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Industry Report: Jewelry Retailers

Recent Trends

Store closings, consolidations and downward sales trends plagued the jewelry industry during the latter part of the 2000s. However, consumer confidence has returned to many luxury businesses that maintain higher-income clientele. Industry leader Tiffany & Co. reported comparable (“comp.”) store sales increases exceeding 20% during the second quarter of 2011. Similarly, domestic comp. sales increased approximately 10% during the three months ended July 2011 at both Zale Corp. and Signet Group (parent company of Kay and Jared Jewelers).

Meanwhile, Danish jeweler Pandora A/S has rapidly increased its market presence in the U.S. over the last several years. While its total sales are now third highest worldwide behind Tiffany and Cartier, Pandora’s core product line of silver- and gold-based charms are susceptible to changing market trends and fluctuations in precious metal prices. Pricing increases have led to a tepid sales performance thus far in 2011 and the company’s long-term outlook has become hazier as a result.

E-commerce sites such as Blue Nile, Inc., and Amazon.com have applied additional pressure to brick-and-mortar locations. However, due to the luxurious nature of the goods and relatively high price points, jewelry sales are still largely driven by in-person transactions. Depending on the time of year, only 5-10% of fine jewelry sales in the U.S. are completed online.

Appraisal Factors

Based on liquidation data and appraisal experience, Tiger Valuation considers the following key consideration points when analyzing jewelry retailers:

- **Discounting –** Over the last several years, store closing events at middle-market jewelry chains have saturated the marketplace with discounted products. Many competing retailers have been forced to increase promotional activity to keep pace as customers have become more accustomed to lower prices and sales events. Rises in the average discount offered within a jeweler typically result in lower recovery values.
- **Inventory Augmentation –** Where allowed by law, jewelry liquidators often augment going-out-of-business (GOB) events by bringing in additional goods for sale with existing store inventory. Augmentation allows the risk premium associated with the original inventory (O.I.) guarantee to be allocated to the profit and loss of augment goods, ultimately raising net recovery values on the O.I. In this scenario, the estate typically receives a negotiated percentage of augment merchandise net sales in exchange for its support of the program.
- **Wholesale Inventory –** Many jewelry retailers stock wholesale pieces within warehouses and distribution centers that are either sold in bulk to opportunistic buyers or used to create special orders for customers. Appraisers must account for labor and manufacturing costs associated with converting loose pieces into finished goods that could be sold in stores during a GOB event.
- **Buyback Provisions –** Some high-end product manufacturers, including Rolex and David Yurman, exercise buyback provisions that disallow jewelers from selling their pieces during a liquidation sale. The removal of popular brands from a store’s inventory mix can negatively affect net recoveries due to the likelihood that customers would be unwilling to substitute a sale with different brands if particular name brand Items were made unavailable.
- **Store Services –** During a GOB event, it is advantageous to continue in-store services that are critical to finalizing a sale, including cleaning, repairs and ring-fitting. While these services are generally revenue-neutral, they help facilitate a steady flow of foot traffic in stores during a liquidation event.

Outlook

Over the next few years, appraisal values throughout the retail jewelry industry could exhibit modest improvement if consumer confidence continues to fuel sales increases. In the short term, jewelers are likely to further benefit from recent closings of long-established chains such as Fortunoff and Finlay Enterprises. However, while buying activity within the jewelry marketplace has been strong over the last several quarters, it is unclear if the sales growth evident during the 2010 holiday season and first half of 2011 is sustainable over an extended period of time.