

## Diamond Teaser

*Our resident jewellery expert Leonard Polivy provides his opinion on the current state of the jewellery market, and what the recent economic and political changes will mean for the industry.*

### An Overview

The jewellery business has naturally evolved over the years and recent economic and political occurrences have triggered significant changes in a relatively short space of time. Companies related to the jewellery industry have certainly felt the shift and whilst it isn't necessarily all doom and gloom, there are certainly adjustments that need to be made, in order to achieve ongoing success.

### Current state of the market

The economy and the spending constraints of customers directly affect the sale of jewellery:

- Luxury and high-end retailers' sales have begun to slow, as the wealthiest customers become more particular with their requirements.
- Buyers from China, Russia, and the Middle East, are becoming more conservative in their spending habits.
- Sales to mid-tier customers has seen a boost, mainly due to overseas visitors taking advantage of the favourable exchange rates. According to Mintel Group, sales in the jewellery and watches market are set to grow by 2.3% to £5.4bn (*Mintel, Jewellery and Watches Retailing, UK – September 2016*)
- As credit becomes more difficult to acquire, jewellers that service customers paying on credit are facing more challenges

Supply has been in excess of demand for some time, with mining companies forced to half their production levels:

- The sale of rough diamonds is lower.
- The sale of polished diamonds has declined over the last year, leading to high street retailers acquiring a very cautious outlook.
- Rather than stocking multiple selections, stock is now only bought to replace items as they are sold, resulting in a much narrower selection for the customer.

Another influencer is the next generation of consumers and the millennial consumer; who have a very different outlook to that of previous generations. While jewellery is an aspirational purchase, it is not as important to them. Millennials are more interested in experiences and lifestyle events and will seek less expensive jewellery items that serve a specific purpose.

### Brexit

The UK's European referendum result will inevitably impact the jewellery trade, although the full ramifications of this have yet to play out. Speculation is already rife in terms of how household incomes will be affected, and this will affect spending decisions across the board. For jewellery specifically, the unavoidable changes to import duties on luxury items will have negative implications. Italy is a huge manufacturer of jewellery and as Britain drops out of the free trade zone it will become harder for UK jewellers to afford European trading. We will have to wait and see just how much Brexit will affect these terms.

## Online trading

High street jewellery retailers are also being affected by the rise in online shopping, as more and more consumers are turning to e-commerce. However, this primarily affects jewellers dealing in lower cost items, as the sale of expensive luxury jewellery has not yet made a successful transition to the internet. Customers want to touch and feel jewellery when they are purchasing a high value item, and they also want face to face engagement with the expert they are buying from. It's about the service and the quality and this isn't something that translates well to e-commerce yet.

## Marketing

No jeweller is an expert at marketing to everyone. Even those who believe they are good at it tend to be shocked by their shortcomings when they see the analytics. If you examine the product offerings of a full-service jewellery retailer, generally there is a top three, and the remaining categories drag down their results; without these they would be very profitable. If marketing is correctly targeted it can make an enormous difference; there simply needs to be some expert guidance along the way.

As an industry that has always been dictated by the economy there won't be an overnight fix or return to wealthy customers buying £5k bracelets without a thought. Jewellers have to be smart about their operations:

- Stock fresh and contemporary inventory.
- Dispose of older inventory through wholesale or retail channels.
- Maintain turnover in order to facilitate current stock.
- Keep on top of current trends - Jewellery is increasingly viewed as a fashion statement.

*Leonard Polivy*

*Managing Director, Jewellery Valuations*

*e [lpolivy@gordonbrothers.com](mailto:lpolivy@gordonbrothers.com)*