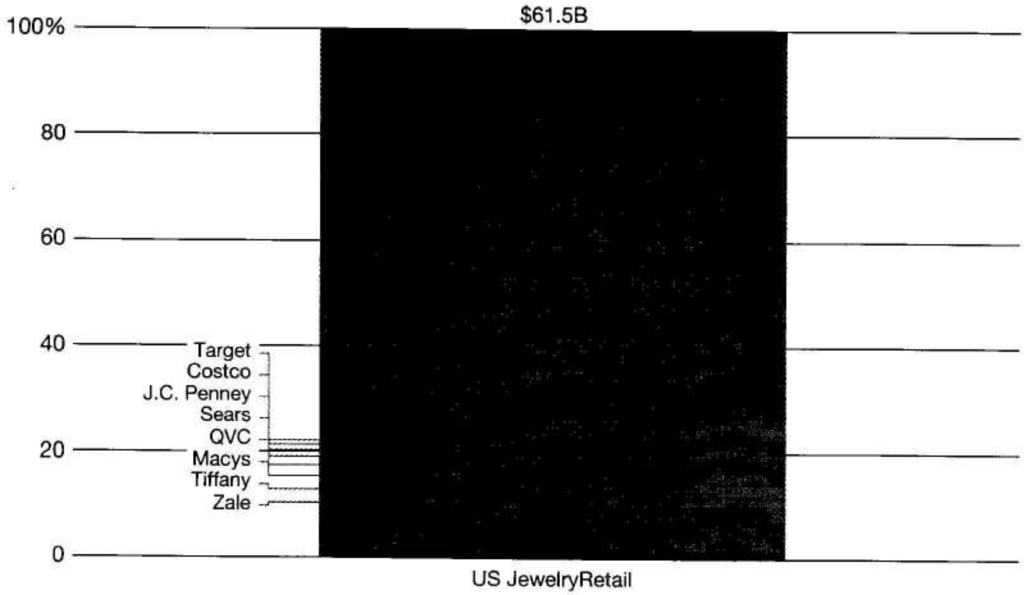
Many big-box stores seem to be gaining market share on the diamond industry every year. With the ever-recovering economy, the definition of value has changed for many consumers. Why buy a one- to two-carat diamond ring at a high-end retailer such as Tiffany or Cartier, when the consumer can go to Walmart or Costco and get a three- to four-carat diamond ring of the same quality for the same price.

Even though companies like Tiffany are some of the most well-known and well-respected companies in the industry, the discount powerhouse retailer Walmart has the largest market share in the diamond industry. This is most likely due to their everyday low prices and one-stop-shopping atmosphere. Due to the highly fragmented industry, the top 20 jewelry retailers only make up 28.1 percent of the total market share, as seen in Exhibit 7. With this small percentage, big-box stores have the opportunity to take advantage of recessionary times, further penetrate the industry, and continue to take market share away from designer retailers such as Tiffany & Co.

DOES BRAND REALLY MATTER?

In the mid-2000s, as the economy recovered from a mild recession, consumers began making more discerning purchases and holding on to their disposable income. With more penny-pinching consumers in the marketplace, a new version of retail jewelry

EXHIBIT 7 Percentage of Total Retail Jewelry Sales in the United States, by Major Retailer, 2011



* *Source:* http://files.shareholder.com/downloads/NILE/1718335619x0x543349/f146dfde-e306-41b6-b851-81536ee8367a/Analyst_Day_February_16_2012_FINAL.pdf.

emerged. People became less discerning about where they bought their jewelry and more concerned about getting the biggest bang for their buck. This new phenomenon made retailers start asking, "Does brand really matter anymore? Or is it all about price and value?"

Consumers began to realize that they were paying a premium simply for the brand name attached to each jewelry item. In hard economic times, the pride that comes from a purchase with a fine retail jeweler may not be as important as the actual quality and size of the diamond. In 2006, ABC's *Good Morning, America* did a study on the differences in price and quality between a diamond from Tiffany & Co. versus a diamond from Costco. Although Costco did not have the high-quality customer service that a retailer like Tiffany has, Costco's prices far undercut those of a luxury jeweler. Where Tiffany & Co.'s jewelry started at $1,200, Costco's started as low as $500, ranging all the way up to $23,000. Although shopping for jewelry and diamonds amidst groceries and patio furniture may not be the ideal atmosphere for consumers, many people are willing to sacrifice the luxurious ambiance and service of a high-end retail store for a lower-priced, larger-carat diamond. ABC's research found that a nearly flawless, one-carat diamond with a color grade of F (colorless) was $16,600, including the famous Tiffany & Co. engagement setting. The gemologist hired by ABC also noted that a diamond of the same exact quality—without the prestigious brand name—cost approximately $10,500. This puts a value of $6,100 on the Tiffany brand name and little blue box alone. The same consultant then ventured to Costco and purchased a round diamond, just over a carat in size with a color grade of H (nearly colorless) and paid $6,600, which was $10,000 less than an almost identical diamond at Tiffany & Co. Certainly, some may say that the Tiffany brand name is worth the extra $6,000, and many consumers make the choice every day to buy a name-brand product versus a no-name one, whether it be jeans, handbags, or jewelry due to quality concerns or simply to have the logo stitched on their pocket or hanging from their arm. But will the benefits of a designer name like Tiffany & Co. continue to be as prominent as it once was?