CASE STUDY 6

MICHAEL HILL INTERNATIONAL: CONTROLLED EXPANSION AND SUSTAINABLE GROWTH

Nadine France, Case Centre, University of Auckland Business School
Daniel Vidal, Adjunct Associate Professor, University of Auckland Business School

> We have always consciously kept warfare in mind when considering expansion — we systematically take one city at a time — *Michael Hill*[1]

Within thirty years, Michael Hill International (MHI)[2] grew from one jewellery shop in small-town New Zealand to a multinational company worth NZ$400 million, with 230 stores in four countries and ambitious plans for growth. In 2002, MHI announced its ultimate goal was to open 1000 stores by 2022. To do this, they intended to establish themselves as an international brand and expand significantly in the North American market. The company opened its first stores in Canada in 2002, and in 2008 bought seventeen US jewellery stores in Illinois and Missouri and began to build the brand in the United States. However, with such an ambitious growth target, there were many challenges ahead. The jewellery industry had been hard hit by the 2008 global financial crisis, and MHI was operating in a tough and highly competitive environment. The acquisition of the US stores also marked a departure from its traditional organic growth model.

Background

Michael Hill was born in a small town in Northland, New Zealand, in 1938. After high school, he worked at his uncle's jewellery shop for 23 years, initially as a watch maker, before moving into sales, merchandising and store displays (which showcased his natural creativity and perfectionism). Following a traumatic house fire, Hill opened his own jewellery shop in 1979. The focus of the new shop was simplicity, and it sold only jewellery rather than antiques, china or silverware, which was the standard at the time. By the third year, the shop turned over more than NZ$1 million, and Hill set the goal of opening seven shops in New Zealand in seven years, convinced of the value of goal setting and articulating a clear vision for the business. The company also focused on innovative advertising — firstly on radio and in print, and then on television. The advertisements, fronted by Hill, became cult hits.

By 1987, Hill wanted to grow the company further — first to a store in Auckland's Queen Street and then into Australia — but he needed capital to expand. Hill had bought out his initial investors using a bank loan, but required ready cash. Accountant Johnny Ryder suggested taking the company public; Hill later commented that in 1987 'anything and everything was being floated on the stock market ... the expression went that you could float a shoe-box'.[3] MHI was listed on the New Zealand Stock Exchange in May 1987 (four months before the stock market crash) and raised NZ$3 million, with the Hill family retaining a 52.5 per cent share. Many of the ordinary shareholders came from Hill's local district of Whangarei, and Hill remained joint managing director and chairman of the board. The Hills relocated to Australia, having set a new strategic plan of opening seventy stores in seven years with an expansion model of 'controlled, profitable growth'.[4] Hill decided to start in Brisbane, a city which had 70 000 New Zealand residents who would have familiarity with the brand. Hill had also frequently visited Queensland and was familiar and 'more comfortable' with the area than Sydney.[5]

In Australia, MHI established its growth model, opening one or two stores at a time in a 'cluster' before moving into a new area. Every store had to operate as a standalone business; once each store and each cluster was operating efficiently and profitably, the company expanded to a new area. However, moving into the Australian market was challenging. Hill and his team pitched to the managers of the large Brisbane shopping malls with no success — although they managed to secure a site at the Myer Centre, an upscale shopping mall which was at that time still under construction. In retrospect, Hill felt the developers 'saw him coming'; he agreed to pay top rent for a prime site on the proviso that only one or two other jewellers would be in the mall. However, this wasn't specified in the contract and eventually eleven other jewellers signed contracts to open at the Myer Centre, with more on the mall outside. Hill also secured sites at the Chermside and Indooroopilly malls in suburban Brisbane, and rented the eleventh floor of the new IBM building as head office. The majority of head office staff relocated, although some returned to New Zealand due to homesickness. The opening of the head office coincided with the October 1987 stock market crash; however, Hill knew that the company 'wasn't overcommitted plus we were able to service our debt, so the crash wasn't going to affect us too much'.[6]

