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An Exploratory Study on Growth Strategies in the Jewelry Retail Industry

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In this exploratory study, we aim to investigate growth strategies in the jewelry retail industry. The study adopts the longitudinal case study strategy and analyzes growth strategies in the history of four competitors. Our analysis focuses on both growth directions, i.e., the where of growth, and growth mode, i.e., the how of growth. The results indicate growth mainly through internationalization and product diversification with the core strategic business area. Organic growth and acquisitions are the preferred modes of growth, and case companies simultaneously use brick-and-mortar and online sales channels.

Firm growth is a goal for generating economic development and creating prosperity for the firm's stakeholders. As a result, firm growth and its strategies have been subject to research since the pioneering works of Penrose (1959) and Ansoff (1987). The resource-based view (RBV), for example, acknowledges the limits of growth by the available resources of the firm (Barney, 2001; Penrose, 1959). Such limitation, however, is subject to some level of criticism in the light of advances in technology, e.g., internet technologies and electronic commerce, and network type of growth, allowing access to resources of network partners. Interest in growth literature has been especially on the determinants of achieving high growth (Delmar et al., 2003). Next to internal factors, also external factors are influential on firm growth (Gupta et al., 2013). Scholars have studied determinants of firm growth, consequences of firm growth, and the growth process, but there is a need for more research on growth modes, i.e., the how of growth (McKelvie & Wiklund, 2010; Vaz, 2021). There is literature on growth directions, i.e., the where of growth including for example Akpinar (2009), Gabrielsson and Gabrielsson (2004), and Meyer (2006) on especially the interplay between the strategies of diversification and internationalization, but the results seem to be mixed. Hence, there is a need for future research on growth directions and growth modes in different industries and contexts.

This study aims to contribute to the above-identified gap in the literature by studying the growth strategies of four firms in the jewelry retail industry, namely Tiffany & Co. (Tiffany hereafter), Zale Corporation (Zale hereafter), Blue Nile Inc. (Blue Nile hereafter), and Signet Jewelers Inc. (Signet Jewelers hereafter). We adopt a historical perspective and study their growth directions, focusing on the growth strategies of diversification and internationalization, and their growth modes, i.e., organic, acquisition, and hybrid. Comparisons across these four leading companies allow us to unveil strategic choices in this industry. Our multiple case study strategy suits the exploratory nature of this study, and it is not our intention to generalize findings to other contexts.

To achieve our goals, we review first the literature on the growth strategies of diversification and internationalization as well as organic, acquisition, and hybrid modes of growth. This is accomplished next, and it is followed by presentations of the methodology and results in subsequent sections. Finally, the paper ends with a discussion of our findings.

Literature Review

Growth Directions: Diversification and Internationalization

Diversification is defined in this research as entering new strategic business areas (SBAs) identified by new customer needs and technology (Ansoff, 1987). The reasons for diversification include the desire for growth when current product lines or current operations are not profitable, the desire for more conglomerate power, responding to opportunities that promise greater profitability, managing risks, and having excess resources (Ansoff, 1987; Goold & Luchs, 1993; Penrose, 1959). It has been the primary choice of growth for firms in protected and/or large country markets until the 1990s when trade barriers were still high (Ansoff, 1987; Hymer, 1979). There are two types of diversification strategies: concentric/related diversification, i.e., diversifying into SBAs that are closely linked with the firm's core SBA in terms of sharing resources, and conglomerate/unrelated diversification, which is about entering unrelated SBAs (Hunger & Wheelen, 2009). Two specific types of related diversification can be vertical integration, i.e., diversification towards the sources of raw materials (backward integration) or customers (forward integration), and horizontal integration, i.e., diversification into SBAs that share resources and create synergies with the core SBA or entering new market segments within the core SBA by introducing new products (Akpinar, 2009). Related diversification's objective is to achieve a strategic fit with the core SBA (Lynch, 2003). Unrelated diversification does not aim for strategic fit but the acquisition of valuable assets that will increase profitability (Macmillan & Tampoe, 2000). Entering an unrelated SBA can also result in lower profits if the firm lacks the necessary expertise in the new SBA (Campa & Kedia 2002; Graham et al., 2002). Indeed, empirical evidence suggests that while related diversification improves firm performance, unrelated diversification has the opposite effect (Chen et al., 2014).

