GROWTH STRATEGIES OF MULTINATIONAL COMPANIES

Jewelry Retail Industry

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Abstract

This thesis investigates business and growth strategies of 4 multinational companies within the jewelry retail industry. The main objective is to identify whether a company's performance is determined by its growth strategy or not.

The 4 formulated tasks for the research are (1) to understand what kind of business models and strategies global jewelry retailers pursue, (2) what growth strategies global jewelry retailers pursue and (3) if there is a link between a company's growth strategy and its profitability. Finally (4) the findings are reviewed on their transferability to other industries. Each task represents a research question to be answered.

To fulfill the tasks and reach the objective, the case companies' strategic business models and growth strategies are investigated in the first part of the thesis. For the investigation and analysis Porter's competitive analysis and generic strategies as well as the concepts of diversification and internationalization are applied and the first findings generated.

In the second part the generated findings are related to each company's revenue growth, operating profit margin and return on assets for the chosen time period 2005-2009 to assess each company's profitability and derive the findings to achieve the main objective.

The findings regarding the business models and growth strategies pursued are that all of them are based on Porter's generic strategies as well as internationalization and diversification but there is no specific preference given to any of the strategic elements. The main finding of the thesis is that growth strategies do to not have a significant positive or negative impact on the overall profitability. In the context of strategic management they can support in a positive or negative way the strategic decisions, but to assess a company's profitability a broader range of indicators has to be considered, as for example the business model and strategy as well as the market. This perception and approach is found to be valid for other industries and businesses.

Keywords
Multiple Case Study, Cross Case Analysis, Retailing Industry, Diamond Jewelry, Retail Jewelry, Generic Strategies, Growth Strategies, Internationalization, Diversification, Competitive Analysis, Profitability, Strategic Management , M.E.Porter, I. Ansoff

Miscellaneous

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1 INTRODUCTION

The authors are interested in investigating business and growth strategies in order to understand, if a certain set of strategies provides the best possible starting point for a business of their own. One of the authors has a personal proximity to gemstones with origin in the Republic of the Union of Myanmar, which provides the connection and interest in the jewelry retail industry.

The main goals for this research are in the first step to investigate if there is a connection between a company's growth strategy and its profitability and in the second step to assess if the findings can be generalized and transferred to other industries.

To achieve the above described goals, the paper starts in Chapter 2 with the theoretical background of this research. An introduction is given to Strategic Management and its framework to define, plan and implement a company's strategic as well as assess its performance. With the information on Strategic Management Michael Porter's models on competitive strategy and competitive advantage are introduced and discussed further. Both models have been introduced in the 1980's and are still amongst the most popular ones used to decide on a company's strategy in today's economic environment. The theoretical background is completed with the introduction and discussion of the growth strategies diversification and internationalization according to Ansoff and others. The discussed information in Chapter 2 provides the theoretical background to understand and assess a company's competitive, growth and internationalization strategy.

The first part of chapter 3 gives an introduction to the jewelry retail industry and the case companies. The second part of chapter 3 states the multiple case study outcomes and relates it to the theoretical background. The findings of Chapter 3 will then be analyzed, discussed and finalized in Chapter 4. The discussion and analysis in Chapter 3 and 4 provides the findings and answers to the research questions.

Various sources of information that were found related and important are used in this thesis report. The secondary data collection for this thesis was obtained through the Internet from different sources, such as market analysis, press articles, journals and reports, and printed information, such as books.

The information gathered, discussed and analyzed throughout the process will be summarized once more in Chapter 5.

1.1 Introduction to Jewelry Retail Industry

Jewelry has been part of human civilization for a long time. And today, jewelry is used as symbols for celebrations such as engagements, wedding, and anniversaries. It is also used as symbols for communication and symbols for identity and individualism. The jewelry retail industry has changed and exhibited growth over the past decade due to increasing income and demand from the emerging economies across the world. The USA remains as the largest consumer for jewelry, followed by China, India, the Middle East and Japan. The UK and Italy are the largest consumers in Europe. China and India are expected to become as the largest consumption markets for both traditional and branded jewelry.

The global jewelry and watches market had a total revenue of $ 181,454.8 million in 2009. This represents a compound annual growth rate (CAGR) of 3.7 % for the period 2005-2009. The market is expected to reach a value of $229,421.5 million by the end of 2014. In 2009, global jewelry sales had total revenues of $ 149,463.3 million which is equivalent to 82.4 % of the market's overall value. (Datamonitor 2010)

The jewelry retail industry is highly competitive and fragmented. The top jewelry retail businesses only hold less than 50 % of the market. This is rather encouraging for small jewelry retailers. Jewelry sales are partly dependent on consumer income. Therefore, small jewelers can effectively compete with larger jewelry chains as price is not the main factor determining sales. A company's profitability is dependent on good merchandising and effective marketing. Jewelry is not only sold by specialized jewelry retailers, but also by department stores, online, and mass merchants.

More information about jewelry retail industry will be discussed in Chapter 3.1.

1.2 Research Questions

As stated earlier the aim for this paper is to analyze global jewelry retailing business and growth strategies to be able to draw conclusions on whether the business model and strategic decisions have an impact on the company’s profitability. Furthermore the findings will be analyzed regarding their validity for other industries and markets.
The research questions to lead through the process are the following:

1. What kind of business models and strategies do global jewelry retailers pursue?
2. What growth strategies do global jewelry retailers pursue?
3. Is there a link between a company’s strategy and its performance?
4. If there is a link are the findings transferrable to other industries or markets?

1.3 Methodology

The data collection is done performing a holistic multiple case study on four case companies. The strategy is to provide answers to the research questions 1 and 2 under 1.2. The remaining research questions 3 and 4 will be discussed and answered during the analysis and discussion of the findings.

The method of a multiple case study has been chosen based on the research goal to identify shared strategic point of views and common strategic decisions amongst the companies. The main motive is to identify and establish whether the findings out of the first case occur also in the other cases and if the findings can be generalized for the market and industry. Therefore secondary data like annual reports, press releases, and reports on the case companies is explored and analyzed. Furthermore the findings are meant to be analyzed for their validity for other industries and markets. According to Saunders et al (2007, p. 140), Yin (2003) argues that multiple case studies are preferable over single case studies to generalize from findings. The case companies are analyzed as comprehensive entities and therefore according to Yin (2003) treated as holistic case studies.

The case companies all operate in the category ‘Diamond and Diamond jewelry retailing’ within the global jewelry retailing business and therefore contribute to a homogenous sample. (Saunders et al., 2007, p.232) Based on the homogenous sample the research will be able to investigate the category more in-depth. The chosen case companies are all globally operating jewelry retailers and are all retailing diamond jewelry, the main product this research is focusing on. They have established themselves amongst the leading companies in the market and are listed as top competitors. (MarketLine, Top Competitors, 2010)

2 THEORETICAL BACKGROUND

As described in the industry and market introduction in Chapter 3.1, the jewelry retailing business is currently undergoing the change from a highly fragmented market to a more consolidated market. Companies operating within this market face the challenge of keeping their business operations profitable and probably face the need to readjust their business model, their operations and strategies to maintain their competitive advantage over their competition. The following chapter introduces the relevant theories such as the concept of strategic management, Porter's theoretical concepts, and growth strategies applied in the company analysis as well as during the discussion of the findings.

