



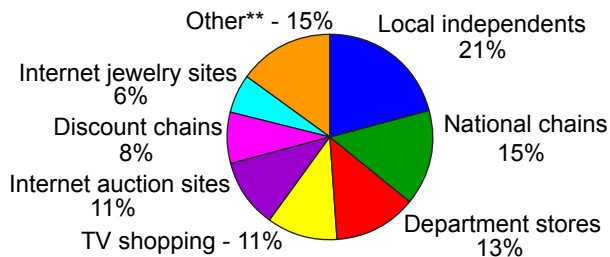
Jewelry Stores

Industry Overview

An estimated 32,000 retail locations specialize in fine-jewelry in the United States. *National Jeweler* magazine reports that the majority of jewelry-only retailers (79%) are small, independent, family-run businesses that are highly competitive in their local markets. The remaining 21% are “majors” – including national and regional chains and online retailers.

Local independents compete with national chains and with a variety of other retailers; retail jewelry channels of distribution are illustrated in the chart that follows:

U.S. Retail Jewelry Industry
% of \$65.3 Billion* Market, by Type of Outlet



Source: *ResearchAlert*, September 7, 2007, December 21, 2007.
* Estimated. ** Includes catalogs, boutiques, and other outlets.

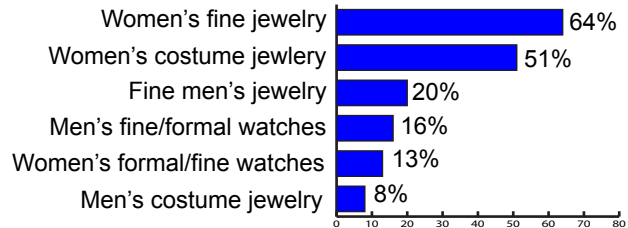
Large chains like Zale Corp. and Kay Jewelers tend to offer basic mid-priced, medium-quality gold, diamond, and colored gemstone jewelry. Some local independent stores cater to the same customer base as the national chains and offer the same type of merchandise; however, many independents and small chains tend to have a greater selection of styles and higher-quality, higher-priced merchandise – including collections from well-known national designers and local artisans.

Diamond jewelry (including loose and set stones) accounts for about 50% of the industry’s revenue, followed by gold jewelry, which accounts for 11%, gemstones and gemstone jewelry, around 9%, and watches, which account for about 4% of total jewelry industry revenue (Jewelers of America, www.jewelers.org). Jewelry and watch repair represents substantial revenue for many jewelers (up to 10% or more at smaller independents).

Issues and Trends

About half of U.S. consumers purchased jewelry and watches in 2007, with the leading buyers being higher-income women aged 25 to 54. Consumers spent an estimated \$64 billion on jewelry and watches in 2007, up from \$59 billion in 2005, according to Unity Marketing and “State of the Jewelry Industry, 2008 Jewelry Demand” (www.1dexonline.com; Business Wire press release, March 6, 2008). An increase in sales of about 3% during 2008 is forecast.

What Jewelry Buyers Purchase
By Broad Category, % of Buyers Purchasing



Sources: “The Jewelry and Watch Report,” Unity Marketing, www.unitymarketingonline.com; Research Alert, December 21, 2007.

Top 10 U.S. Jewelry Store Chains

Store Name	Stores [1]	Store Adds [2]	\$ Sales
Zale Corporation	2,350	44 (+10 kiosks)	\$2.44 bil
Sterling Jewelers [3]	1,307	100	\$2.65 bil
Friedman’s [4]	485	0	NA
Fred Meyer Jewelers (subsidiary of Kroger)	411	10	NA
Whitehall Jewellers	317	10	\$319 mil
Helzberg Diamonds (Berkshire Hathaway)	274	5-10	NA
Peoples Jewellers (Division of Zale Corp.)	175	19	NA
Ultra Stores Inc.	155	15	NA
Samuels Jewelers (Unit of Gitanjali Gems)	95	4	NA
Reeds Jewelers Owned by Sparkle Inc.	88	1-2	NA

Source: *National Jeweler*, “State of the Majors 2007.” [1] Number of units selling jewelry and watches. [2] Estimated number of stores added in 2007. [3] In terms of sales volume, Sterling Jewelers, the U.S. subsidiary of Signet Group, passed Zales to gain the top spot in sales volume, though it is in the No. 2 “locations” spot. [4] Owned by Harbert Capital Partners, Friedman’s declared bankruptcy in January 2008 and was cleared to begin conducting going-out-of-business sales, according to *National Jeweler Network* (February 26, 2008).