Internationalization is about increasing involvement in international operations (Welch & Luostarinen, 1988). It can be outward or inward, and in this research, we adopt the outward orientation of entering new international markets. It has gained popularity, especially after the 1990s when globalization and advances in communication technology (e.g., the internet) have lowered costs of cross-border trade and foreign market entry significantly. Internationalization has been a preferred strategy for especially knowledge-intensive firms from small country markets (Bengtsson, 2000; Gabrielsson & Gabrielsson, 2004). Reasons behind this growth strategy are to fulfill their growth and profit ambitions, respond to foreign market opportunities, achieve economies of scale, access to and gain control over raw materials, and react to market pressures (Deresky, 2005; Hollensen, 2007).

There are mixed findings in the literature on the relationship between internationalization and firm performance. A firm with a specific competitive advantage may achieve higher profits by delivering superior products across borders (Chelliah et al., 2010; Dastidar 2009; Geringer & Beamish, 1988; Väätänen et al., 2009). According to Pattnaik and Elango (2009), however, the relationship is non-linear, moderated by capabilities in cost efficiency and marketing. Qian et al. (2010) suggest that whereas intra-regional internationalization has positive impacts on profitability, there happens to be an inverted-U relationship in the case of inter-regional internationalization. Chen et al. (2014) present further empirical evidence for an inverted-U relationship. Ansoff (1987), on the other hand, argues that internationalization is riskier and costlier than diversification. This was probably true more in the days when trade barriers were high. Finally, Wan (1998) finds no significant correlation between the level of internationalization and profitability.

There is also research studying the two growth strategies simultaneously. Gabrielsson and Gabrielsson (2004), as well as Meyer (2006), suggest that firms bounded by their limited resources should focus on their core SBA by divesting their non-core SBAs to grow globally. This type of strategy is called global focusing (Meyer, 2006). In contrast to this, Akpinar (2009) finds out that these two strategies need not be at the expense of each other and can be pursued simultaneously.

Growth Modes: Organic, Acquisition, and Hybrid

Organic growth occurs through the development of resources internally in capturing market opportunities for growth, e.g., greenfield investments, requiring employment and training of new additional staff (Ansoff, 1987). This type of growth is slow and limited by the availability of the firm's resources (Penrose, 1959). McKelvie et al. (2006) argue that this mode of growth is more typical for small firms.

The acquisition mode occurs when one firm acquires shares in another firm and integrates the acquired business into its existing operations (Lockett et al., 2011). This mode offers fast access to valuable complementary resources. It does not require additional employment; on the contrary, if the two firms are competitors, there may be a reduction in total employment through the restructuring of operations following the elimination of an existing competitor. The number of acquisitions has increased significantly since the 1990s with increasing globalization and easy access to capital funds. McKelvie et al. (2006) argue that this mode of growth is more observed with large incumbent firms. One key challenge of this mode is the post-acquisition integration of firms from two different cultures.

The hybrid mode of growth is in between the organic and the acquisition modes (McKelvie & Wiklund, 2010). This mode occurs through contractual agreements, where each firm maintains ownership and some level of control over its resources while at the same time benefiting from the variety and complementarity of each other's resources, thus overcoming resource limitations, in achieving joint goals (Shane, 1996). The hybrid mode includes contractual cooperation like franchising, licensing, strategic alliances, and joint ventures (McKelvie & Wiklund, 2010).

Methodology

The methodology is the historical analysis of growth at four case firms in the jewelry retail industry. The choice of pursuing the multiple case study strategy in a single industry is deliberate to achieve a deep understanding within the context of the study (Yin, 2013). The fact that earlier studies produced contradicting results motivated us toward this choice in methodology. We are, at the same time, aware of the limitations of generalization from case study methodology (Eisenhardt, 1989; Gummesson, 2000; Siggelkow, 2007). Our aim is by no means to generalize across industries but to gain a deeper understanding of the phenomenon in the context of the jewelry retail industry. We understand that growth patterns differ not only from one industry to another but also whether the firms are from advanced or emerging economies (Friesesnbichler & Hoelzl, 2022). In this study, all firms are from advanced economies.