2.1 Strategic Management

In today's competitive business environments companies map out their plans how to sustain their business operations, their competitive advantage and increase their profitability using the concept of strategic management. The benefits of strategic management have already been pointed out in the 1960's when Alfred Chandler stated that 'structure follows strategy', meaning that a long-term perspective and formulated strategy provides a company structure, focus, alignment and direction. Carpenter and Sanders (2007) describe strategic management as '…process by which a firm incorporates the tools and frameworks for developing and implementing a strategy.'(p.7) Since Alfred Chandler's statement a broad range of tools for application has been developed and range from SWOT[1] Analysis, Balanced Scorecards, Gap

[1] SWOT: Strengths Weaknesses Opportunities and Threats, see chapter 2.1.5

Analysis, and Portfolio Theory including the BCG Analysis Strategy to the Blue Ocean Strategy. All tools can be applied throughout the strategic management process and companies choose the most suitable tools according to their individual requirements. However all companies use strategic management and its tools to anticipate the business conditions of tomorrow and develop a strategy how to capitalize upon them. In other words the purpose of strategic management is to exploit and create new and different opportunities for tomorrow. (David 2009, p.36)

A strategic management process is compiled out of the sequences strategy formulation, strategy implementation and strategy evaluation. The formulation of a strategy includes the formulation of a company's vision and mission statement to define the purpose and values of the company. For example Blue Nile Inc. mission statement in its annual report 2009 is '… to build the premier specialty retailer of jewelry by offering consumers high quality products at compelling values through an empowering shopping experience.' This is the allover goal for the company's operations and all actions taken are aiming to reach this allover goal. With the vision and mission statement in place companies formulate more specific goals and objectives. Most companies line out there goals and objectives in their annual reports reflecting on the past business year and formulating the goals and objectives for the upcoming one. Signet Jewelers for example formulated in their annual report 2009/2010 for the upcoming business year the objective to maximize sales by gaining profitable market share in existing stores by focusing on enhancing competitive strengths rather than opening additional locations. To achieve the set goals and objectives a company will assess their internal strengths and weaknesses as well as the external opportunities and threats, most likely performing a SWOT analysis and a competitive analysis to assess whether the set goals and objectives are feasible and achievable. With the framework set the company is now able to formulate its strategies. These strategies map out the plan, tasks and actions how to achieve the set goals. These strategies include decisions regarding the entry of a new market or new industry, the strategic positioning, the competitive advantage, differentiation and internationalization and the actions to pursue them. Strategic management tools like the SWOT analysis, the competitive analysis and generic strategies are common to support the decisions. Annual reports include information referring to the SWOT analysis in e.g. strengths and weaknesses, to the competitive analysis in e.g. the sections overview, mid-term outlook, business, risk factors or brand reviews and the generic strategies in e.g. their strategy review.

As Chandler stated, structure follows strategy and the company is now ready to implement its strategy throughout all levels of its organization and operations. During this process sequins the strategies are broken down into daily activities, monthly tasks and quarterly objectives to achieve step by step the overall goals and objectives of the strategy. The implementation is considered to be the most difficult part, since the success is depending on the ability to communicate the added value and benefits resulting from the strategy and a company's employees to embrace and work in line with it.

To evaluate the success and feasibility of a strategy in place there have to be assessment tools and criteria. Companies will analyze market share growth, store efficiency, purchase volume, financial ratios like ROCE, ROA, OPM or similar. The criteria depend on the company's goals and objectives.

In the beginning has been mentioned that strategic management is a continuous process and constantly evolving with the businesses and its business environment. A comprehensive summary of strategic management is formulated by Lamb (1984): Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, a new social, financial or political environment.

One of the tools pointed out in the strategy development process is a competitive analysis according to Porter's Five Forces Model. Applying this model a company can assess whether it is profitable to enter a new industry or market and what business conditions have to be expected. The following chapter introduces Porter's Five Forces Model more in depth and the model will be referred to in the analysis of the industry and market.

To enter a market and develop a strategy a company is naturally interested to understand what kind of competition and market conditions there are and if it is an attractive step. As response to this demand Porter developed his competitive analysis in using the framework of five forces shaping industries, markets and competition. Industry attractiveness in this model is considered as the overall profitability of the industry. The five forces impact collectively the profitability through their effects on price, costs and investment requirements. The more impact they have the less attractive the industry gets and vice versa. The five forces shaping an industry are the threat of new entrants, the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers and the intensity of competitive rivalry.

The threat of new entrants describes how easy and quickly new companies can enter the market or market segment and increase the competition and rivalry amongst the companies operating there. Well-known entry barriers in a global business environment are patents, government policies, tariffs and quotas to protect domestic markets against new foreign entrants. Other entry barriers are e.g. the necessity to gain economy of scale quickly accompanied by a large investment in production facilities and equipment. In a market that is dominated by the existing companies and not growing, new entrants will find the market not attractive enough to enter. This is also applicable to products and markets which require sophisticated technology and specialized know-how. Another entry barrier is the tendency of customer concentration leading often to a strong brand and product loyalty amongst them and prevents a successful new entrance. New entrants also fail in the long run to break into a market with a desired product or service if their distribution network cannot serve the demand. New technologies and new business models like e-commerce can also emerge to a new entrant thread. E-business models like the online retailers Amazon or Blue Nile increased the competition for the brick-and-mortar stores selling a similar product range. Established companies react to new entrants with e.g. lowering their product prices, adding product features, enhancing product quality, extending warranties or financing offers (David 2009, p.120).

The threat of substitute products or services describes products in other industries that can perform the same function. (Boddy 2008, p.96) Substitute products influence a product's price elasticity, since the demand becomes more elastic due to the availability of alternative substitute products. The switching cost declines and puts a ceiling on the product pricing (David, 2009, p.121), leading to a more intense rivalry amongst the companies. The success of a substitute product can be measured by its gained market share and growth. The current growing e-book and e-reader business provides a substitute product and service to paper books and audio books. With the technology becoming affordable consumers have the option to switch easily. Another current development is laser eye surgery, which becomes more popular and affordable as substitute to glasses and contact lenses. For the here discussed diamond jewelry industry the invention of the synthetic diamond in the 1950's and the cubic zirconia in the 1970's are powerful substitute products.

The bargaining power of suppliers describes the power in the relationship between the company and its suppliers. Suppliers are powerful when there are only a few suppliers, the supplied product or material is distinctive and the cost of switching is high. In the case of the diamond supply business raw diamond suppliers like de Beers' diamond trading group, accumulating up to 40% of the worldwide raw diamond supply, are powerful suppliers. To secure, sustain and control the supply companies establish close relationships with their suppliers and pursue a backward integration strategy or sign long-term supply contracts.

The bargaining power of buyers describes the power in the relationship between the company and its buyer or customers. Buyers or customers are powerful when they are concentrated and small in number or when they are many and large in size and there a substitute products available. In latter case the number of potential buyers is large and their switching cost low due to available substitute products. Therefore companies compete over price, quality, warranty, accessories and innovation to create customer loyalty and the buyer's power for negotiation is big. White goods, like washing machines and refrigerators for example are such commodities. If buyers are concentrated and have substitute options again the company is forced to compete over quality, features, service and price to sustain the few business options available in the market. Defense forces or governmental calls for quotation are an example of concentrated powerful buyers. The development of the internet and virtual communities sharing information on manufacturers, products, services and their features as well as buyers experiences furthermore enhance buyer's bargaining power.

All the four forces discussed above contribute to the already existing intensity of rivalry among existing competitors in the market or its segment. Rivalry is strong and lowering the markets attractiveness when e.g. there is no dominating company within the market, the market growth is low, the production costs high and a substitute products available. These markets are highly fragmented and competitive markets. Companies are under pressure to sustain their competitive advantage and market share. In these markets companies peruse a vertical integration strategy and enhance their distribution strategy to have their product easily available for the customer. An example is the here discussed fragmented jewelry retailing industry as well as Blue Nile's online sales and distribution strategy. Furthermore the economic crises initiated a market consolidation development of the highly fragmented market. Rivalry is also increased through the globalization of the markets and the virtual business environment in the internet. Globalization and the internet allow new foreign entries to enter the market and put additional pressure on the products, their prices and their features.

Porter's five forces are interrelated and developments in one force have an impact on the remaining forces. Figure 1 below illustrates the interrelation and summarizes the elements discussed before.