By mid-1988, MHI had five stores in Brisbane and in its first year as a publically-owned company recorded a turnover of NZ$25.3 million, with net profit after tax of NZ$886 000. The third and fourth stores in Brisbane opened in Ipswich and Toowoomba, both satellite towns to Brisbane. Hill had been discouraged from opening a shop in Ipswich on the grounds that it was a socioeconomically disadvantaged area; however, he persevered after market research showed that residents had disposable income.[7] The cluster expansion model proved successful and MHI opened seven stores in suburban Brisbane, the Gold Coast and smaller Queensland towns, before opening two stores in Canberra in 1989. Just as in Brisbane, MHI initially struggled to lease stores in Canberra, although it eventually found stores in the City Centre and Woden Plaza key shopping areas, and launched the stores with a high-profile Christmas sale advertised on television. Canberra proved a learning experience: while the stores were individually profitable, the lack of direct flights from Brisbane increased supply chain and operational costs. In retrospect, Hill felt the company should have focused on further growing the brand in Queensland before expanding elsewhere. The first Michael Hill Jeweller store in Sydney opened in August 1992; by 1994 MHI had a total of 27 stores in Australia alongside 30 stores in New Zealand. MHI also opened a manufacturing arm in Brisbane so that (1) stock did not have to be shipped from Whangarei, and (2) jewellery could be tailored to Australian tastes, which were subtly different from New Zealand customer preferences. The company struggled to find experienced Australian jewellers, and eventually relocated some of its New Zealand jewellers from Whangarei to Brisbane.

The company had invested heavily in television advertising in Queensland, which quickly built its brand name. Television advertising for jewellery was unusual in the Australian market where jewellers usually relied on catalogue and newspaper advertising. The Michael Hill advertisements had novelty value and made an impact, particularly since Hill offered diamond and sapphire rings reduced from A$785 to A$285. The company took a loss on the rings, but the sales were successful and the company gained profile, although after around three months competitors in Brisbane caught on and developed their own television advertisements. The Sydney market proved more challenging: television advertising there was prohibitively expensive and Hill had to rely on catalogue marketing until revenue from the stores made television advertising feasible.

Michael Hill Shoes

In 1992, the company was 'looking for a second string to their bow' and diversified into the footwear industry. MHI settled on shoes, which 'seemed to possess the right qualities, and [the shoe industry's] position in 1991 was very similar to where the jewellery market had been when we began to expand our first chain of stores'.[8] The board decided to run the shoe business along the same lines as the jewellery business, and believed that existing company infrastructure and office systems would support the opening of a new division. MHI bought three high-end shoe stores in Christchurch from retailer John Craig, who stayed on as manager of the new shoe division. Hill outlined plans to rename and expand the chain throughout New Zealand, and stock mass-market, mid-range footwear rather than the expensive Italian shoes previously stocked by Craig.[9] The company opened a further six Michael Hill Shoes shops throughout New Zealand (including Auckland and Wellington) — many of which were next door to the Michael Hill Jeweller stores. The new stores were fitted out in green and gold, and Hill fronted television advertisements using shoes as props. Michael Hill Shoes initially reported a net profit of NZ$3.3 million but by 1993 company net profit had dropped to NZ$2.8 million, and Michael Hill Shoes reported a loss of NZ$1.11 million. The stores never realised the revenue required, which meant profit expectations did not eventuate. The jewellery business in New Zealand was starting to 'level off', and profits were not being boosted by the shoe stores as expected.[10] Shoes were also different from jewellery in key ways which proved challenging for the supply chain — shoes were more cumbersome to ship and had a much faster seasonal turnaround. In February 1994, the board announced that the shoe shops would be closed and all stock sold off. Michael Hill Shoes reported a loss of NZ$2.9 million, including a trading loss of NZ$1.38 million and a capital loss selling the shops of NZ$636 000 (see table C6.1[11]). Hill later identified a number of issues which would define the company's strategy from then on. The shoe business had distracted senior management from their key responsibilities in the jewellery business which in turn suffered from opportunity loss; the shoe business had failed to align with existing supply chain infrastructure, causing operational inefficiencies; and MHI had opened the stores too quickly across the country rather than focusing on one geographical area at a time. The promotion of shoes as well as jewellery had diluted the strength of the jewellery brand and customer message.