The jewelry retailing industry is chosen based on the researchers' interests. It includes the distribution and sales of accessories from precious and semi-precious metals and stones like gold, silver, diamond, platinum, sapphire, emerald, pearl, opal, topaz, amethyst, and quartz. In 2021 the global jewelry retail industry had a turnover of USD 242 billion, and it is forecasted to grow at an annual compound rate of 4.6% over the next years. North America accounts for ca. 35% of the global market while Europe and Asia-Pacific account for 20% and 45% respectively. The industry is highly fragmented and competitive, but there is a growing trend toward consolidation.

The study investigates the pursued growth strategies of the case companies in terms of their growth directions and growth modes throughout their lifetimes. The levels of diversification and internationalization are measured with the numbers of related and unrelated SBAs, the number of foreign markets served, and the percentage of foreign to total sales revenue, respectively. The data is collected from secondary sources such as the case firms' annual reports, published company analyses, company profiles, official press releases, and other publications. It is analyzed with the aid of codes from the theoretical concepts related to growth directions and growth modes.

Results

This section starts with a review and thick description of the four case companies' growth strategies over time and ends with a comparative analysis across the cases.

Tiffany

Tiffany is a mature company, founded in 1837 in the U.S. In the 1840s, in line with its reputation for offering expensive quality products, Tiffany grew organically with a product diversification strategy within the core SBA, adding silverware, timepieces, and perfume to its product range. In 1845, the company began selling its real jewelry and published its first mail-order catalog to reach customers all around the U.S. Internationalization started in 1850 when Tiffany opened a store in Paris. During this decade, Tiffany also diversified into new lines of business within the core SBA by introducing gold and silver jewelry. During Civil War in the early 1860s, Tiffany also produced patriotic items like flags, medals, surgical implements, and swords, but that was temporary to meet the needs of the time.

During the 1950s and the 1960s, Tiffany divested merchandise that was gaudy or vulgar. Instead, it designed the finest and most expensive jewelry to create a higher standard of quality. It also added high-quality but lower-priced goods such as silver key ring to increase the company's customer base. Tiffany's growth continued in the 1970s and 1980s with the simultaneous implementation of internationalization and diversification strategies. Tiffany established its operations in Japan in 1972 through a joint venture (hybrid mode), which was driven by a lucrative Japanese market. Elsa Peretti's design in silver and gold was introduced in 1974, and Tiffany expanded its business by introducing fragrances, scarves, and neckties in 1987. By the end of the 1980s, the company's European market also expanded by opening stores in London, Munich, and Zurich. Growth in these countries occurred organically.

During the 1990s we observe accelerating internationalization. Foreign sales accounted for 41% of total sales revenues in 1994, up from 32% two years earlier. In 1993, Tiffany bought out its Japanese partner, driven by high growth in this market. There was also product diversification in the core SBA with the launch of diamond rings. Internationalization, related diversification, and product diversification within the core SBA continued in the 2000s. In 2002, Tiffany established its wholly-owned subsidiary, Laurelton Diamonds, as its rough diamond trading and manufacturing firm. This move of backward integration aimed to secure additional supplies of diamonds and achieve cost-efficiency. Tiffany introduced 2003 its "Tiffany Legacy Collection", featuring diamond engagement- and wedding rings for the luxury market segment. In 2005 it launched its first online sales channels in Canada and Japan, complementing its brick-and-mortar sales. Tiffany's internationalization strategy was to selectively expand its global distribution: the U.S. was the largest market for Tiffany in the Americas, Japan the largest market in Asia-Pacific, and the U.K. the largest in Europe.

Tiffany was acquired by LVMH Moët Hennessy Louis Vuitton SE, the world's leading luxury products group, in 2021, at a market cap of USD 16.2 billion. Under its new ownership, Tiffany's future growth strategy entails diversifying the product range anchored in the strong Tiffany brand, offering new shopping experiences online and in-store, and focusing on key international markets like China. In 2019, foreign sales of Tiffany accounted for 63% of revenues, up from 53% in 2009. Tiffany's core SBA is jewelry, representing 92% of its revenues in 2019. The remaining 8% comes from related SBAs of watches, home and accessories products, and fragrances.

