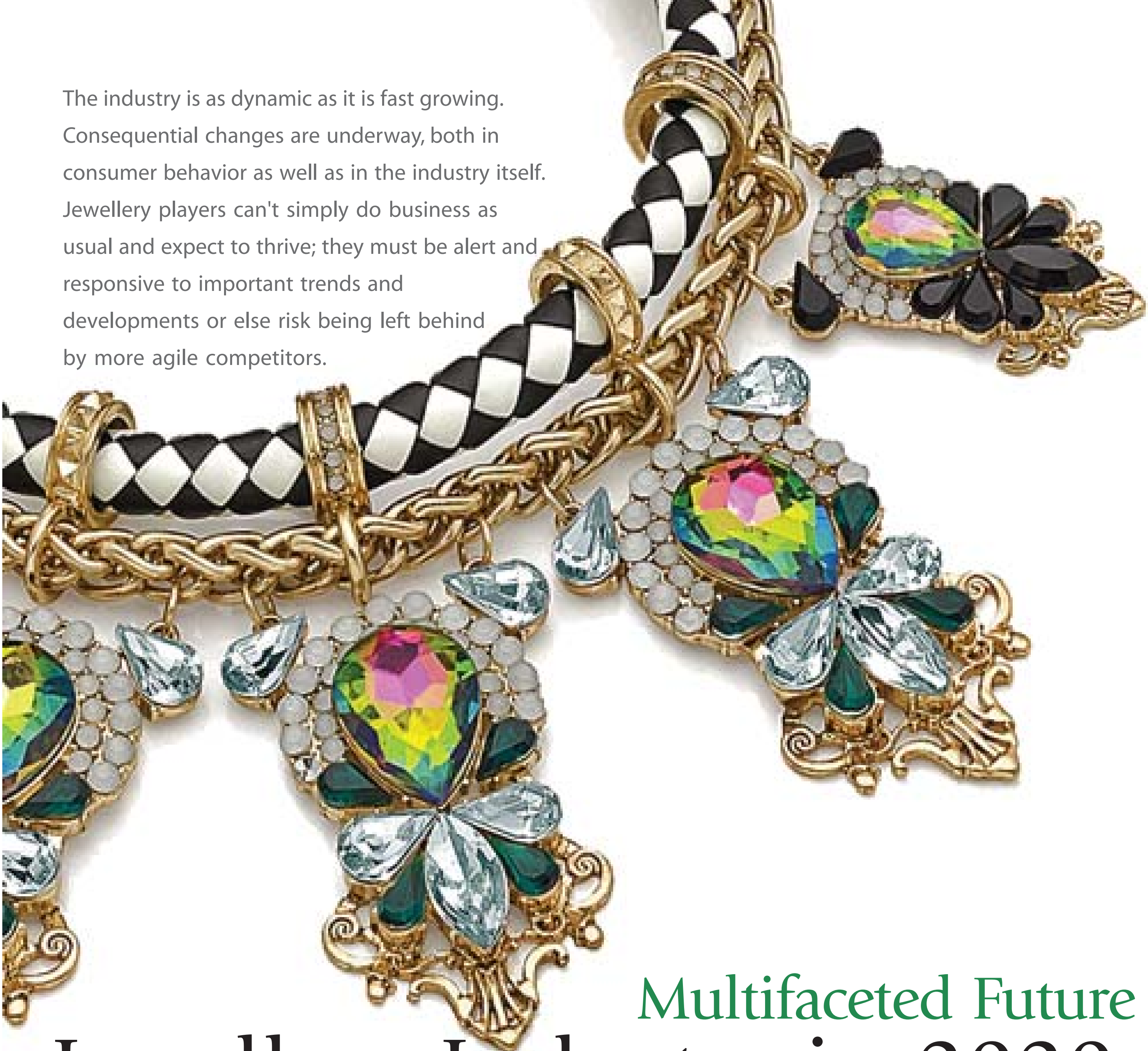


The industry is as dynamic as it is fast growing. Consequential changes are underway, both in consumer behavior as well as in the industry itself. Jewellery players can't simply do business as usual and expect to thrive; they must be alert and responsive to important trends and developments or else risk being left behind by more agile competitors.