TABLE C6.1 Michael Hill International financial performance, 1993–4

	Shoes		All jewellery		Total	
	1994 (NZ$000)	1993 (NZ$000)	1994 (NZ$000)	1993 (NZ$000)	1994 (NZ$000)	1993 (NZ$000)
Revenue	6 986	6 268	80 872	66 559	87 858	72 827
EBIT	(2 917)	(1 114)	8 038	6 753	5 121	5 639
Interest expense	(15)	(60)	(1 336)	(1 265)	(1 351)	($1 325)
NPBT	(2 932)	(1 174)	6 702	5 488	3 770	$4 314
Taxation	910	293	(2 352)	(1 800)	(1 442)	(1 507)
Net profit (loss) after tax	(2 022)	(881)	4 350	3 688	2 328	2 807

Despite the setback, in 1995 total revenue was NZ$87 million. This climbed to NZ$191 million by 2000. Net profit rose from just under NZ$10 million in 1995 to NZ$12 million in 2002. Shareholder funds were NZ$53.32 million, and the 2002 return on shareholder funds was a record 22 per cent.[12] At this time, MHI had a total of 43 jewellery stores in New Zealand and 77 in Australia. The company continually refined its business, closing down its Whangarei office and consolidating head office, manufacturing and senior staff in Brisbane. Hill likewise continued to build his personal brand, and in 2002 sold $12.5 million worth of shares — taking the Hill family ownership to 48 per cent.[13] He used the capital to build a private luxury golf course in Queenstown, The Hills, which later became the site of the New Zealand Golf Open.

Canada

In 2002, with group revenue breaking NZ$200 million for the first time, Michael Hill set a new long-term goal to open 1000 stores in 20 years. To achieve the vision, MHI needed to expand further than Australasia. The company conducted a feasibility study into overseas markets, and settled on Canada, which they considered a market with low barriers to entry, relatively low risk, and strong potential to grow the business over time.[14] Canada had a highly fragmented jewellery market with no single dominant chain. US jewellery giant Zale Corporation owned Canada's two largest jewellery chains (People's and Mappins) with 215 stores and annual sales of US$260 million, but together they held only 3 per cent of the jewellery market. The only other publicly-owned company in the top five was Birks and Majors, which operated 35 stores in total. The other three major jewellery retailers were all privately owned and operated between 30 and 60 stores each. The rest of the market was made up of independent retailers and small, regional chains. MHI planned to open four stores in Canada in the first year, four more in the second year, and anticipated opening up to 120 stores, subject to results. The company used the same approach of 'controlled growth' through cluster-based expansion, as they had in Australia.

The move into Canada had an original funding of NZ$3.3 million, with total investment of NZ$6.63 million in the first four years. Emma Hill was appointed general manager of Canadian operations, and the company opened four stores and a head office in Vancouver, British Columbia. The stores were launched with an opening sale and heavy catalogue marketing, but struggled to make sufficient sales. There was no brand recognition and Canadian consumers had different tastes in jewellery to Australasian customers; while customers were coming into the stores to browse, this wasn't translating into sales. MHI had decided to stock its Australian range in the Canadian stores, thinking it would have a unique appeal in the market, but Canadians preferred white gold to yellow gold, four claw settings to eight claw settings, and liked a different grade of diamonds. After several months, Emma Hill shipped the majority of the stock home. The company altered some of its existing stock and bought from local suppliers, which had a more positive impact on sales.

Brand recognition was also a slower process in Canada than in Australia due to the scale of the market. Canada had 150 television channels, and high-rotation television advertising was financially unfeasible. The Canada operation lost NZ$1.8 million in earnings before interest and tax (EBIT) in 2003 and NZ$744 000 in 2005, although revenue improved by 59 per cent[15] (see table C6.2[16]). The Canadian stores broke even in 2007, realising total revenue of almost NZ$25 million from a group total of NZ$348 million. After opening eleven stores in Vancouver and British Columbia over four years, in 2006 MHI expanded into Alberta, opening a store in Calgary. In 2007, it opened four more stores, three of which were in Alberta. In 2008, it opened five stores in Toronto, Ontario. The cluster model was adapted slightly to reflect the geographic dispersal of the Canadian population, but the company concentrated on one area within one province at a time.