FIGURE 1. The Five Forces of the Competitive Analysis and their interrelation

Source: 'The Five Competitive Forces That Shape Strategy' by M.E.Porter, Harvard Business Review

Porter's Five Forces Model has been discussed as well as challenged over time by other individuals or theories, which led to the extension of the model by a 6th force. The 6th force relates to the power groups or entities not mentioned in the 5 Forces Model, but impacting the competition. The 6th force is different from industry to industry and from market to market, but the most frequently mentioned are complementors and the government. According to Hill et al (2008, p.54), Andrew Grove, a former CEO of Intel, argued that the model does not take into consideration the power of complementors. A complemetor is a '…product or service which tend to increase sales in another industry.' (Carpenter et al. 2007, p.104) Complementary products are e.g. Intel microprocessors in e.g. HP laptops. The faster and more reliable the complementary product, the Intel microprocessor, the more value add is created for the customer and the more the customer is probably willing to pay for the HP laptop with the 'Intel inside' mark. Successful strategic alliances like these can enhance product attractiveness, create additional demand and increase profit for both parties. (Hill et al, 2008, p.54) The government is seen as a force being able to impact not only the competition directly but also indirectly by impacting on all five forces. Environmental regulations e.g. can be considered as a governmental 6th force. (Rugman and Verbeke 2005, p.380) Furthermore groups and entities like the public, the shareholders and the employees are have the power to influence the competition and referred to as 6th force. (Papers for you.2002-2010)

A profound and comprehensively conducted competitive analysis identifies key aspects of each competitive force impacting the company, evaluates how strong and important each aspect is to the company and supports the decision whether the collective strength of the aspects is worth staying in entering or even leaving the industry. (David 2009, p.106) The above mentioned possibility of an existing 6th force needs also to be evaluated and analyzed.

Completing the competitive analysis the company has done necessary theoretical ground work to establish its strategy on and needs to define now the detailed industry approach. In their focus is now how to gain substantial competitive advantage over its competition and sustain profitability. To position the company the most profitable within an industry and market the company uses the strategic positioning model based on Porter's generic strategies. The next chapter introduces to the model and will be referred to in the company analysis section.

2.1.1 Porter's Generic Strategies

Porter introduced this model in 1980 with the publication of his book 'Competitive Strategy'. The purpose of the strategic positioning model and its generic strategies is to establish, sustain and grow a company's competitive advantage over its competition. Together with the competitive analysis model, the market positioning and competitive advantage model and the value chain model Porter provides a comprehensive strategic approach for a company to sustain and maximize its profitability.

The concept of competitive advantage was introduced by Porter in 1985 and describes competitive advantage as an attribute that '…grows fundamentally from the value a firm is able to create ... Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset higher prices.'(Porter, 1985, p.3)

Competitive advantage describes therefore the situation when a company is able to deliver the same benefits as its competitors but at a lower cost or to deliver benefits that exceed those of competing products (QuickMBA 1999-2010) as well as the company's ability to create value in a way that its competitors cannot (Carpenter and Saunders, 2007, p.19). In his work, Porter (Competitive Advantage, 1985) argues that from a strategic perspective, a company's strengths to create this value are either in the category cost advantage or differentiation. Both strengths can be applied strategically in a broad or narrow scope, creating three generic strategies: cost leadership, differentiation and focus. These strategies are independent from a company, market or industry and therefore generic. Using the generic strategies a company can prepare the framework for its strategy implementation on the level of its strategic business units.

The Strategic Positioning Model (Carpenter and Saunders, 2007, p.127) visualizes the merging of the categories and scope into the following two-by-two matrix shown in Figure 2:

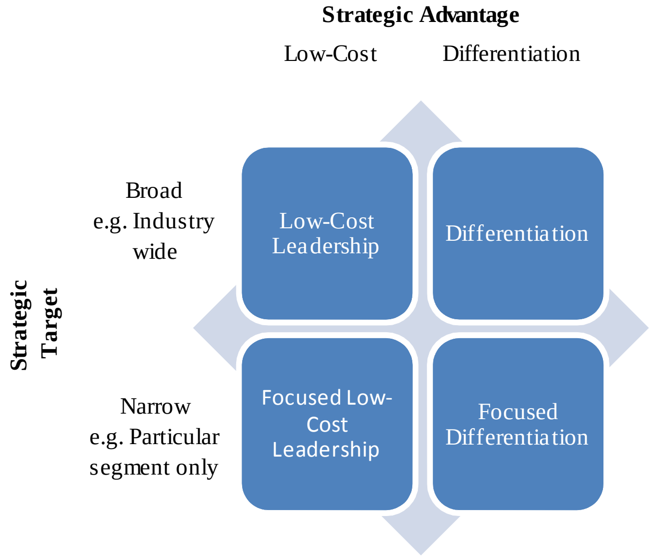

FIGURE 2. The Strategic Positioning Model

Source: Carpenter and Sanders (2007), p.127

The cost leadership strategy uses the lower production unit price as strategic key element to gain bigger market share or higher profits as the competition and probably driving some competitors out of the market. (Carpenter and Sanders 2007, p.128) The cost leadership strategy's key competitive advantage is the lower price in comparison or the lowest price in the entire market and therefore appealing to cost-conscious or price-sensitive industries and consumers. In reference to the competitive analysis in these markets the buyers have significant power to bargain prices, it is easy for them to switch between manufacturers and the products are very alike. The products serve basic needs and consumers all use them in a similar way, like e.g. a tooth brush and the market size is large. To achieve and sustain the cost leadership companies pursue strategies to cut down costs to a minimum through e.g. spreading fixed cost over a large product volume to benefit from the economies of scale. Furthermore production costs are cut down producing more and more standardized products and the outsourcing of e.g. overhead activities. In addition to the companies peruse a maximum integration of their value chain to sustain low costs. Companies pursuing cost leadership have to be a step ahead of their competition to sustain the profitable cost gap and not only predict changes in customer behavior or substitute products, but also the impact of technology breakthroughs and value chain developments to their business and keep pricing aggressive but not cutting down their own profit. Examples for a cost leadership strategy are food discounter Lidl or clothing retailer H&M.

Pricing is not the strategic key element for a company pursuing the differentiation strategy. Their aim is to gain market share and higher profits though a unique attribute or feature related to their product and/or company. Carpenter and Sanders (2007) argue that '…if its [the company's] customers are willing to pay for this uniqueness, the firm has a competitive advantage based on differentiation.'(p.128) Differentiated products can be either sold at industry average prices and will grow the company's market share or can be sold at higher prices to increase the revenue. Both scenarios are possible due to the products unique attribute, that differentiates it from its competition and customers are willing to pay for. The consumers within this large market are less price sensitive, more value add orientated and a successful differentiation strategy builds customer loyalty with customers reluctant to switch products. The markets for differentiation strategies are markets with lower buyer power, since the differentiation makes it hard to switch to alternatives and their customer loyalty creates barriers for substitute products. It can also be a market in which product features change at a rapid pace due to technological change. Differentiation can be achieved at any stage and activity of the value chain from various product features, rapid product upgrade, product compatibility, comprehensive customer service, less maintenance, higher durability, ease of use, engineering design, marketing, packaging, perceived value, status and image etc. . However the key to a successful competitive advantage based on differentiation is a) that the product exceeds the customer's expectations and delivers extra value to justify the higher price and b) that the attribute is hard, expensive and resource consuming to copy (David 2009 ,p.195). To sustain the differentiation advantage the product's unique attribute has to be very hard, very complex or very expensive to duplicate or the pace of change in attributes has to be too fast for competition to get ahead. Attributes like mandatory certified product standardization protect from the development of quick manufactured competitive products or a superior brand, where perceived value may be more important than the actual value to the customer.

Good examples for a successful differentiation strategy based on a strong brand are Apples I-Pod, I-Phone and I-Pad. Reference The car manufacturer Renault had a temporary competitive advantage on differentiation when the Renault Laguna was the first car to achieve 5 stars in the NCAP crash test in 2001. The advantage lasted as long no other car in the market reached the same result. A successful differentiation strategy is based on the closeness of the product and company to its customers and feasibility studies to determine the desired attributes.