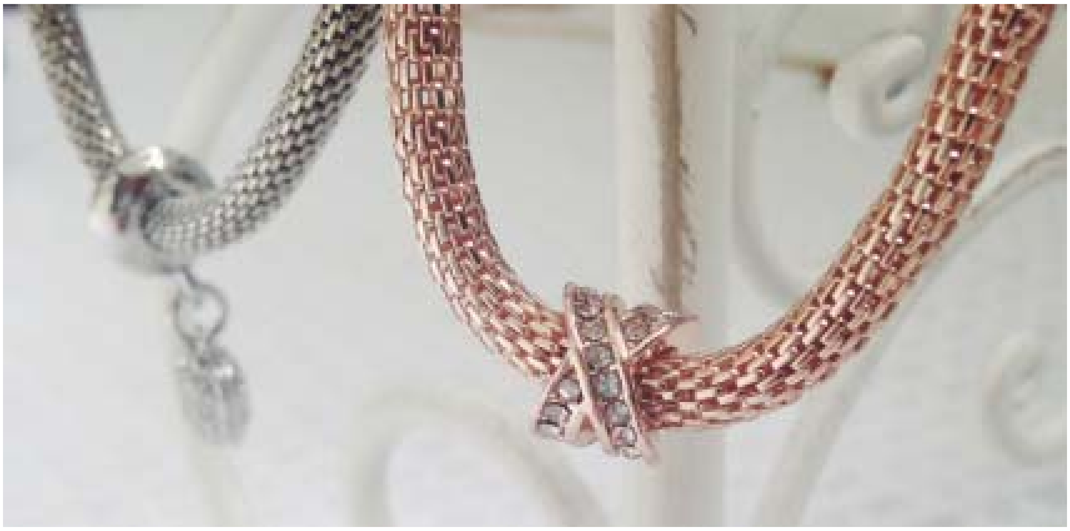
Multifaceted Future

Jewellery Industry in 2020

The trends that have unfolded in the apparel sector over the last three decades appear to be playing out in the jewellery sector, but at a much faster pace. The jewellery industry seems poised for a glittering future. Annual global sales of Euro 148 billion are expected to grow at a healthy clip of 5 to 6 percent each year, totaling Euro 250 billion by 2020. Consumer appetite for jewellery , which was dampened by the global recession, now appears more voracious than ever.

But the industry is as dynamic as it is fast growing. Consequential changes are underway, both in consumer behavior as well as in the industry itself. Jewellery players can't simply do business as usual and expect to thrive; they must be alert and responsive to important trends and developments or else risk being left behind by more agile competitors.

Research indicates that five trends that shaped an adjacent industry-apparel over the past 30 years are becoming evident in the jewellery industry as well, and at a much faster pace: internationalisation and consolidation, the growth of branded products, a reconfigured channel landscape, "hybrid" consumption, and fast fashion. In this article, we discuss how these trends could affect the future of jewelry and what jewelry companies should do to prepare.



- "new money" consumers who wear branded jewellery to show off their newly acquired wealth (in contrast to "old money" consumers, who prefer heirlooms or estate jewellery).
- emerging-market consumers, for whom established brands inspire trust and the sense of an upgraded lifestyle.
- young consumers who turn to brands as a means of self-expression and self-realisation.

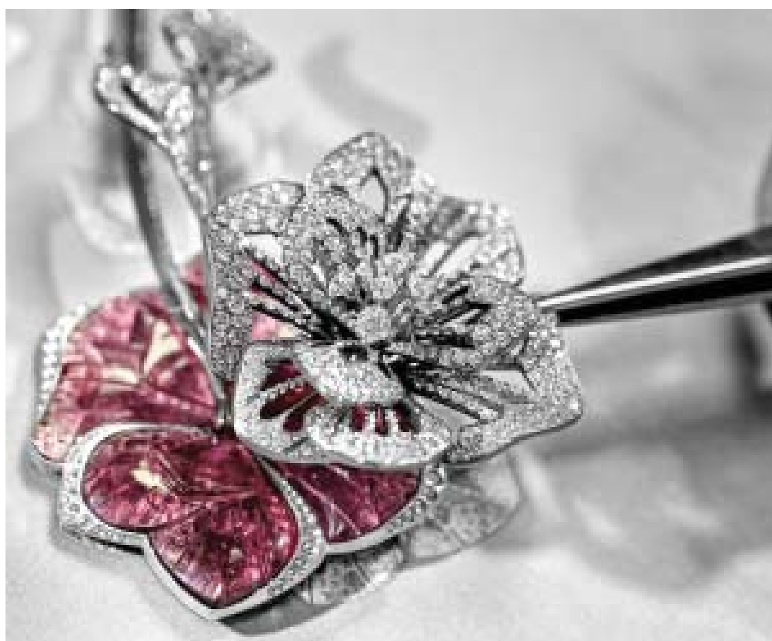
Internationalisation of brands and industry consolidation

Today, the jewellery industry is still primarily local. The ten biggest jewellery groups capture a mere 12 percent of the worldwide market, and only two-Cartier and Tiffany & Co. are in Interbrand's ranking of the top 100 global brands. The rest of the market consists of strong national retail brands, such as Christ in Germany or Chow Tai Fook in China, and small or midsize enterprises that operate single-branch stores. It is expected that a handful of thriving national or regional jewellery brands will join the ranks of top global brands by 2020-Swarovski is an oft-cited example. In addition, some local brands will almost certainly become known globally as a result of industry consolidation: international retail groups will acquire small, local jewelers. Some industry observers project that the ten largest jewellery houses will double their market share by 2020, primarily by acquiring local players. The apparel industry is about ten times the size of the jewellery industry as measured in annual sales, but the average M&A deal value in apparel (Euro 12 billion) is almost 20 times that in jewellery (Euro 700 million). Average deal value in jewellery has been rising-by a compound annual growth rate of 9 percent compared with 5 percent in apparel.