TABLE C6.2 Michael Hill International key financial results, 2005

Trading results (NZ$000)	2005	2004	Percentage change
Group revenue	271 573	259 777	+4.5
EBIT and unallocated expenses (before abnormals)	25 918	23 793	+8.9
Group surplus after tax	16 510	15 060	+9.6
— First half	12 182	10 914	+11.6
— Second half	4 328	4 148	+4.3
Net cash from operating activities	10 089	24 779	−59.3

Financial position at year end ($NZ000)	2005	2004	Percentage change
Issued and paid up capital, 38 708 600 ordinary shares.	8 261	8 078	+2.3
Total shareholders' funds	65 389	57 607	+13.5
Total assets	130 421	122 831	+6.2
Net debt	32 929	26 587	+23.8
Capital expenditure: Cash	9 153	6 409	+42.8

Operating results Canada (NZ$000)	2005	2004	2003
Revenue	9 020	5 859	2 308
Operation surplus	−856	−980	−1 802
As a % of revenue	−9.5	−16.7	–
Average assets employed	5 031	4 351	5 195
Number of stores	7	4	4

Operating results Australia (NZ$000)	2005	2004	2003	2002	2001
Revenue	175 876	166 872	138 710	133 462	120 854
Operating surplus	17 792	16 530	12 377	12 879	10 354
As a % of revenue	10.1	9.9	8.9	9.6	8.6
Average assets employed	70 430	65 414	69 346	64 064	56 589
Return on assets	25.3	25.3	17.8	20.1	18.3
Number of stores	102	93	84	77	47
Exchange rate for profit translation	0.92	0.88	0.89	0.82	0.79

Operating results NZ (NZ$000)	2005	2004	2003	2002	2001
Revenue	86 459	86 322	83 784	80 643	68 314
Operating surplus	9 854	9 879	10 644	10 134	7 643
As a % of revenue	11.4	11.4	12.7	12.6	11.2
Average assets employed	33 049	33 682	29 404	28 935	29 818
Return on assets	29.8	29.3	36.2	35.0	25.6
Number of stores	47	46	46	43	41

The Canadian expansion proved a catalyst for other changes within the company, including streamlining of the supply chain and distribution facilities. Initially, Australia, New Zealand and Canada operated on a decentralised model, with separate support functions and warehousing in each country. In 2005, the logistics of the company were consolidated in the Brisbane office; the New Zealand warehouse was relocated to Brisbane; and the Australian and New Zealand inventory systems were merged into one database. Later that year, the Canadian warehouse and distribution functions were also moved to Australia, so that all the MHI markets were serviced from Brisbane. Concurrently, MHI continued to expand in Australasia, opening nine stores in New Zealand and 59 in Australia. The Australian jewellery market remained buoyant despite the global recession — it was worth A$1.2 billion and grew by 1.9 per cent in 2009 — although retail spending began to decline in 2009 as food, property and fuel prices rose. The annual retail growth rate dropped to less than inflation while the annual savings rate grew to 11.5 per cent as consumers chose to pay off debt. However, online retail spending continued to boom and the high Australian dollar meant that 44 per cent of online purchases were from overseas companies.[17] MHI's EBIT from Australia more than doubled between 2007 and 2011, from NZ$18.1 million to NZ$39 million, and the company believed there was still capacity to open another 20 stores in the country (particularly in Western Australia and Tasmania).

By 2008, MHI employed 2000 staff in three countries and had total revenue of NZ$376 million, EBIT of NZ$42 million and a net profit rise of 20.5 per cent.[18] Net equity sat at NZ$91 million, with assets at NZ$205 million. Its balance sheet was significantly strengthened by the sale of NZ$293 million worth of intellectual property from its New Zealand subsidiary, Michael & Co, to its Australian subsidiary Michael Hill Franchise, which gave the company a NZ$53 million boost to its group after-tax profit. It also meant that shareholders could no longer claim dividend imputation credits because of the change in geographic spread of earnings, and less money being made in the New Zealand business (see table C6.3[19]).