The strategy of focus can be combined with the cost leadership or differentiation strategy and applies both strategies core ideas to a narrow market segment. Focused cost leadership describes the ability of a company to offer a product to a niche group of customers or niche market at the lowest price in the market. For example Ryan Air is focusing on extremely cost sensitive commercial travelers by offering flights at the lowest prices in the niche market. Focused differentiation describes unique products offered to a niche market and target group. In this case the products get extremely rare, unique, custom-made or specialized, that their position is in a high end niche market. Luxury products or technically very sophisticated products are positioned under the use of this strategy, e.g. luxury cars like Maserati or Austin Martin.

The four strategies, cost leadership, differentiation, focused cost leadership and focused differentiation, are commonly used in today's strategic management and have been adapted to the changes since their introduction in the 1980's. According to David (2009, p.193), e.g. it is possible to differentiate the generic strategies not only into four but into five detailed types of strategic positions. David takes the two-to-two matrix discussed above and diversifies the strategies cost leadership and focus into two sub strategies using the focal points low cost and best value. The two-to-three matrix shown below in Figure 3 describes 5 types of generic positioning strategies.

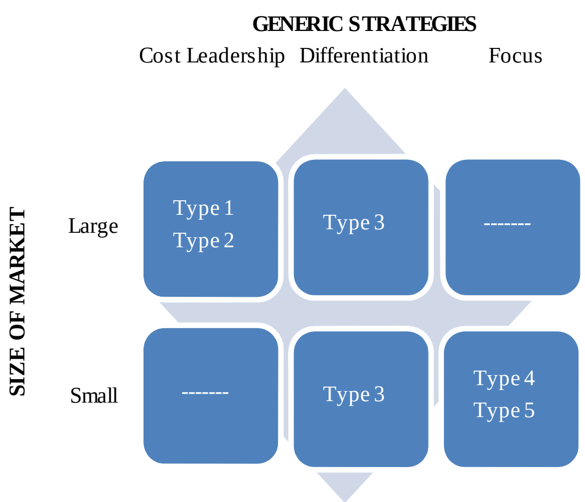

FIGURE 3. Porter's Five Generic Strategies according to David

Source: David (2009), p.193

The core activity for cost leadership in this matrix is identical to the one discussed before. The company aims to cut down production cost to a minimum and sell to cost conscious or price sensitive buyers. Type 1 describes cost leadership under the key requirement low cost. Under the requirement low cost the company aims to sell its products or services at the lowest price in the market to a large group of buyers. These products require streamlined product features, large sales volumes in other terms mass production and economy of scale conditions to achieve profitability. In a Type 1 shaped market aggressive pricing and price wars are constantly present, since the target buyers are heavily price sensitive. Type 2 describes cost leadership under the key requirement best value. In this position the company is aiming to secure the lowest price in combination with the best value. The target buyers here are cost conscious buyers, comparing all available products on the market according to the price paid and perceived value received. Product or service prices are still produced at the lowest cost but probably sold at the level of competition to benefit from a higher margin. (David 2009, p.194) Type 3 describes differentiation in the sense discussed before. The company aims at a competitive advantage through a unique product or service feature. The more complex and resources consuming the features duplication is the more sustainable the competitive advantage is. The successful implementation allows the company to charge a higher price on its product or service and benefit from customer loyalty. In large markets differentiation can be achieved through a rather streamlined product combined with enhanced product design, warranty and customer service. In smaller markets products can be more complex, probably customized and choice of material, design, personal customer service etc. lead to the desired competitive advantage. (David 2009, p.195) Type 4 describes focus under the key requirement low cost in small or niche markets. The company identifies a profitable and growing niche market and is able to sell its product or service at the lowest price within the market. The difference to the cost leadership in large markets is found in the nature of the product or service. The product or service is very buyer specific and requires the company to specialize and focus on the requirements and features. They are not available on a large scale or produced in mass production. Insurance companies for example may focus on a specific type of insurances e.g. for self-employed people or singles and have the competitive advantage over its competition through its specialization and customer focused offers at lower prices. Type 5 describes focus under the key requirement best value. The type 5 niche markets are as small and specific as the ones discussed before, but best value indicates that price is no longer a decision maker in this strategic concept. (David 2099, p.196) The value and perceived value of the product or service bought are deal makers for the buyers. Buyers have very specific and individual requirements to be met and are willing to pay the higher or high price charged. Products and services are in many sophisticated and unique and probably the purchase will only be done once like e.g. engagement rings.

David's diversification of the generic strategies into 5 does not discuss focus strategies within a large market or cost leadership strategies within small markets. Cost leadership in the setting of lowest mass production cost and large economy of scale are not achievable in a small niche market with more specific requirements. Vice versa differentiated products cannot be sold in a large market demanding streamlined commodities at a low price level.

Both publisher also discuss integrated positions, which Carpenter and Sanders describe as 'Strategic positions in which elements of one position support strong standing in another'. (Carpenter and Sanders. 2007. p.130) They argue an either cost leadership or differentiation position is no longer profitable for many companies since requirements from the buyer side are getting more complex. Buyers are no longer purchasing based on the lowest price available on the market but on a combination of price, design, quality and convenience. To combine the strategies successfully Porter argues to apply the strategies to different independent business units or product lines to avoid to get stuck in the middle and give away its competitive advantage. IKEA is a successful example of a low-cost leader, who differentiates with a high level of quality in its different product lines. Toyota has been a low-cost leader with high level quality differentiation until recent events damaged their achievement significantly.

2.1.2 Generic Strategies and Competitive Analysis

Both models, the competitive analysis and the generic strategies can be merged into a matrix like the one below in Figure 4 illustrating the possible options, advantages and consequences for each strategic position a company might choose in general terms and is used in this chapter to briefly summarize the above discussed aspects.

GENERIC STRATEGIES

INDUSTRY FORCE

	Cost Leadership	Differentiation	Focus
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

FIGURE 4. Generic Strategies and Industry Forces

Source: Quick MBA (1999-2010)

Since their introduction in the 1980's Porter's strategic models have been challenged and complemented by other points of view on strategic management and the most popular ones are introduced in the section 2.1.5 below.

2.1.3 The Value Chain Concept

The concept of Value Chain was first developed by Porter in 1985. Porter's value chain model (Figure 5) clams to identify the sequence of key generic activities that business perform in order to generate value for customers. According to Hollensen (2007), the value chain displays and categorizes the firm's activities providing value for the customers and profit for the company. At each stage of the value chain, there is an opportunity for a firm to compete with their competitors in order to gain competitive advantage by performing activities more efficiently (lower cost), or performing activities in a unique way that creates greater buyer value and commands a premium price (differentiation) (Porter, M, 1990).

