

FEBRUARY 2014



Toko Ohmori

A multifaceted future: The jewelry industry in 2020

The trends that have unfolded in the apparel sector over the last three decades appear to be playing out in the jewelry sector, but at a much faster pace.

**Linda Dauriz,
Nathalie Remy, and
Thomas Tochtermann**

The jewelry industry seems poised for a glittering future. Annual global sales of €148 billion are expected to grow at a healthy clip of 5 to 6 percent each year, totaling €250 billion by 2020. Consumer appetite for jewelry, 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 under way, both in consumer behavior as well as in the industry itself. Jewelry 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.

To chart the most likely course of the jewelry sector, we analyzed publicly available data, studied companies' annual reports, and interviewed 20 executives at global fine-jewelry and fashion-jewelry companies and industry associations. Our research indicates that five trends that shaped an adjacent industry—apparel—over the past 30 years are becoming evident in the jewelry industry as well, and at a much faster pace: internationalization 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.

Internationalization of brands and industry consolidation

In the 1980s, national apparel brands were the clear leaders in their respective markets: C&A in Germany, for example, and Marks & Spencer in the United Kingdom. Today, many national brands have been outpaced by international brands such as Zara and H&M. Others have built or expanded their international presence. Hugo Boss's sales outside Germany, for example, grew from 50 percent of its total sales in 1990 to more than 80 percent today. Apparel has become a truly global business.

We expect jewelry to follow a similar path. Today, the jewelry industry is still primarily local.

The ten biggest jewelry 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.

Our interviewees expect that a handful of thriving national or regional jewelry 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 jewelry houses will double their market share by 2020, primarily by acquiring local players. And if the apparel industry does indeed hold any lessons for the jewelry industry, incumbent jewelry houses will soon be fighting bidding wars against private-equity players with deep pockets.

The apparel industry is about ten times the size of the jewelry industry as measured in annual sales, but the average M&A deal value in apparel (€12 billion) is almost 20 times that in jewelry (€700 million). That said, average deal value in jewelry has been rising—by a compound annual growth rate of 9 percent between 1997 and 2012, compared with 5 percent in apparel. Recent deals include British company Signet Jewelers's 2012 acquisition of US-based retailer Ultra Diamonds and the Swatch Group's acquisition of Harry Winston in January 2013.

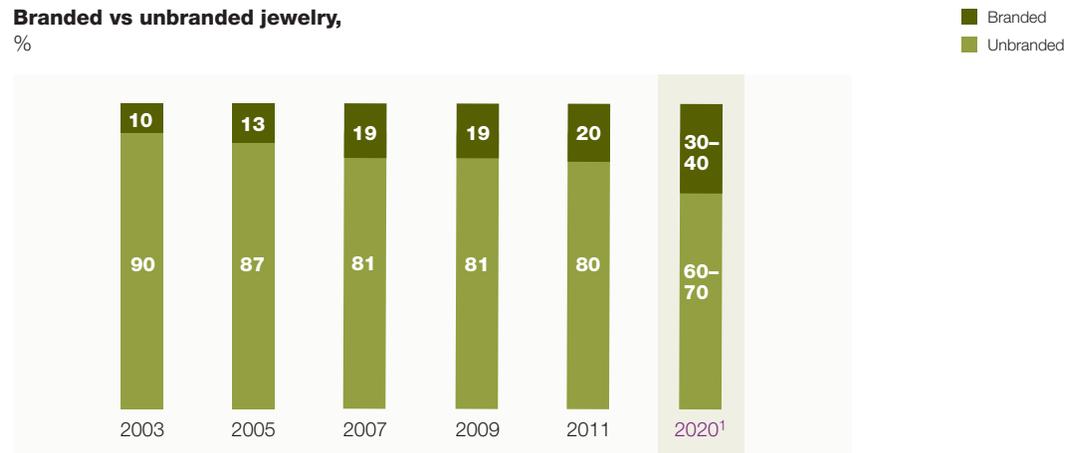
Growth of branded jewelry

Branded items already account for 60 percent of sales in the watch market. While branded jewelry accounts for only 20 percent of the overall jewelry market today, its share has doubled since 2003 (Exhibit 1). All executives we interviewed believe branded jewelry will claim a higher share of the market by 2020, but their 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.