Zale Corporation, whose stores are typically located within shopping malls, encountered challenging conditions in 2007. The company tried to go more upscale in 2005, but then heavily discounted its merchandise in 2006, which hurt its profits. Zale sold its high-end Bailey Banks & Biddle chain to Finlay Jewelers (which operates jewelry counters in department stores). It plans to close 105 stores in fiscal year 2008 and lay off about 140 employees, in an effort to reduce costs and regain momentum (*Reuters News*, January 9, 2008; *National Jeweler Network*, February 28, 2008).

**Top 10 Jewelry Retailers
(Other Than Jewelry Store Chains)**

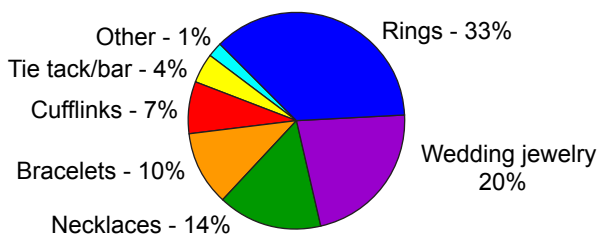
Store Name	Sales [1] (% Growth)	Jewelry Depts [2]	Store Adds [3]
Wal-Mart	\$2.80 bil (+4%)	3,910	305-330
QVC (Liberty Media)	\$1.50 bil (+7%)	NA	NA
Tiffany & Company	\$1.32 bil (9%)	64	5-7
J.C. Penney	\$1.30 bil (+8%)	1,033	50
Sears Roebuck	\$1.10 bil (+5%)	935	NA
Finlay Fine Jewelry [4]	\$919 mil (-7%)	758	12
Jewelry Television	\$475 mil (+22%)	NA	NA
Costco Wholesale	\$450 mil (+6%)	371	15-16
Target Stores	\$450 mil (+8%)	1,487	115-120
Macy's East	\$450 mil (+8%)	160	1

Source: *National Jeweler's* "State of the Majors 2007." [1] Sales of jewelry and watches. [2] Number of units selling jewelry and watches. [3] Estimated number of units added in 2007. [4] Operates "leased departments" within other retail stores (e.g., department stores).

Despite the 3% growth forecast, some jewelry retailers expect a down year in 2008. Others, however, especially high-end independent retailers whose customers are primarily affluent households (described as those with incomes of \$150,000 or more), expect significant gains. Just as in 2007, when jewelry stores in many regions experienced lackluster sales, others enjoyed a robust year depending on their location, their clientele, the economy in the area, and their competition (*Jewelers of America*, "2007 Cost of Doing Business Survey"; *National Jeweler*, December 1, 2007, January 1, 2008).

Jewelry for men is a growth category; sales have nearly doubled since 2004, reaching \$6 billion. Rings account for one-third of purchases, as indicated below:

Men's Jewelry Sales, by Type*



*Excludes watch sales.
Sources: "The Jewelry and Watch Report," Unity Marketing, www.unitymarketingonline.com; Research Alert, December 21, 2007.

The bridal business (engagement rings and wedding bands, specifically) will also help prop up sales in the industry, according to *National Jeweler Network* (March 7, 2008). The number of weddings is expected to grow by 30% over the next ten years. Children of baby-boomers (the "millennials," currently in their twenties) are expected to spend heavily on bridal jewelry, as many are wealthier than preceding generations.