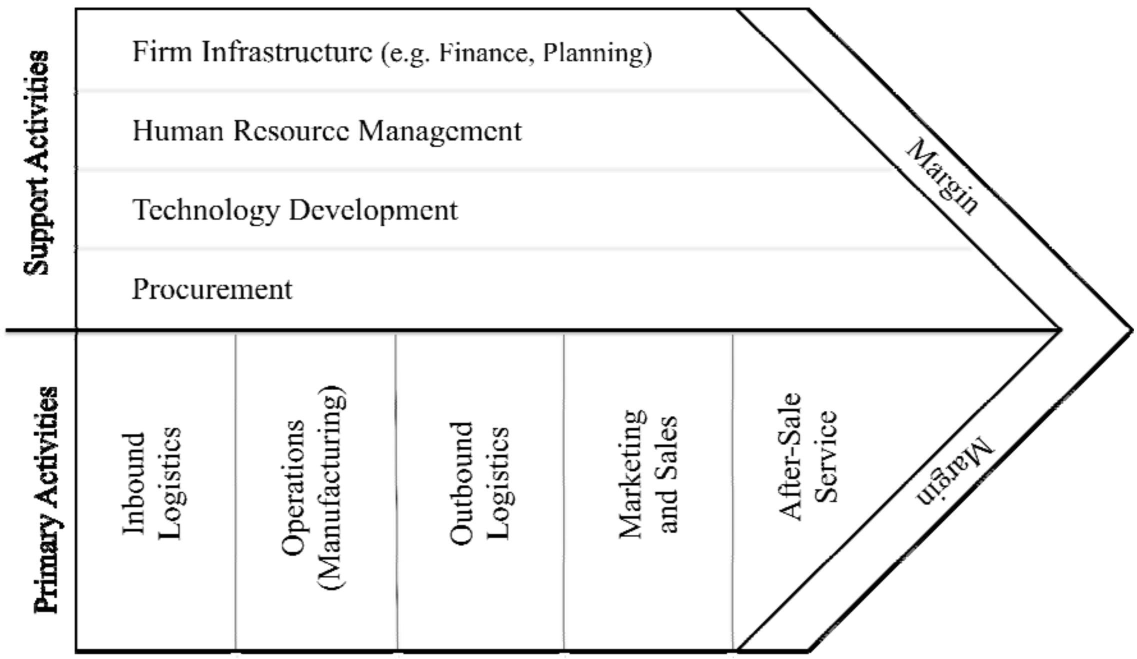

FIGURE 5. Porter's Value Chain

Source: Porter, M. (1990), p.41

A cost advantage can be created either by reducing the cost of individual value chain activities, by reconfiguring the value chain (structural changes such as a new production process, new distribution channels, or a different sales approach), or by controlling the cost drivers better than the competitors do. Successful cost leaders are often low-cost product developers, low-cost marketers, and low-cost service providers (Porter, 1990). A differentiation advantage can be achieved either by changing individual value chain activities to increase uniqueness in the final product or by reconfiguring the value chain such as forward or backward integration.

A value chain is an interdependent system or network of activities. One value chain activity often affects the cost or performance of other ones (Porter, M, 1990). "Linkages" may exist between activities, which often create trade-offs in performing different activities that must be optimized. For example, a more costly product design and more expensive components can reduce after-sale service costs. In order to achieve competitive advantage, a firm must resolve such trade-off in accordance with its strategy.

Linkages also require coordination between activities. Coordinated activities reduce transaction costs, allow better information for control purposes, substitute less costly operations in one activity for more costly one elsewhere, and reduce the combined time required to perform them, thus, increasingly important to competitive advantage. (Porter, M, 1990) For a firm to be succeeded in value chain management, Walters, D & Lancaster, G (2000) stated that it requires an identification of customer value criteria and an understanding of the key success factors. These are necessary for creating both competitive advantage and resultant success.

Porter's Competitive Analysis, Generic Strategies and Value Chain concept represent important strategic tools to analyze the meso- and microenvironment a business or company is operating in and since their introduction in the 1980's the models have not been replaced, but integrated into the strategic management process and used in combination with a wide range of complementary concepts and tools. Some of the already mentioned concepts and tools will be introduced briefly in the next chapter to provide a more comprehensive overview.

2.1.4 Complementary Strategic Management Tools

Returning briefly to the strategic process discussed in Chapter 2.1 the process was described as the process of strategy formulation, strategy implementation and strategy evaluation or a bit more detailed according to Grundy (Grundy 2003, p.9) as the sequences of External Analysis, Competitive Positioning, Strategic Options, Implementation and Learning and Control. Prior to the Competitive Analysis a company is assessing the business environment performing a PESTEL and SWOT analysis. PESTEL is the abbreviation of the dimensions Political, Economic, Sociocultural, Technological, Environmental as well as Legal and the analysis concentrates on the macro environment conditions a company has to deal with.(Carpenter et al. 2007, pp.91) With the macroenvironment analyzed the company will use Porter’s Five Forces to analyze the industry structure and complement both with a SWOT analysis. SWOT is the abbreviation of the dimensions Strengths, Weaknesses, Opportunities and Threats. The SWOT analysis merges the findings of the PESTEL and Five Forces into external opportunities and threats to relate them against the assessed internal strengths and weaknesses. (Boddy 2008, p.190). The strategic process is then continued using the value chain analysis and the generic strategies proceeding to the microenvironment and finally implementing the strategy.

W. Chan Kim and Renée Mauborgne argue that strategic processes according to Porter’s model aim at outperforming the competition within the boundaries of an existing market to sustain the greater market share and compete for the fewer profits available. These markets are so called Red Oceans. (Kim and Mauborgne, 2004). Blue Oceans on the other hand are unknown markets, created in two ways. Either a company creates a new type of business and product, like eBay did offering auctions online as b-to-c and c-to-c business opportunity or a company manages to create a Blue Ocean by pushing and breaking open the given boundaries of a Red Ocean, like Blue Nile has done taking diamond retailing completely online.

Burke et al. (2010) argue in their research that ‘…businesses may want to consider a blend of the two approaches. For instance, by slowing down profit erosion with an effective competitive strategy for an existing market, they can increase the funds available for blue-ocean investments and thus their chances of finding an untapped market with plenty of consumers.’ (p.28)

2.2 Growth Strategies

Firm growth is related to economic expansion due to processes taking place within the firm (Penrose, E.T, 1959). The more firms grow the more resources they can access, thus firm growth is considered as a path dependent process (Akpinar, 2009). The resource-based view considers a firm's own set of resources and capabilities as the driver of growth and states that a firm predicts the growth strategies based on its resources and competencies (Otto & Low 1998).

A firm's strategy is at its best continuously reviewed to be able to act, react and adapt to the movements in a company's business environment and sustain its competitive advantage. When a firm seeks to grow, it is also a strategic question whether to diversify or internationalize to sustain its business operations. The following chapters introduce both concepts.

2.2.1 Diversification

Ignor Ansoff created a matrix (Figure 6) that identified directions for strategic development (Ansoff, 1988). The matrix presents four different strategies that focused on the firm's present and potential products and markets by considering whether the strategy direction is in new/existing markets with new/existing products (Ansoff 1999-2010). Diversification is created as one of four broad strategic opens in the model. Apart from diversification, the others are:

1. Market penetration: the firm seeks growth by increasing the market share of the present product-markets. This is the least risky strategy for expansion.
2. Market development: the firm aims to increase profit by selling its existing products to new market segments.
3. Product development: the firm develops new products to its existing customers. This strategy may be appropriate if the firm's strengths are related to its specific customers.

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

FIGURE 6. Ansoff Matrix

Source: ©Ansoff Matrix 1999-2010

The remaining strategic option is diversification, a form of growth strategy. The main purpose of diversification is to allow the firm to grow by diversifying into new businesses by developing new products for new markets (Graham Walton, 2007; Ansoff, 1999-2010). Diversification is considered as the most risky since it requires both product and market development and they may be outside the firm's core competencies.

A firm may diversify if current product lines do not much growth potential, or if current operations are not profitable. There are two basic diversification strategies, concentric/related and conglomerate/unrelated (Hunger and Wheelen, 2009, 2003, 2001). Related diversification occurs when a firm enters into strategic business area (SBAs) by adding products or services, which are related to the existing core SBA. The goal of related diversification is to achieve strategic fit, which allows a firm to achieve synergy. Synergy is the ability of two or more businesses will generate more profits together than they could separately. Hunger and Wheelen (2009) has stated that, this strategy may be appropriate if a firm has a strong competitive position but current industry attractiveness is low. Related diversification can be classified by the direction of diversification, vertical integration (backward and forward) and horizontal integration.

- Backward integration refers to the firm diversifies closer to the sources of raw materials in the stages of production. It allows a firm to control over the quality of the supplies being purchased (Thomas, 2010).

- Forward integration occurs when a firm moves closer to the consumer in terms of production stages. It allows a firm more control over how its products are sold and serviced (Thomas, 2010).
- Horizontal integration occurs when a firm moves into businesses that are related to its existing activities (Lynch, 2003; Macmillan et al, 2000).