In our research, we identified three types of consumers driving the growth of branded jewelry:

- “new money” consumers who wear branded jewelry to show off their newly acquired wealth (in contrast to “old money” consumers, who prefer heirlooms or estate jewelry)
- emerging-market consumers, for whom established brands inspire trust and the sense of an upgraded lifestyle—a purchasing factor quoted by 80 percent of our interviewees
- young consumers who turn to brands as a means of self-expression and self-realization

Exhibit 1

Branded jewelry is on the rise.**Branded vs unbranded jewelry,**
%¹Estimated.

Source: Expert interviews; McKinsey analysis

In the past, most of the growth in branded jewelry came from the expansion of established jewelry brands, such as Cartier and Tiffany & Co., and new entrants such as Pandora and David Yurman. By contrast, future growth in branded jewelry is likely to come from nonjewelry players in adjacent categories such as high-end apparel or leather goods—companies like Dior, Hermès, and Louis Vuitton—introducing jewelry collections or expanding their assortment.

Every jewelry company should seek to strengthen and differentiate its brands through unique, distinctive designs. The trend toward branded jewelry will be especially hard on small artisans, who don't have the marketing muscle of the large jewelry groups. One option for smaller players would be to seek distribution through ventures like Cadenza, Swarovski's chain of curated multibrand jewelry 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 2003.¹ Our analysis suggests online jewelry sales are only 4 to 5 percent of the market today, with substantial variations across regions, brands, and types of jewelry. Our interviewees believe this number—at least for fine jewelry—will reach 10 percent by 2020 and won't grow much beyond that. Their 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 jewelry, our 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 jewelry, a

¹ *E-Retail in the UK*, Verdict, September 2012.

somewhat standardized product segment in which consumers know exactly what they're getting.

Jewelry 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 (Exhibit 2). The same is happening in jewelry. Pandora, for example, quadrupled the size of its store network in just four years—from 200 locations in 2009 to more than 800 in 2012. In 1990, there were just 2 Swarovski boutiques; by 2012, there were 860.

Jewelry players might consider focusing on monobrand 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—which is what the aforementioned Cadenzza store concept aims to provide. To achieve sufficient margins, however, such concepts may need to operate on a global scale.

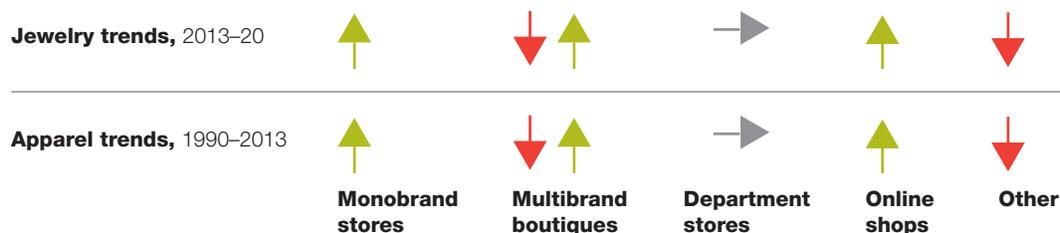
Polarization and hybrid consumption

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: our analysis shows that a Gucci suit that cost €1,200 in 2000 now sells for €1,700, rather than the €1,300 one would expect based on inflation. At the same time, mass-market prices have dropped: an H&M suit that cost €106 in 2000 now sells for €103, not the €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 jewelry industry is starting to see evidence of this hybrid consumption. One of our interviewees observed that 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

Exhibit 2

The channels that are gaining share in jewelry are also winning in apparel.



Source: McKinsey analysis based on data from Euromonitor and Mintel

of the market, however, department stores and other general retailers are waging price wars.

Furthermore, the previously clear-cut boundaries between fine jewelry (characterized by the use of precious metals and stones) and fashion jewelry (typically made of plated alloys and crystal stones) are starting to blur. For example, fine jewelry used to be almost exclusively a gift purchase, but today's consumers are buying higher-end items for themselves. Some fine jewelry is available at bargain prices: Tchibo in Germany sells gold diamond rings starting at €99. On the flip side, brands such as Lanvin and Roberto Cavalli sell fashion jewelry for thousands of euros.