Additional jewelry industry trends and forecasts follow:

Jewelry Industry Trends

- **The price of gold has risen dramatically**, making it fall out of favor with many customers and retailers. Some stores are carrying more pieces that contain a mix of gold and less-expensive silver, or that are made from lightweight "lacey" gold.
- **Platinum jewelry still enjoys brisk sales in the U.S.**, despite significantly higher prices for the metal. That's partly because new technology is letting designers create lighter-weight pieces at lower prices, and partly because new promotional strategies are enticing new customer groups, like younger adults and men, into the market.
- **Many of the largest chains have begun carrying proprietary diamonds**, to help attract the bridal business (e.g., Sterling's "Leo Diamond" and Whitehall's "Whitestar Diamond"). Jeff Taraschi, president of Interactive Group Ltd. Eurobrands, observes, "There is a big move to brand diamonds to raise margins on what is a huge category for jewelers, and as a point of differentiation from competitors."
- **Use of the Internet to showcase a retailer's inventory** helps level the playing field with online-only jewelry retailers. Online sales now account for 17% of total jewelry industry sales (including jewelry retailers' sites and auction sites). Though some consumers are wary of spending thousands on a diamond engagement ring through a website, many are not; it is essential to offer consumers the ability to buy (or at least to browse) or risk losing a sale.

Sources: *Research Alert*, September 7, 2007; *National Jeweler Network*, March 7, 2008; Platinum Guild International press release, *Business Wire*, March 6, 2008; *San Diego Union-Tribune*, February 8, 2008.

With the economy in a tailspin and online jewelry sales representing a growing percentage of industry revenue, independent jewelry retailers often differentiate themselves from the rest of the pack by stressing custom jewelry (where shoppers work with in-store designers to create one-of-a-kind pieces). Many also hire full-time certified gemologists to instill trust, and educate customers about clarity, cut and color of stones – even letting customers examine gems under a microscope. Offering free insurance appraisals and extending personalized, after-sale service (like free cleaning and maintenance work) also helps differentiate independents from competitors (*National Jeweler*, January 2008).

An estimated 72% of jewelers have a website, according to a survey conducted by *National Jeweler* magazine in its "Year-End Sales Survey 2007" (released February 2008). While many sites do not have e-commerce functionality, jewelers recognize that prospective customers do a lot more research and comparison shopping than ever before, and they use their sites to help showcase jewelry, educate consumers, and inspire them to visit the brick-and-mortar stores.

Some characteristics mentioned in the advertising that is placed by jewelry stores are intended to motivate potential customers to call, or to make them feel comfortable in doing business with the store. Some of these characteristics can be categorized as "confidence factors" and some as "convenience factors":

Confidence Factors Mentioned In Ads

Guarantees / Warranties	Repairs Done on Premises
Member, American Gem Society, BBB, Jewelers of Amer.	Watchmaker / Appraiser / Goldsmith on Premises
"Highest Prices Paid"	Expert Ring Sizing /
Skilled Designers / Award-Winning Designs	Confidentiality / Privacy / Discretion
Registered Jeweler / Master Diamond Cutter	Certified Appraisal / On-Site Manufacturer
Family-Owned and Operated	Master Jeweler

Source: 2007 Comparative Ad Analysis Survey, Norbert J. Kuk & Associates.

Convenience Factors Mentioned In Ads

Location Data / Maps	Mail / Phone Orders
Rings Sized While-U-Wait	Repairs While-U-Wait
"Qualified Free Estimates"	Open 6/7 Days/Evenings
Credit Cards / Financing / Layaway	Invitation/Inducements to Visit Website
Instant Cash / Free Appraisals	"View Inventory Online"
Number of Engagement Rings	Low Prices (Loan Forfeits)

Source: 2007 Comparative Ad Analysis Survey, Norbert J. Kuk & Associates.

Value of Products and Services in the Industry

The average jewelry buyer spends \$3,267 and buys 4.5 pieces. Men tend to spend more than women (\$4,327 versus \$2,560), but buy fewer pieces (3.1 versus 5.4). Buyers age 40 and younger spend more than those over 40 (\$4,185 versus \$2,470).

Those with incomes of \$75,000 to \$99,000 spend around \$4,000 annually; those with incomes of \$25,000 to \$49,900 spend around \$2,950 annually (Unity Marketing, www.unitymarketingonline.com; *Research Alert*, December 21, 2007).