Unrelated diversification occurs when a firm enters into new SBAs which are not related to the existing core SBA, either through technology or market needs (Ansoff, 1987, p 123). Synergy may result through the application of management expertise or financial resources, but the main objective is to acquire valuable assets that will increase profitability (Thomas, 2010; Walton, 2007). It is crucial to note that if unrelated diversified businesses seem to grow faster, the track record of diversification remains poor as in many cases especially if management team lacks experience or skill in the new line of business (Porter, 1987). A firm may unable to accurately evaluate the industry's potential, and problems will eventually occur even the new business is initially successful.

Additionally, diversification may be accomplished by internal or external.

- Internal diversification occurs when a firm enters into a new business, which is related to its core SBA by developing the new line of business itself. This frequently involves expanding a firm's product or market base. A firm may find new users for its current product, market new products in existing market, or expand its geographic base to include new customers within its home country or in international markets (Thomas, 2010).

- External diversification occurs when a firm enters into a new business by purchasing another company or business unit, which commonly in the forms of mergers and acquisitions (Thomas, 2010).

2.2.2 Internationalization

Internationalization occurs when a firm expands its business activities such as R&D, production, selling into international markets (Hollensen, 2007). Firms that operate in global industries must complete on worldwide basis if they are to succeed. This is because their strategic positions in specific markets are affected strongly by their overall global positions (Kotler et al., 2005). The fundamental reasons for firms to go international can be seen in proactive and reactive motives. Proactive motive represent stimuli to attempt strategy changes, which based on the firm's interesting in exploiting unique competences and/or market possibilities. Such strategy changes (Hollensen, 2007; Deresky, 2005, p. 223-225) are:

- to fulfill a firm's growth and profit ambitions,
- the desire, drive and enthusiasm of management towards internationalization,
- a firm produce products or services that are unique or technologically advance in a specialized field,
- foreign market opportunities or market information which distinguish a firm from its competitors,
- resource access and cost savings enhance a firm to control over raw materials/other resources and lower transportation,
- economic of scale, and
- tax benefits which may also play a major motivating role. It may allow a firm to sell its products at a lower cost in foreign markets or to accumulate a higher profit.

Reactive motives indicate that the firm reacts to pressures or threats in its home market or in foreign market and adjusts passively to them. Such pressures or threats are (Hollensen, 2007; Deresky, 2005, p. 223-225):

- global competitive pressures, one of the most common reason that prompt a firm to internationalize,
- domestic market is small and saturated,
- restrictive trade barriers, which a firm often switch from exporting to overseas manufacturing,
- overproduction/ excess capacity,
- unsolicited foreign orders,
- extend sales of seasonal products, and
- proximity to international customers/ psychological distances.

Once a firm had decided to internationalize, it may focus on different ways to enter a foreign market often varying by targeted country. Management needs to consider their entry strategies as each strategy involves more commitment and risk, but also more control and potential profits (Kotler et al., 2005; Deresky, 2005). The followings examine the various entry and ownership strategies available to firms, including exporting, licensing, franchising, contract manufacturing, turnkey operations, management contracts, joint ventures, and wholly-owned subsidiaries set by the firm.

Exporting: is the simplest way and is a relatively low risk way to begin international expansion (Kotler et al., 2005; Deresky, 2005). Exporting needs little investment, easy to access to the market and exit from the market. Disadvantages include buy-local policies and currency fluctuations. Small firms seldom go beyond exporting stage due to its lack of capital resources and marketing clout. Therefore, exporting is the primary entry strategy used by small business to compete on an international level. But large firms use this avenue for many of their products.

Licensing: is a simplest way for a manufacturer to enter international market (Kotler et al., 2005). According to Deresky (2005, p.238), "licensing is suitable for the mature phase of a product's life cycle, when competition is intense, margins decline, and production is relatively standardized." The advantages of licensing are to avoid the tariffs and quotas usually imposed on exports, and no asset ownership risk. The most common disadvantage is the licensor's lack of control over the licensee's activities and performance.

Franchising: the franchisor licenses its trademark, products and services, and operating principles to the franchisee for an initial fee and ongoing royalties (Deresky, 2005). Franchising involves relatively little risk and little investment in capital or human resources, and is fast access to international market. Hence, franchising can be an ideal strategy for small businesses.

Contract Manufacturing: the firm contracts with manufacturers in the foreign country to produce its product or provide its service (Kotler et al., al 2005). This entry strategy is a common means of using cheaper oversea labor, quick entry into a country with a low capital investment, and none of the problems of local ownership. A firm may have a later opportunity either to form a partnership with or buy out the local manufacturer.

Disadvantages include lack of control over the manufacturing process and loss of potential profits on manufacturing (Kotler et al., 2005; Deresky, 2005).

Turnkey Operations: a firm designs and constructs a facility abroad, trains local personnel, and turns the key over to local management for a fee (Deresky, 2005). The firm's success depends on the availability of local supplies and labor, reliable infrastructure, and an acceptable means of repatriating profits.

Management Contracts: a firm supplies management know-how to a foreign firm that supplies the capital (Kotler et al., 2005). In another word, a firm exports management services rather than products. But the foreign firm has no rights to make decisions regarding ownership, financing, or strategic and policy changes. This is a relatively low risk entry strategy, but it is likely to be short term, and it prevents the firm from setting up its own operations for a period of time.

International Joint Ventures: is a much higher level of investment and risk. It involves an agreement by two or more firms to produce product or service together (Deresky, 2005). This strategy facilitates a firm's rapid entry into new markets by means of an already established partner who has local contracts and familiarity with local operations. International joint ventures are a common strategy for corporate growth around the world. A firm also can overcome trade barriers and achieve significant economies of scale for development of a strong competitive position, secure access to additional raw materials, acquire managerial and technological skills, and spread the risk associated with operating in a foreign environment. The drawback of this strategy is the disagreement over investment, marketing or other policies between partners.

Wholly-Owned Subsidiaries: a multinational company wishes total control of its operations may acquire an existing firm in the host country or start its own product or service business from scratch in countries, where a wholly-owned subsidiary is permitted (Deresky, 2005). Acquisition allows a firm's rapid entry into market with established products and distribution networks. However, it involves the greater level of risk and larger capital investments compared with other entry strategies. The highest level of risk is the strategy of establishing a new wholly-owned foreign manufacturing, or service company or subsidiary in the host country. The advantages of this entry strategy are a firm has full control over decision making and efficiency, as well as the ability to integrate operations with overall companywide strategy.

2.2.3 Diversification vs. Internationalization

Diversification and internationalization are the two major types of growth vectors. Additionally, they are the alternatives for a firm changing the strategic portfolio. A firm's strategic portfolio change occurs whenever a firm changes the market it serves, and/or the technology it uses, and /or geographic locations in which it does business (Ansoff, 1987, p. 117). A portfolio change can be referred as "Incremental" and "Discontinuous". Incremental is a change whenever it is a logical and relatively small departure from the past portfolio such as a firm expands its market to a region within a new country, or improves its historical technology. Discontinuous change occurs whenever a change does not directly follow historical logic of the firm's development. It is a significant departure from the historical growth vector.

Ansoff (1987, p. 122-123) states that, "Diversification involves departure from familiar business areas, while remaining in the geographical environments in which the firm has previously been successful." Such departures are

- Needs-related: represents acquisition of a technology new to a firm to enable it to continue serving its historical markets.
- Technology-related: to apply the historical technology of the firm to new needs through acquisition and internal development.
- Unrelated conglomerate: a firm moves into businesses which are not related to the firm's present business, either through technology or market needs.

There are several reasons for diversification. A firm may diversify if their objectives can no longer be met within the scope of the present portfolio, if the retained cash exceeds the total expansion of the present portfolio's needs, and if the diversification opportunities promise greater profitability than expansion opportunities (Ansoff, 1987, p. 126).