TABLE C6.3 Michael Hill International key financial results, 2009 (NZ $000 unless otherwise stated)

Trading results	2009 (NZ$000)	2008 (NZ$000)	Percentage change
Sales revenue	411 999	376 664	9.4
EBIT	26 193	42 277	–38.0
Group surplus after tax	69 533	25 232	175.6
— First half	65 614	19 480	236.8
— Second half	3 919	5 752	–31.9
Net cash from operating activities	47 643	7 763	513.7

Financial position at year end	2009	2008	Percentage change
Contributed equity 382 468 900 ordinary shares	3 850	3 850	0
Total equity	149 484	91 001	64.3
Total assets	248 546	205 035	21.2
Net debt	36 958	64 234	–42.65
Capital Expenditure — Cash	10 545	11 939	–11.7

(continued)

TABLE C6.3 *(continued)*

New Zealand faces tougher trading conditions					
Operating results NZ (NZ$000)	**2009**	**2008**	**2007**	**2006**	**2005**
Revenue	90 393	97 019	97 439	91 036	87 301
Operating surplus	14 954	18 435	13 570	10 180	10 044
As a % of revenue	16.5	19.0	13.9	11.1	11.5
Average assets employed	40 418	42 355	43 564	37 332	33 945
Return on assets	37.0	43.5	31.1	27.3	29.8
Number of stores	53	52	50	49	47

Canada finds going tough in difficult retail climate					
Operating results Canada (CAD$000)	**2009**	**2008**	**2007**	**2006**	**2005**
Revenue	25 645	24 855	19 443	12 223	7 774
Operating surplus	(239)	998	28	(746)	(767)
As a % of revenue	(0.9)	4.0	0.1	(6.1)	(9.9)
Average assets employed	15 387	12 565	9 078	6 890	4 336
Return on assets	(1.6)	7.9	0.3	(10.8)	(17.7)
Number of stores	26	22	16	12	7
Exchange rate	0.70	0.78	0.78	0.78	0.87

Australia's performance holds up					
Operating results Australia (A$000)	**2009**	**2008**	**2007**	**2006**	**2005**
Revenue	221 113	212 095	197 187	177 477	161 806
Operating surplus	33 831	31 934	18 190	13 952	16 290
As a % of revenue	15.3	15.1	9.2	7.9	10.1
Average assets employed	82 426	75 515	86 646	80 569	64 141
Return on assets	41.0	42.3	21.0	17.3	25.4
Number of stores	143	136	126	116	102
Exchange rate	0.82	0.85	0.87	0.89	0.92

US acquisition completed as economy goes into decline	
Operating results (US$000)	**2009**
Revenue	9 088
Operating surplus	(3 094)
As a % of revenue	(34.1)
Average assets employed	8.012
Return on assets	(38.6)
Number of stores	17
Exchange rate	0.58

The United States

In July 2008, MHI unexpectedly announced via the New Zealand Stock Exchange that they had bought 17 shops for NZ$7 million from Whitehall Jeweler Holdings, one of the US's largest jewellery chains (which had filed for Chapter 11 bankruptcy protection). MHI called the Whitehall purchases an 'acquisition to test its retail model in the highly competitive US market'[20], and a 'bold entry' into the United States. Fourteen of the shops were around Chicago, Illinois, and three stores were in St Louis, Missouri. Emma Hill described the purchase as motivated by the competitive US retail property market:

> When an opportunity came up to purchase seventeen stores that were on prime corners MHI took it, because there was no other way we could ever acquire that. You may think the US is contrary to our expansion model, but it was actually real estate play. We simply bought seventeen locations and changed the brand name.[21]

MHI initially focused on retraining staff, clearing out old merchandise, and trialling product ranges for the US market.

However, the move into the US was challenging. It was a highly competitive, $62 billion market, made up of big-name jewellery chains with strong brand recognition (e.g. Zale, Sterling Jewelers and Tiffany) and scores of smaller chains and independent jewellers (see table C6.4). The market was credit driven, with up to 50 per cent of jewellery bought with internally managed, private label cards. The biggest fine jewellery retailers were large corporations who ran multiple chains focusing on different price points. For example, Sterling Jewelers had US$3034 million worth of sales in 2012, from 1361 stores under brands including Kay Jewelers, Sterling Jewelers, Friedlanders and Jared.[22] The largest jewellery retailer was department chain Wal-Mart, with 4146 in-store jewellery departments which traditionally operated on a 'customer self-service' model. In 2010, Wal-Mart began to relocate its jewellery sections to the front of its stores and use specially trained staff to offer a more personalised experience, taking advantage of consumer trends toward cheaper costume jewellery and fashionable thrift.[23] The other key channel for US jewellery distribution was television and the internet, including home shopping network QVC US, which was owned by media conglomerate Liberty Media Corporation. QVC US had sales in 2010 of $1.18 billion and a viewership of 98 million households. The channel ran 24 hours per day, 365 days per year.

