The Jewelry Industry and a Changing, Graying America

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Last month, I kicked off Diamond Dialogues, a series of interviews about the future of our industry.

For this installment, I spoke with Tinashe Takafuma, managing director of Equity Communications, an investor communications company specializing in Southern African mining industries like platinum and diamonds. Equity's site Diamond Shades regularly issues reports on the industry.

Takafuma discusses the future of independent jewelers, why the market is shrinking, and how the industry may be making a mistake chasing young buyers.

***JCK*: Your report talks a lot about the declining marriage rate. How will that affect the industry in years to come?**

Tinashe Takafuma: The state of marriage in America matters a great deal for the jewelry industry. If you add up all the marriage jewelry bought in a year— engagement rings, wedding rings, anniversary jewelry, spousal jewelry gifts, etc.—that gives you 30 percent of all jewelry sales by value. For specialty jewelry stores, it goes up to between 60 and 70 percent of all jewelry sales and even up to 100 percent for some.

So the jewelry industry has to be concerned about the growing number of single, never-married Americans. It does shrink the size of the customer base for marriage jewelry. And that's already affecting the industry. For instance, competition has intensified in the bridal jewelry segment. There are about 2.2 million weddings in America in a year, and that figure is not going up anytime soon. So let's say you are in the state of Illinois, where the average number of new marriages is 74,155 per year. If you want to increase unit sales of engagement jewelry, it basically means you sell to more customers while your competition sells to fewer customers.

Competition is brutal in the bridal jewelry segment, and that's how independents are being pushed out. They are losing out to regional and national jewelry chains that provide better financing options for bridal jewelry, which is costly. They are losing out to designer brands that have stronger marketing budgets and expertise. The size of this market segment is not growing, so if someone is gaining market share, it also means someone else is losing customers.

***JCK*: What do other demographic trends indicate about the future of the market?**

Takafuma: Demographically, the U.S. population is still growing. In fact, the population of persons age 25 to 39 is expected to increase by 1.06 percent annually from 2010 to 2020, after declining by 0.19 percent annually from 2000 to 2010. These are the ages most likely to purchase marriage jewelry due to life stage—the majority of first marriages and second marriages.

I suppose you can expect a gradual pickup in the number of registered marriages until at least 2020. That should prop up sales of bridal jewelry in the coming years.

But the real game changer is the rapid graying of the income landscape. We cannot argue with demographics. The population of persons age 50 to 64 will increase by 50 percent from 42.2 million in 2000 to 63.2 million in 2020. This is the baby-boom generation. They dominate the U.S. economic landscape, they have much more money than younger consumers, and the earning gap is increasing.

Part of the reason why the jewelry market is shrinking may be that specialty jewelry retailers focus much of their effort on ages 24 to 37—ages most likely to purchase marriage jewelry than any other group, due to life stage (first marriage). These are the ages most likely to buy jewelry gifts for Valentine's as well as Mother's Day, etc. So concentrating on these ages for sales opportunities has historically made sense.

However, these ages are not doing as well as older age groups economically. The level of disposable income available to younger consumers continues to go down in real terms, and that has frustrated sales of goods targeted at millennials and the like. And that's not just for jewelry.

***JCK*: What opportunities exist for the U.S. industry that it is not currently taking advantage of?**

Takafuma: Like I said, the population of persons ages 50 to 64 will increase by 50 percent from 42.2 million in 2000 to 63.2 million in 2020. Baby boomers are on the move. If these cohorts were massive for sales of marriage jewelry in the 1980s, they can also be massive for sales of jewelry to celebrate special events such as milestone anniversaries and birthdays. With proper promotion and marketing, sales of milestone jewelry could rival sales of engagement rings until at least 2025.

Because of the drastic shift in the income landscape, it might be best for the jewelry industry to develop increased consumption of jewelry in the second half of the life cycle. Follow the money! I also believe greater promotion of jewelry for milestone love events (anniversaries) is the best way to offset the declining buying power of the core ages for marriage jewelry consumption.

***JCK*: Do you see further consolidation among independent jewelers?**

Takafuma: The business environment has become tougher for independent jewelers. Most of the things that are happening—such as the declining marriage rate and the rise of online channels are out of their control. And yet these have the greatest impact on the jewelry business.
When I look at where the market is headed, I don't see much consolidation among the independents. Rather, I expect many family-owned businesses in the industry to close shop when the current proprietors reach retirement age. Fewer current owners are going to pass the torch to the next generation simply because the traditional jewelry business has become less profitable.

The other thing is, a growing number of consumers are becoming comfortable about buying jewelry from non-specialty jewelry stores. There are currently 13,591 Americans per specialty jewelry store. That's a big change from 10,048 Americans per specialty jewelry store in 2002. Jewelry sales are still growing, but specialty jewelry stores are losing market share to other retailers that have invaded the space.

Established designers have noticed the opportunity available in jewelry and are now leveraging reputations earned in fashion and accessories to launch jewelry lines. These jewelry lines are resonating with consumers including in the important bridal jewelry segment. Even traditional powerhouse luxury brands like Louis Vuitton and emerging powerhouse designer brands like Michael Kors are launching collections and finding success in the jewelry space.

Having said that, there are plenty of opportunities to grow sales for specialty jewelry stores that survive. For one thing, the continued exit of many independents has expanded the geographical catchment area for surviving independents. Now, anyone who's well experienced in the jewelry business can tell you that most jewelry consumers are actually prequalified. You can pretty much predict who is likely going to buy jewelry from you by doing a checklist. For example, income is an obvious factor in who buys jewelry and how much they can afford. The good thing is that data is available that can help you determine the number and location of qualified prospects in an area even by zip code. So independents can use this information to better target their marketing efforts and grow sales.