Internationalization is the highest synergy move in which a firm offers its traditional products or services abroad (Ansoff, 1987, p.125). With a firm's competitive advantage, it may broad geographic scope by delivering superior products (Geringer et al., 1989; Akpinar, 2009). Additionally, a firm can exploit economies of scale and network externalities. Selling one's product in a foreign country can be a very discontinuous strategic move because of the economic-political-cultural differences (Ansoff, 1987). The customers are not the same. Their tastes, preferences, buying habits and spending budgets are likely to be very different from the domestic customers. Therefore, a firm must keep in mind that internationalization is at least a two-step discontinuity from its present business.

Diversification and internationalization are alternative routes for expanding a firm's portfolio in terms of growth. Internationalization involves much more drastic departures from the firm's experience and competence than similar international diversification alternatives (Ansoff, 1987, p. 126). As a result, internationalization is much more difficult, risky and costly than diversification. Ansoff (1987, p. 126) suggests that the firm should give preference to diversification over internationalization except the firm's objectives cannot be met through diversification.

2.3 Tools used for analysis

The prior discussed models are all part of strategic processes and find application in all different kind of industries. However, for the cross-case-analysis in Chapter 3.4 the paper is concentrating on Porter's Generic Strategies as well as the growth strategies, internationalization and diversification. Applying these three main models to the case companies, a common base for comparison will be achieved and prepare the ground for the analysis of the findings.

Whenever necessary other models will be briefly referred to, to create a comprehensive point of view.

3 MULTIPLE CASE STUDY

3.1 Jewelry Retail Industry

The jewelry retail market includes gold, silver and other precious jewelry such as diamonds, platinum, precious stones (rubies, sapphires, and emeralds), pearls, semi-precious stones (opal, topaz, amethyst, quartz etc.), and watches. Costume jewelry is excluded.

As mentioned earlier in chapter 1.1, the global jewelry retail market reached 3.7 % of compound annual growth rate (CAGR) with total revenue of $181,454.8 million in 2009. The USA accounts for 34.8 % of market value, the European and Asia-Pacific account for 20.3 % and 44.9 % respectively. Growth is expected to accelerate over the next 5 years to moderate growth (Datamonitor, 2010). The US market is expected to reach to value of $61,306.6 million (CAGR 1.6 %), the European market $38,117.4 million (CAGR 0.7 %), and Asia-Pacific market $121,842.1million (CAGR 8.4 %) by the end of 2014.

The characteristic of jewelry retail market is a trend towards consolidation with large international players accumulating more and more market share. Market players in this industry include a variety of retailers ranging from small specialty retailers to large international retailers. The large retailers benefit from economies of scale and have the ability to compete on price more intensely. However, small retailers also can be successful by specializing in particular product ranges.

The jewelry retailers include some large department stores, supermarkets, hypermarkets and smaller specialty stores. There are a lot of potential buyers/ customers in the jewelry retail market as well as retailers. Therefore, brand loyalty is important in this market. The brand identity is a major factor in determining the price of a product. Most buyers are willing to pay more for brand name jewelry. The retailers also can differentiate their product by offering products made of varying metals and stones, working with well-known designers or launching exclusive branded merchandise. Jewelries may be produced in-house or purchased finished ones from manufacturers. Retailers/ companies may purchase gemstones and precious metals used in making jewelry from several sources. Purchases are often from suppliers, which retailers have long-standing relationships and contracts with, especially with diamond suppliers as diamonds tend to be increasingly scare and more difficult to acquire (Datamonitor, 2010). The world's biggest diamond supplier is De Beers. De Beers is still one of the leading suppliers in the industry, even though the company does not have as big market share as it used to be (Diamond Trading Company, 2009).

When companies want to enter into jewelry retail industry, they may start by establishing a brand new company or by diversifying an existing company into jewelry. New companies are possible to start with a small scale specializing in a particular sector of the market or purchase finished jewelries from manufacturers. They may need to invest in marketing in order to develop a brand image as brand loyalty is important in this industry. However, it is considered hard to enter into this industry as online diamond retailer, even though the Internet has changed how the business is operated. A company needs to have trustable suppliers and distributors. (Datamonitor 2010; Isaksaetre et al., 2009)

It was pointed out in Chapter 1.1 that the jewelry retail industry is highly competitive and fragmented. There are many companies, including small and large, exist in the industry, but there is no real market leader. This leads to increasing the overall competition within industry. The characteristic of retail markets are varied dependent on country. But generally the trend is towards consolidation despite a huge number of small retailers. Large and international retailers accumulate more and more market share, e.g. Wal-Mart. Large retailers usually benefit from economies of scale as they have the ability to negotiate better deals with suppliers and compete on price. For the retailers in the industry to stay in business, they need to be innovative, look for a new ways to attract new customers and keep old ones coming back. Additionally, customer service, product differentiation and value creating are also important factors. The value chain of jewelry retail industry will be discussed in next chapter.

3.2 Jewelry Retail Industry Value Chain

Figure 7 below is the value chain diagram for jewelry retail industry. This diagram is based on research materials on the industry.