TABLE C6.4 Top ten US jewellery companies by sales revenue (including department stores)

Chain	No of stores (2011)	Annual sales (FY2010) (US$000 000)	Annual sales (2009) (US$000 000)
Wal-Mart	4224	2 800	2 750
Sterling Jewelers Inc.	1317	2 400	2 540
Zale Corporation	1870	1 616	1 779
Tiffany & Co	84	1 574	1 410
Macy's Inc	850	1 500	1 400
QVC	–	1 015	1 175
Sears Holdings Corp	2201	860	840
JC Penney Co	1106	710	700
Costco Wholesale Group	424	500	475
Target Stores	1750	465	450

Source: National Jeweler 'State of the Majors 2011', www.nationaljeweler.com.

While the global financial crisis had caused a drop in store numbers, major retailers still had an expansion target of around 3 per cent, which equated to roughly 200 new jewellery stores per year. North American consumption habits and US consumer tastes in jewellery were also changing in response to the economy. In 2009, 'real' jewellery sales dropped by 14 per cent while costume jewellery sales dropped by only 4 per cent, although the popularity of expensive bridal jewellery remained relatively strong.[24] To maintain profits as consumer confidence and credit dropped, jewellers discounted heavily. Emma Hill commented that one of the biggest challenges faced by MHI was how to compete in an environment where retailers were heavily discounting and running constant sales, without downgrading the value of the MHI brand.[25]

In July 2009, MHI announced that eight of its 17 US stores would be closed to concentrate on the 'sites with the most promise'.[26] The company noted that

> some demographics were proving very difficult for us to achieve the level of consumer credit approvals expected, which was impacted on the revenue of these stores as they were unable to sell higher ticket items.[27]

The combination these factors, along with property issues facing some of the stores, unfavourable employment numbers and a poor US economic outlook led the company to focus on a smaller number of retail outlets. The nine remaining stores would be refurbished to bring them in line with MHI's global concept of an international brand and adapted to US preferences, which including darker lighting to create atmosphere. In 2010, MHI also ran a high profile 'Ultimate Engagement Ring' competition fronted by reality television personality Kim Kardashian. The prize was the 22.5 carat engagement ring won by the 'World's Best Couple'. Couples competed in online challenges and members of the public could vote for their favourite pair. The prize was won by a New Zealand couple, who received the ring at a December 2010 ceremony in New York.[28]

In 2010, the US operations recorded an operating deficit of US$6.2 million, which dropped to US$3.4 million in 2011. The company had no plans to open more stores within the United States, instead concentrating on improving same-store sales and the performance of the current stores, to reach breakeven. MHI also focused on increasing same-store sales within Canada, as well as investing more in electronic and television advertising over the Christmas period and targeting the lucrative bridal market throughout the year. MHI wanted to open between five and ten stores per year in Canada, but found securing new sites 'challenging due to the demand from American and European retailers entering the market'.[29] In October 2010, the company also unveiled the Professional Care Plan (PCP), a value-add service in which customers could pay upfront for ongoing care and maintenance of their jewellery, with costs calculated on the price of the jewellery purchased. The PCP could be purchased for a three year or lifetime period, and covered ring resizing, rhodium re-plating (for white gold), cleaning and polishing, amongst other services. PCP was treated as 'deferred revenue' in MHI financial statements, but was brought to revenue over the time period of the plans, in proportion to the expected cost of meeting PCP commitments.[30] The practice proved successful — by 2012, PCP generated deferred revenue of NZ$26.9 million with revenue of NZ$6.03 million, a 131 per cent increase on the year previously.[31] While the company felt that it was 'too early to accurately predict the markets and therefore profitability of the PCP business'[32], MHI was confident that PCP would contribute towards overall margins and profitability.[33] By 2012, North American sales in general were trending positively; US sales had increased by 17 per cent to US$12 million and by 14.3 per cent to US$55 million in Canada. Hill was pleased with progress but acknowledged that 'there is still a long way to go before the business is proven in the US market'[34] (see table C6.5[35]). The future remained challenging; while US, Canada and New Zealand sales were recovering post-recession, MHI had begun to experience a slowdown in the Australian market as 'same store' sales (outlets that have been open for at least one year) dropped by 2.7 per cent, and three underperforming stores were closed. The impact was more significant in urban areas like Melbourne and Sydney, who were not feeling the effects of the mining boom in Queensland and Western Australia.[36]