Average household spending of \$566 is calculated by dividing \$64 billion by 113 million households. Average spending is helpful in determining market potential and market share. For example, in an area of 50,000 households, it is fair to say \$28.3 million is spent on jewelry. If a jewelry retailer generates \$1.5 million annually, his or her market share would be 5.3% (a baseline for measuring future performance).

Critical Success Factors

Successful jewelry retailers know what their customers want in a purchase and take steps to gather verifiable information about shopper preferences. What follows are examples of how they "get close to their customers."

CSFs for Jewelry Stores

- **Employ marketing research tools.** Stores should make decisions based upon trend reports, sales performance figures, competitive analysis, market demand forecasts, and focus groups.
- **Ask customers what they think**, and offer incentives to encourage them to answer. In-store surveys and e-mail questionnaires (the latter done only with a customer's permission) help determine the right mix of products in a variety of price points.
- **Train sales people to "feel out" customers** to determine if they want to be helped, or if they are just looking. If they want to be helped, sales staff should tailor their presentations to each customer's concerns, rather than taking the same approach with each customer.
- **Discover the "why" behind the jewelry purchase** and share in the emotional excitement, which often leads to the purchase of "add-ons" (e.g., jewelry cleaner, jewelry boxes, or travel pouches).
- **Offer something unexpected, truly unique, edgy, or even a little weird;** this type of "out there" approach is press-worthy, provides perfect website content, and can be the basis for sending announcements or invitations.
- **Reach out to the community** to build awareness, generate traffic, and promote the store's "brand." Sponsoring charity events or sports teams, or hosting concerts and art shows, are great ways to attract new prospects for a reasonable investment.

Source: *National Jewelry Network*, March 11, 2008; *National Jeweler*, January 2008.

Industry Resources

Jewelers of America, www.jewelers.org
 National Jeweler, www.national-jeweler.com
 Modern Jeweler, www.modernjeweler.com
 Jewelers' Circular Keystone, www.jckgroup.com

About INDUSTRY IQ Reports

"It's probably the biggest complaint customers have about the salespeople who call on them: 'They don't understand my business, or what my concerns are.' Even now, when business is tough, and the main thing people need is partners." - *Sales & Marketing Management magazine*

Background

- ◆ Media Marketing, Inc., creators of imMEDIATE® software, has been in the forefront of sales presentation systems since 1987. The imMEDIATE suite, a state-of-the-art consultative system, is used by hundreds of media reps every day to create compelling presentations and expert media proposals. Built on Microsoft Office® technology, the imMEDIATE system provides a complete solution to your media sales needs.
- ◆ Media Marketing is an authorized distributor of Profile America's IndustryIQ reports. Sales and marketing teams embrace these industry-knowledge reports because of their concise, easy-to-read style and rich store of information. Regular use of IndustryIQ reports creates a relationship-building, consultative environment.
- ◆ Since 1986, Profile America has provided profiles of industries, markets and trends to business-to-business marketers, facilitating an understanding of the industries into which they sell their products and services.

Program Objectives

- ◆ IndustryIQ reports are used by managers as sales training, planning and business development tools. Sales reps use IndustryIQ reports to prepare for sales calls and as a valuable leave-behind.
- ◆ Armed with independent, third-party assessment of industry dynamics, media reps can "walk the walk and talk the talk" of their advertisers' industries, allowing reps to better assist advertisers in creating compelling, effective messages for their target audiences.

Values and Benefits

- ◆ Sales reps want to be smart about advertisers' industries, but face the realities of limited time and resources. They need to track dozens of different industries, and value these concise, easy-to-use sales tools that they can leave behind with their advertisers.
- ◆ Likewise, managers want reps to be confident, professional and informed. They want their reps viewed as partners, not vendors -- and they appreciate the IndustryIQ method of collecting, analyzing and presenting information.
- ◆ Independent, third-party IndustryIQ reports leave marketing and sales professionals free to practice their core competencies: developing successful advertising strategies for their clients.

Delivery

- ◆ IndustryIQ reports incorporate a customer-guided approach to gathering information and creating industry-knowledge products. We value your content recommendations as we strive to create the most useful, fact-filled industry reports available.
- ◆ IndustryIQ reports are available in PDF format from Media Marketing's web site, www.industryIQ.biz.

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