Zale

Zale was founded in 1924 in the U.S. with the vision to provide quality merchandise at the lowest possible price. In addition to jewelry, products included small appliances, cameras, and cookware. In 1944, Zale entered the fine jewelry segment through an acquisition and the introduction of the Bailey Banks and Biddle brand. With 19 stores in the U.S. in 1946, Zale opened its central design, display, and printing operation to support its operations and business needs.

During the 1960s Zale grew with a diversification strategy into new SBAs, producing shoes, sporting goods, drugs, furniture, and catalogs, and the name of the company was changed from "Zale Jewelers" to "Zale Corporation" to reflect the diversity of the business. At the beginning of the 1980s, Zale decided to divest its non-jewelry retail businesses because these businesses were not profitable. These businesses were created as a response to the rise of synthetic diamonds, and Zale came back to its core jewelry SBA after it became evident that synthetic diamonds would not cannibalize real diamonds.

Zale established its direct selling business in 1996, introducing its first sales catalog and launching its website. In 1998, Zale launched the first "Zale Outlet" to capture revenues in the growing outlet mall channel, and this was followed by more outlet stores in the U.S. Zale acquired "People Jewelers of Canada" in 1999 and Piercing Pagoda (a gold kiosk operator) in 2000. Also in 2000, Zale partnered with WeddingChannel.com to increase sales within the significant bridal market in the U.S. and Canada. In 2005, Zale partnered with "The Knot", to reach over a million brides and grooms, who turn to "The Knot" for their wedding planning needs. To strengthen its position in this market segment, Zale launched "The Prestige Diamond Collection" in 2009. Zale was acquired by Signet Jewelers in 2014 at a market cap of USD 1.4 billion.

Zale's growth through internationalization was limited to mainly Canada and Puerto Rico, accounting for ca. 15% of total revenues in 2013. The main growth strategy was product diversification within the core SBA, with fine jewelry representing 87% of revenues in 2013.

Blue Nile

Blue Nile is a young U.S.-based e-commerce business that was established in 1999 and started trading publicly in 2004. In 2004, Blue Nile started to internationalize through the web portal www.bluenile.co.uk, catering to the U. K. and greater Europe, and www.bluenile.com, catering to the domestic U.S. market and all other international destinations. The company further internationalized in 2005 by launching its web portal in Canada. To support the internationalization strategy, in addition to Blue Nile Inc., two wholly-owned subsidiaries, Blue Nile Worldwide and Blue Nile Jewellery Ltd., were established in 2007. Blue Nile Inc. and Blue Nile Worldwide are operating online. While the former is for the U.S. and Canadian markets, the latter serves all other markets worldwide. Blue Nile Jewelry is a customer service and order fulfillment center in Ireland. Through the years 2008 and 2009, the company achieved to ship to over 40 countries worldwide. The internationalization of an e-commerce model goes hand in hand with the availability and accessibility of the internet in combination with the acceptance of it as a purchasing channel. Equally important is the availability of stable banking to support the online purchasing system and provide secure online payment processes. Furthermore, local infrastructure must support and secure delivery.

Blue Nile's diversification strategy relies on the mission to be a specialty retailer of jewelry, with the value proposition of delivering high-quality products at great value and an excellent shopping experience. The core SBA is customized superior diamond jewelry, with a focus on customized engagement jewelry. From the beginning, the core SBA was supplemented with ready-to-wear superior jewelry, loose gemstones, and accessories. Additionally, Blue Nile diversified into the related SBAs of product financing and insurance as well as product maintenance. The number of core and related SBAs has not increased since 2004, but within the SBA's product lines, support services, as well as payment and financing services, have been diversified. Blue Nile was acquired in 2017 by the investment consortium of Bain Capital Private Equity, Bow Street, and Adama Partners for ca. USD 500 million.

Blue Nile started and grew organically as an online jewelry retailer. Its main market was the U.S., representing 83% of total revenues in 2016. In recent years, however, the company has established physical stores in major cities in the U.S. to reach customers through multiple channels. Diversification has occurred as product diversification within the core SBA as well as related SBAs.