TABLE C6.5: Michael Hill International financial information, 2012

Trading results	2012 (NZ$000)	2011 (NZ$000)	Percentage change
Group revenue	511 497	489 330	4.5
Earnings before interest, taxes, depreciation and amortisation	58 220	57 091	2.0
Earnings before interest and taxes	45 892	45 638	0.6
Net profit before tax	42 036	39 985	5.1
Net profit after tax	36 511	34 499	5.8
Net operating cash flow	52 131	43 319	20.3%
Net investing cash flow	(17 897)	(13 853)	
Net financing cash flows	(30 587)	(27 150)	
Net debt ($000s)	20 994	36 873	–43.1
Equity ratio	60.1%	60.9%	
Return on shareholders' funds	19.6%	20.5%	
Earnings per share	9.54c	9.02c	5.8
Total dividend per share	5.5c	4.5c	22.2

Australian results	2012 (NZ$000)	2011 (NZ$000)	Percentage change
Revenue	333 174	327 146	1.8
EBIT	47 509	50 454	(5.8)
As a percentage of revenue	14.3%	15.4%	

New Zealand results	2012 (NZ$000)	2011 (NZ$000)	Percentage change
Revenue	109 110	101 843	7.1
EBIT	21 550	18 484	16.6
As a percentage of revenue	19.8%	18.1%	

Canadian results (NZ $000)	2012 (NZ$000)	2011 (NZ$000)	Percentage change
Revenue	55 124	48 228	14.3
EBIT	713	(299)	338.5
As a percentage of revenue	1.3%	(0.6%)	

US results	2012 (NZ$000)	2011 (NZ$000)	Percentage change
Revenue	11 999	10 663	12.5
EBIT	(3 296)	(4 500)	26.8
As a percentage of revenue	(27.5%)	(42.2%)	

(continued)

TABLE C6.5 *(continued)*

12 Months sales to 30 June 2012 (all figures in local currency, comparing the average sales of stores open more than one year, to that of stores overall)			
Country	**2011 (NZ$000)**	**2012 (NZ$000)**	**Percentage change**
AUS same stores	245 859	240 705	(2.1)
NZ same stores	99 103	106 378	7.3
CAN same stores	34 344	36 320	5.8
US same stores	8 172	9 576	17.2
AUS all stores	251 277	259 505	3.3
NZ all stores	101 843	109 209	7.2
CAN all stores	36 885	44 319	20.2
US all stores	8 133	9 298	18.0

Conclusion

Michael Hill Jeweller had twin goals; to open 1000 stores within 20 years, and to grow shareholder wealth through the philosophy of controlled profitable growth. MHI had relied on a successful blueprint for growth and expansion by ensuring stores within a region were financially successful before expanding further. However, to meet its target of 1000 stores within 20 years, MHI would need to expand aggressively — particularly in the competitive, fragmented North American market. Is MHI's goal achievable? And if so, how can it best be achieved?

QUESTIONS

1. What elements of global strategic management are apparent in Michael Hill's initial expansion into Australia?
2. Critically analyse Michael Hill's diversification into shoes.
3. Compare and contrast the entry models into Australia, Canada and the United States.
4. What factors do you believe Michael Hill included in the feasibility analysis to move overseas?
5. The case highlights the fact that the North American market is fragmented. What are the characteristics of fragmented industries such as these? How should companies like Michael Hill compete in a fragmented industry?

ENDNOTES

1. M Hill and C Harvey, *Toughen up: what I've learned about surviving tough times*. Random House. Auckland, 2009, p. 116.
2. Michael Hill International (MHI) is the corporate entity which runs the 'Michael Hill Jeweller' branded stores.
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