Industry insiders expect that segments will increasingly be defined by price points and brand positions rather than purchase and wearing occasions. One of our interviewees put it as follows: "We encourage our customers to layer and mix high and low price points, and just go for it—to do what they're doing with apparel." In this spirit, actress Helen Hunt paired \$700,000 worth of Martin Katz jewelry with an H&M dress at the Academy Awards in 2013.

In light of this trend, fine jewelers 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-jewelry players could decide to play exclusively in the high end and communicate that message strongly through its advertising, in-store experience, and customer service. A brand like Harry Winston, for instance, is very clear about what it stands for; a lower-priced offering would be dissonant with its image and dilute its brand.

Fashionability and acceleration

Over the last two decades, "fast fashion" has revolutionized the apparel industry. This trend is characterized by two factors.

The fashionability of everyday apparel

Clothes inspired by haute couture are now available at bargain prices faster than ever before—sometimes within days of a fashion show. Mass-market retailers sell items that look like they're fresh off the catwalks of Paris, Milan, London, and New York. Additionally, large retailers are teaming up with top designers: Gap worked with Stella McCartney, for instance, and H&M with Karl Lagerfeld. There is also a constant information feedback loop from the stores and the streets that helps manufacturers and retailers reflect the latest trends in their merchandise. Zara, for instance, has reporting systems that allow store staff to regularly send feedback to headquarters—anything from "the sleeves on this jacket are too long" to "our customers don't like to wear yellow."

An acceleration of supply-chain processes

Fast-fashion players have dramatically shortened time to market: new products can go from concept to shelf in a month. Stores receive a continuous stream of fresh merchandise—as many as 12 themes each year.

Fast fashion started in the affordable-clothing segment in the mid-1990s, led by the likes of H&M, Zara, and Topshop. It has recently spread to higher-end brands: Coach, Diesel, and Juicy Couture, to name a few, have introduced "flash programs" and a greater number of collections per year.

Fast fashion is well established in developed markets—in the United Kingdom, for instance, it already accounts for 25 percent of apparel sales and its growth may be flattening—but it has just arrived on the scene in emerging markets and will almost certainly experience explosive growth there. The combined market share of fast-fashion players in China totals only about 3 percent today, but the number of Zara stores in China grew 60 percent every year between 2007 and 2012, compared with only 3 percent in the United Kingdom.

Fine jewelry has so far been immune to the effects of fast fashion, but the same can't be said of the fashion-jewelry market. An example of fashionability: H&M, as part of its guest-designer collaborations, introduced a flamboyant jewelry-and-accessories collection by *Vogue Japan* editor Anna Dello Russo in December 2012, with item prices ranging from €20 to €300. And an example of acceleration: Beeline, a German branded-jewelry player, is adding hundreds of new items to its assortment every month—an unheard-of pace in an industry where two collections per year is standard.

In the fast-fashion world, flexible companies with adaptive business systems reap disproportionate rewards. Innovative jewelry players will emulate fast-fashion apparel companies: they will react to trends quickly and reduce their product-development cycle times. Doing so will require closer collaboration with partners along the entire value chain, from suppliers to designers to logistics providers.



The evolution of the apparel industry provides an interesting template for how the jewelry 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 globalized, and intensely competitive. Those jewelry companies that can best anticipate and capitalize on industry-changing trends—particularly the five described above—will shine brighter than the rest.

To read more about issues critical to retailers and consumer-packaged-goods leaders globally, download the second issue of McKinsey's *Perspectives on retail and consumer goods*, on mckinsey.com. ○

The authors wish to thank Ewa Sikora for her contributions to this article.

Linda Dauriz is a principal in McKinsey's Munich office, **Nathalie Remy** is a principal in the Paris office, and **Thomas Tochtermann** is a director in the Hamburg office. Copyright © 2014 McKinsey & Company. All rights reserved.