Signet Jewelers

Signet Jewelers started as a family business in 1949 in the U.K., called Ratner Group. In the first decades, the company focused on growth through market coverage, and by the end of the 1970s, the company had 150 stores countrywide. The national position was reinforced through the acquisition of Terry's Jewelers Ltd. in 1984. In 1985, when Gerald Ratner took over the business from his father, he set the strategy to grow the Ratner group to become the world's largest jewelry specialist, making internationalization the primary growth direction. Growth was realized through aggressive acquisitions. In the U.K., Signet Jewelers acquired Ernest Jones in 1987 to serve the middle and high-end segments. In the same year, Signet Jewelers acquired Sterling Inc., the fourth largest specialty jeweler in the U.S., to enter the world's largest market. Further acquisitions were carried out in the years 1988 and 1989 to further strengthen the company's position within the U.S. market. The company's operations were seriously damaged by Gerald Ratner in 1992 by lowering images of product quality and design in the eyes of the public. After his resignation, the Signet Group Plc. was founded, and comprehensive restructuring actions were taken in 1993. All internationalization plans were stopped, and several acquired businesses were divested, leaving a manageable amount of product groups for the U.K. and U.S. markets. The U.K. market received two operating brands and the U.S. market three. The company returned to profitability in 1999 and diversified again in 2000 through the acquisition of the ninth-largest specialty retailer, Marks & Morgan Jewelers Inc., to strengthen its geographical mix within the U.S. In 2008, Signet Group Plc. became Signet Jewelers Ltd. While the corporate headquarters moved to Bermuda, the operational headquarters remained in the U.K. It acquired Zale in 2014 and strengthened its online channel in the 2010s next to its brick-and-mortar operations, currently representing ca. 30% of the company's revenues.

Signet's operations have been mainly in North America, representing 94% of sales revenues in 2022, with 2,506 stores and kiosks in the U.S. and 94 in Canada. It also operates 335 stores and kiosks in the U.K., 10 in the Republic of Ireland, and three in the Channel Islands. Diversification has been mainly within the core SBA with products related to the bridal category (47% of total revenues), fashion category (46%), and watches (6%).

Cross-Case Analysis

Table 1 compares the four companies in terms of their internationalization and diversification strategies, growth modes, and growth channels. Three companies originate from the U.S., and Signet Jewelers is originally from the U.K. Tiffany, Zale, and Signet Jewelers are quite old companies established in 1837, 1924, and 1949 respectively. On the other hand, Blue Nile is relatively young, established in 1999.

Internationalization is the preferred growth direction for all firms, though at different levels. Tiffany has the highest global coverage, and Signet Jewelers has the highest ratio of revenues from international sales (94%) although internationalization is concentrated in North America, primarily the U.S. market (see Table 1). The internationalization of Zale and Blue Nile is relatively low, representing 15% and 17% of total sales revenues. Whereas Zale's foreign sales are mostly in Canada and Puerto Rico, Blue Nile sells in over 40 countries (see Table 1).

Table 1. Growth strategies of the case companies

	Tiffany	Zale	Blue Nile	Signet Jewelers
Country of origin	U.S.	U.S.	U.S.	U.K.
Internationalization	Global expansion, international sales 63% of all sales revenues	Limited to Canada and Puerto Rico, representing 15% of all sales revenues	Sales in over 40 countries representing 17% of all sales revenues	Concentrated in the U.S. and Canada, representing 94% of all sales revenues
Diversification	Product diversification within the core SBA and related SBAs	Product diversification within the core SBA	Product diversification within the core SBA and related SBAs	Product diversification within the core SBA
Growth mode	Mostly organic	Organic, acquisition, and hybrid	Organic	Organic and acquisition
Growth channel	Brick-and-mortar, later complemented with online channel	Brick-and-mortar, later complemented with online channel	Online from the start, recently complemented with brick-and-mortar	Brick-and-mortar, later complemented with online channel

We mainly observe product diversification within the core jewelry SBA offering various jewelry products to market segments such as bridal and fashion (e.g., accessories like watches). Tiffany and Blue Nile also exhibit some limited levels of related diversification to SBAs like home products, fragrances, product financing and insurance, and product maintenance.