Growth of branded jewellery

While branded jewellery accounts for only 20 percent of the overall jewellery market today, its share has doubled since 2003 and it is believed that branded jewellery will claim a higher share of the market by 2020, but views differ on how quickly this shift will occur. Most expect that the branded segment will account for 30 to 40 percent of the market in 2020. Three types of consumers would drive the growth of branded jewellery :

In the past, most of the growth in branded jewellery came from the expansion of established brands and new entrants. By contrast, future growth in branded jewellery is likely to come from non-jewellery players in adjacent categories such as high-end apparel or leather goods-companies introducing jewellery collections or expanding their assortment. Every jewellery company should seek to strengthen and differentiate its brands through unique, distinctive designs. The trend toward branded jewellery will be especially hard on small artisans, who don't have the marketing muscle of the large groups. One option for smaller players would be to seek distribution through ventures like Cadenzza, Swarovski's chain of curated multibrand jewellery stores featuring well-known luxury brands as well as up-and-coming designers.



Reconfiguration of the channel landscape

In all major markets over the past decade, online sales of apparel have grown at double-digit rates; in the United Kingdom, for instance, online sales now account for 14 percent of total apparel sales, up from approximately 1 percent in 2003.Analysis suggests online jewellery sales are only 4 to 5 percent of the market today,with substantial variations across regions,brands,and types of jewellery.This number-at least for fine jewellery -will reach 10 percent by 2020 and won't grow much beyond that.The rationale:most consumers prefer to buy expensive items from brick-and-mortar stores, which are perceived as more reliable and which provide the opportunity to touch and feel the merchandise-a crucial factor in a high-involvement category driven by sensory experience. As for fashion jewellery,research interviewees predict a slightly higher online share of sales, in the neighborhood of 10 to 15 percent by 2020.The bulk of these sales will come from affordable branded jewellery,a somewhat standardised product segment in which consumers know exactly what they're getting. Manufacturers can use digital media as a platform for conveying information,shaping brand identity,and building customer relationships. According to a recent McKinsey survey,two-thirds of luxury shoppers say they engage in online research prior to an in-store purchase; one- to two-thirds say they frequently turn to social media for information and advice.The offline landscape is also evolving.In apparel, monobrand stores have been gaining ground at the expense of mail-order players and some multibrand boutiques; department-store sales are stagnating.The same is happening in jewellery.Jewellery players might consider focusing on mono - brand retail, which gives them more control over their brands, closer contact with consumers, and higher margin potential. Another potentially promising channel is multibrand boutique chains that provide a carefully curated assortment of brands and products as well as a unique shopping experience. To achieve sufficient margins,however,such concepts may need to operate on a global scale.

Polarization and hybrid consumption

In apparel, both the high and low end of the market are growing-while the middle market stagnates. High-end apparel players have been able to create a substantial premium: analysis shows that a Gucci suit that cost Euro 1,200 in 2000 now sells for Euro 1,700, rather than the Euro 1,300 one would expect based on inflation. At the same time, mass-market prices have dropped: an H&M suit that cost Euro 106 in 2000 now sells for Euro 103, not the Euro 119 that inflation rates would lead us to expect. In part, this development has been brought on by consumers' tendency to trade up and down at the same time.The jewellery industry is starting to see evidence of this hybrid consumption. In some parts of the world, more people are trading up from what some consider to be the standard one-carat diamond engagement ring to two, three, or four carats-with five- or even six-digit price tags. At the lower end of the market,however,department stores and other general retailers are waging price wars.

Furthermore, the previously clear-cut boundaries between fine jewellery(characterised by the use of precious metals and stones) and fashion jewellery (typically made of plated alloys and crystal stones) are starting to blur. For example, fine jewellery used to be almost exclusively a gift purchase, but today's consumers are buying higher-end items for themselves. Industry insiders expect that segments will increasingly be defined by price points and brand positions rather than purchase and wearing occasions. Some retailers encourage their customers to layer and mix high and low price points, and just go for it-to do what they're doing with apparel. In light of this trend, fine jewellers might consider introducing new product lines at affordable prices to entice younger or less affluent consumers, giving them an entry point into the brand. Alternatively,fine-jewellery players could decide to play exclusively in the high end and communicate that message strongly through its advertising, in-store experience, and customer service.

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Fashionability and acceleration

Over the last two decades, "fast fashion" has revolutionised the apparel industry. Fine jewellery has so far been immune to the effects of fast fashion, but the same can't be said of the fashion-jewellery market.The evolution of the apparel industry provides an interesting template for how the jewellery industry might develop.To what degree the two industries will mirror each other remains to be seen, but it seems likely that the jewelry market of 2020 will be highly dynamic,truly globalised,and intensely competitive.Those jewellery companies that can best anticipate and capitalise on industry-changing trends will shine brighter than the rest. ■

Source : McKinsey's Perspectives on retail and consumer goods