

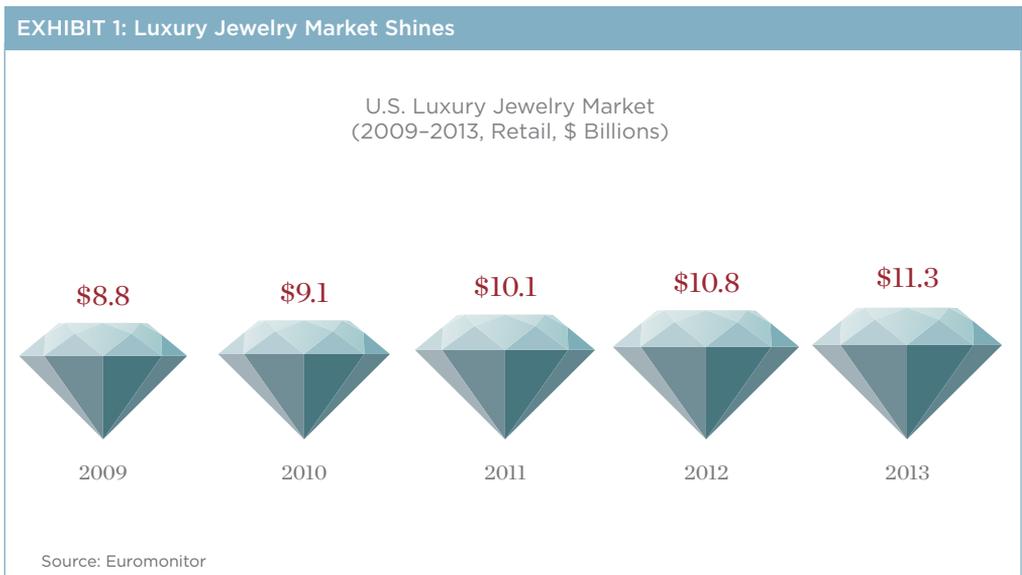


Finding Diamonds in the Rough

Winning in the Luxury Jewelry Category

Since the end of the Great Recession in 2009, the luxury jewelry market has been one of retail's growing gems. Driven by many factors, the category has grown from \$8.8 to \$11.3 billion over the last five years—and this momentum shows no signs of slowing down in future years. (See Exhibit 1.)

EXHIBIT 1: Luxury Jewelry Market Shines



That's because of several positive trends expected to provide strong tailwinds and fuel future market growth. These include a general shift back to luxury, an increased emphasis on designer jewelry at department stores and, perhaps most importantly, disproportionate income growth for high earners. In fact, since the recession, the United States' top 1% of earners have seen their income grow 30 times faster than the rest of the country.

In essence, the rich are getting richer and they aren't afraid to spend big bucks on a branded piece of jewelry. And department stores are taking notice, not just for revenue growth, but for margin upside as well. As a result, higher-end retailers have recently converted a portion of their watch shelf space to designer jewelry to accommodate increasing demand and higher category margins. Amid this growing category basking in increased attention from both retailers and consumers there are likely to be some big winners among select branded players. But which ones?

Elements of a Successful Brand

Within the luxury jewelry category, successful brands will properly execute across key growth levers, including improving brand equity and strengthening partnerships with retailers around the customer experience.

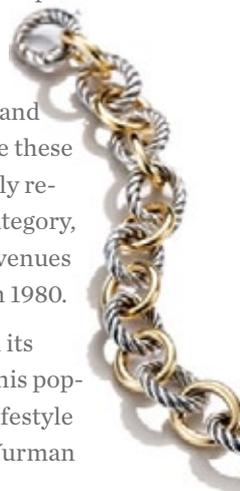
One of these key characteristics is developing equity as a lifestyle brand, à la Tiffany's success as an aspirational luxury mainstay. This means elevating the brand beyond basic product association to allow for more loyal support from core customers. Leveraging this strong lifestyle brand equity will help the brand successfully expand into new categories, both within jewelry and accessories more broadly.

Winning brands will also partner with retailers to create an engaging retail experience. This includes establishing high engagement with floor associates so they are more knowledgeable about the brand and more likely to recommend it, becoming a category leader in visual merchandising and branding, and focusing on acquiring shops-within-shops in key accounts.

Case Study: David Yurman

David Yurman is one example of a brand that was able to successfully cultivate these key characteristics for success. Widely regarded as a dominant brand in the category, David Yurman has steadily grown revenues and distribution since its founding in 1980.

The brand originally caught fire with its iconic cable bracelet and leveraged this popularity to position itself as the next lifestyle jewelry brand. As sales grew, David Yurman





expanded its product offering to include a variety of materials and stones, as well as a men's line. Currently, the brand has over 2,000 different styles and has also made a push as a lifestyle brand with its signature branded watches, perfume and eyewear.

In addition to expanding assortment, David Yurman has worked to develop a strong in-store customer experience. The brand has more than three times as many U.S. stores as its nearest competitor (25 to Roberto Coin's eight) and, with more than 75 shops-within-

shops, has 50% more than its closest competitors, John Hardy and Ippolita, combined.

Furthermore, the brand is among the most merchandised within department stores, and floor associates are trained to understand the brand's storied history, inspiration and signature pieces. One reason the brand gets so much retail space, in addition to its popularity, is that it offers exclusive lines to key retail partners. These key successes have led to David Yurman's leading position in productivity per door, as illustrated in Exhibit 2.

EXHIBIT 2: David Yurman Leads Industry in Productivity per Door

Estimated Annual Sales/Door at Department Stores
(FY2013, Wholesale, \$ Thousands)





Potential Targets

Given the category's strong momentum, investors should be on the lookout for the next great jewelry company that they can help take to the next level. While the category is somewhat fragmented across channels, a few key brands are particularly worth noting. With the proper strategy layered on top of their already-strong foundation, these brands have the potential to develop into the next leading jewelry brand.

Ippolita

This popular luxury jewelry brand has created a name for itself through its colorful gemstones, Italian heritage and delicate, handmade craftsmanship. Founded just 15 years ago, Ippolita has quickly become a leading brand alongside established veterans David Yurman and John Hardy.

In fact, Ippolita's sales have quintupled over the past five years and the brand now brings in \$100 to \$150 million in annual revenue. The brand is looking to e-commerce and younger consumers as strong drivers of future growth.



Marco Bicego

Founded in 2000, this growing Italian jewelry brand has quickly gained a reputation as a gold specialist. Known for its artisanal craftsmanship, all Marco Bicego accessories are made with 18-karat gold, with many also incorporating precious gemstones and diamonds. The brand has had strong growth via both new and existing accounts, with double-digit growth in existing doors since 2011. Marco Bicego opened its first shop-within-a-shop in North America in late 2013, with additional plans for future expansion.

Roberto Coin

Luxury jewelry and accessory brand Roberto Coin is looking to continue to grow its presence through its own boutiques, with eight locations across the United States and more in Europe and Asia. The \$200 million brand has recently garnered significant attention from private investors. As Coin told Reuters in February 2014, "A lot of foreigners are looking and we've had a series of offers." ♦



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