The primary growth mode for all four companies was organic in their early years. We also observe the acquisition growth of Zale and Signet Jewelers in later years. The jewelry retail industry has been highly fragmented, but there is consolidation through acquisitions during the last decade, exemplified by the acquisitions of three of the four case companies after 2010.

The empirical study suggests also analyzing the growth channel in this industry. Except for Blue Nile, the case companies have started with brick-and-mortar sales through their stores and kiosks. They have later established their online channels to complement their brick-and-mortar sales. Blue Nile, on the other hand, started as a fully online firm, and only in recent years has it established a few stores in the U.S. to complement its online sales.

Discussion

When one thinks about the jewelry retail industry, the prejudice is toward a highly profitable exclusive business since jewelry is a luxury product. The reality is indeed different due to the highly competitive and fragmented nature of the industry. In this study, we analyzed the growth strategies, in terms of growth direction and growth mode, of four companies. This is a first of its kind for this industry, and it contributes to the literature on firm growth strategies by fulfilling the gap for studying growth by taking a comprehensive and holistic perspective, not only focusing on the growth rate (McKelvie & Wiklund, 2010).

Earlier studies have mixed results in the pursuit of the growth strategies of internationalization and diversification. Whereas Meyer (2006) argues for divesting unrelated SBAs for creating resources for international expansion, Akpinar (2009) suggests from the case study of the Volkswagen Group that it is possible to implement the two strategies simultaneously. Our study shows that next to internationalization, diversification in the jewelry retail industry is limited to product diversification in the core SBA and to some extent to related SBAs that strongly support the core SBA. This finding suggests internationalization as the primary growth direction in this industry, challenging Ansoff (1987) and Hymer (1979), who have suggested diversification in the domestic market as the primary growth direction due to higher costs related to internationalization.

The first choices of foreign markets for the four case companies have been affluent Western countries with geographical and cultural proximity (e.g., Canada for the U.S. jewelry retailers). This is in line with earlier theoretical frameworks like the Uppsala model by Vahlne and Johanson (2017) and the CAGE distance framework by Ghemawat (2007). Based on this evidence, we recommend to managers in this industry target culturally and geographically close affluent markets in the initial stages of their internationalization.

The historical analysis of the four firms indicates that the main motives behind their product diversification within the core SBA and related diversification strategies are to adapt to the changes in the market and to respond to the needs of consumers. Following earlier research by Penrose (1959) and Ansoff (1987), it seems that in a highly competitive industry like the jewelry retail industry, firms cannot rely only on a single product, and they need to support the core SBA with related businesses to sustain their competitive advantage. The same earlier research recommends related diversification over unrelated diversification due to higher chances to improve profitability by creating synergies either through sharing resources or customer needs. Our findings support this proposition, especially in the case of Zale, which diversified into some unrelated SBAs but needed to divest them following its financial crisis in the 1980s. Implications of these findings are two-fold for managers in the jewelry retail industry faced with the decision of diversification. The first one is that they should approach decisions of unrelated diversification cautiously. In such decisions, they will risk hurting their profit margins. This means that shareholders will be likely to receive lower returns for their investments compared to other growth opportunities. Second, we suggest product diversification in the core SBA as well as possible diversification to some carefully selected related SBAs to support the firm's competitive advantage in its core SBA.

The hesitance to the hybrid growth mode can be explained by the luxury, premium, and exclusive nature of jewelry retail, which demands creating and sustaining a strong brand image. The organic growth mode has traditionally been the first choice, but we observe increasing acquisitions in recent years. This is a sign of the consolidation trend in this highly fragmented industry. Another trend is complementing traditional brick-and-mortar sales with online sales. We observe the use of multiple sales channels even by Blue Nile, which started initially as a fully online firm. As a contribution to literature, we suggest including the classification of brick-and-mortar vs. online in the study of growth mode.

This research is subject to two limitations. First, data is only from secondary sources. Though we had access to rich secondary data, thanks to selecting case companies listed on the stock exchange, collecting primary data via interviews would help us gain deeper insights. Second, the case study methodology limits the generalizability of our findings. In the light of this limitation, we recommend similar studies in other industries as well as quantitative studies to further test our findings. We also recommend future research to study the growth strategies of these firms in relation to their competitive strategies since there are connections between a firm's competitive strategies and its strategic choices (Akpinar, 2020).

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