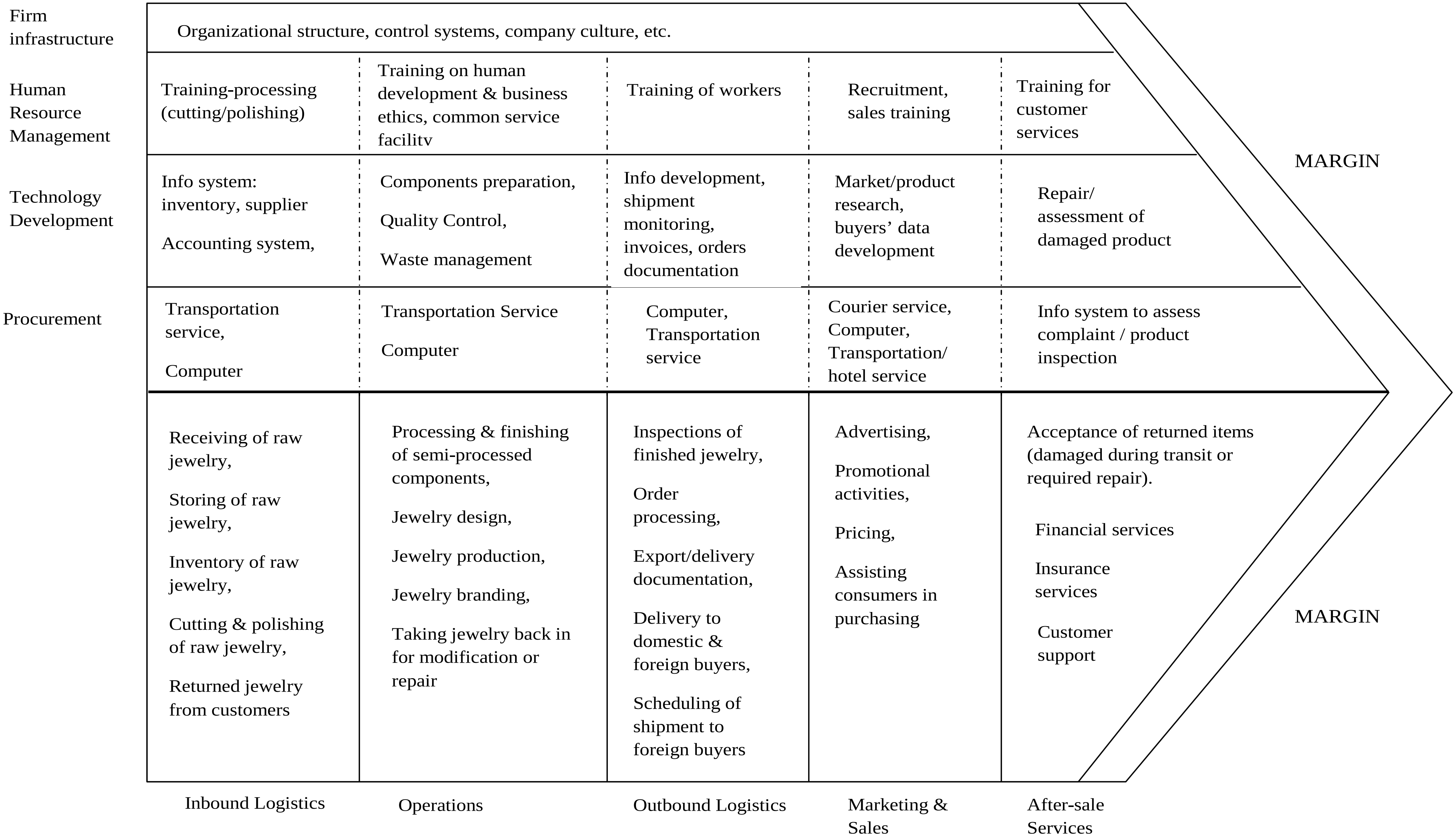

FIGURE 7. Jewelry Retail Industry Value Chain

Source: Adapted from Porter's Value Chain

Inbound and Outbound Logistics

Inbound logistics activities includes receiving raw jewelries/materials from suppliers, storing these raw jewelries, and cutting and polishing some or all of these raw jewelries before these materials are developed into finished jewelries within company. Inbound logistics also includes jewelries sent for exchange or return from the customer. Outbound logistics includes activities concerning inspection of finished jewelries before sending to customers, order processing, documentation handling, and scheduling/ delivering of shipment to foreign customer/ the company’s final customer.

Not all companies handle their inbound and outbound logistics, for example, the Blue Nile Inc. Most of the inbound and outbound logistics operations are outsourced to independent companies which are specialized in logistics. Depending on the total value of the shipments, different logistics providers, such as UPS, DHL, and FedEx, will be used.

Operations

Operations activities are related to the production of the jewelries. The production starts with design concept as different customers are looking for different products. In order to differentiate the products from the competitors, the jewelry retailers create their own designs through customization or markets. For the uniqueness/differentiation purpose, the company then brands the new design jewelry. For example, Tiffany legacy- patented cushion-cut diamond ring.

Many companies are investing or expanding their business by not only selling jewelry, but also taking jewelry back in for modification or repair. By doing so, they can provide excellent service and create long-term relationships with customers.

Marketing and Sales

Marketing and sales activities are important for all jewelry retailers. Advertising tools such as websites, catalogs, and TV commercials are often used mediums to attract customers. Direct mail and e-mail are mostly used for existing customers. Companies create value to customers by assisting them in all aspects of a purchase. They create informational guidance; provide call centers and online guide. Customers who do not know about type of jewelries or products will find it helpful and educating.

After-sale Services

Companies offer many services to customers after purchasing such as acceptance of returned items which damaged during transit or required repair. There is a proper service provided whether it is a cheap ring or an expensive necklace. For example, Tiffany's and Blue Nile provide information on how to maintain the value of the jewelry from how to clean it to how to store it which can be found online. Most companies offer financial service to customers when it comes to purchasing an expensive jewelry. This service allows customer to make the purchase of an expensive item without having the money in full. There is also insurance service provided for the jewelry being purchased which extremely expensive. If the insured item is broken or stolen, the customer can have it replaced. And finally, companies also offer phone lines support and online support that customers can question about their jewelry.

Firm Infrastructure

The firm infrastructure is the organizational structure, control systems and company culture (Netmba.com). In order to stay in business, a lot of corporate or strategic planning and measuring have to be done continually. Otherwise the company will not last very long unless this part is in place. Therefore, this can be viewed as the "back bone" of a company.

Human Resource Management

This activity involves with recruiting, hiring, training, developing, and compensating employee (Netmba.com) as employees are an expensive and vital resources for the company. Companies are investing substantial amounts of money to provide training or development training for managers and employees. If the operations, such as cutting and polishing, are doing in house, training need to be provided. Additionally, sales training and training for customer services are provided so that the employees can create long-term customer relationships and provide excellent customer service skills.

Technology Development

This activity includes technologies to support value-creating activities (Netmba.com) such as managing information processing, research and development of new practices that could add knowledge to a firm. Innovative new knowledge helps companies to reduce costs and sustain competitive advantage by improving a firm's product or increasing efficiency and effectiveness of the production and operating process within a firm. Technology development can improve the information flow of inventory between company and supplier, quality control, waste management, shipping monitoring, invoices and order documentation, market or product research, buyers' data development, repair or assessment of damaged products, and improve existing products and develop new or new techniques for creating new products.

Procurement

Procurement involves the activities in purchasing inputs such as materials/ raw jewelries needed to produce the final products, component for production, and fixed assets such as production and office equipment, and building. In the jewelry retail industry, a company may either assemble the items produced by other manufacturers, or design and produce the product itself. Some companies operate a combination of these options. Companies are also dependent on computer, other office equipment, transportation service, and buildings needed for the daily operations of its business.

3.3 Case Companies

As stated earlier in Chapter 1.3 the sample of four case companies relates to the sub category of 'Diamond and Diamond jewelry retailing' within the global jewelry retail business.

The company's business models are divers from brick-and-mortar retailing to e-business and a mixture of both. Similarly the company's historical background with a case companies having its beginnings in the 1830's and another in the 1999's. The following chapters will introduce to the four case companies in detail.

3.3.1 Tiffany & Co.

Tiffany & Co. was founded in 1837 as "Tiffany and Young". The company was originally opened a store at 259 Broadway in New York City, and was known for selling "stationery and fancy goods" including costume jewelry. Tiffany's store was unique for its time. The company offered fixed prices on items by insisting on cash payment rather than extending credit or accepting barter. When their business faced a challenge of narrow streets teeming with horses and carriages and hurly-burly of city life, the founders discovered a newly emerging “American style” that led to Tiffany design which first started in silver hollowware and flatware, and later in jewelry. This move can be regarded as unrelated diversification.

In 1841 Tiffany and Young took on another partner, J.L. Ellis, and then became known as “Tiffany, Young & Ellis”. Ellis was brought to the company because of the funds. With strong experience in the European jewelry market, Ellis became the company’s chief oversea operator after the Continent trip. In 1844, the company was importing quality jewelry from Europe adding to its already well-respected reputation. In the same year, the company discontinued its costume jewelry line. This move was driven by the customer demand for the imported gems, and the company’s reputation for offering expensive quality pieces.

1840s were the years of growth pursuing the strategy of diversification into new business. The company added silverware, timepieces, perfumes, and other luxury offerings to its product range. The company began selling its real jewelry in 1845 and also published its first mail-order catalog (the Tiffany Blue Book) in the USA. This move was intended to reach any American who received the catalog could order from Tiffany.

Young was able to go to Paris as a buyer with Ellis’ capital. When the French monarchy was overthrown in 1848, he purchased some of the crown jewels. He teamed up with P.T. Barnum to their mutual profit. Internationalization started when Tiffany opened a store in Paris in 1850. Tiffany also diversified a new line of business within the core SBA. The company began manufacturing gold jewelry assisted by the California gold strike, and hired John C. Moore, a silversmith, to craft silverware exclusive to Tiffany’s.

When partners, Young and Ellis retired in 1853, Charles Lewis Tiffany took control of the business and changes the name of the company to Tiffany & Co. (Tiffany).

During Civil War (early 1860s), Tiffany manufactured patriotic items including flags, medals, surgical implements, and swords, and allowed its store to serve as a depot for military supplies. This move was to support the Union forces during the war, and to satisfy customer demand. This move can be regarded as unrelated diversification. After the war ended in 1868, the company was incorporated, and opened a store in London.

In 1878, Tiffany purchased 287.42 carats of yellow diamond from South Africa. It was cut to 128.54 carats and named it as the Tiffany diamond, which became an exemplar of Tiffany craftsmanship. This Tiffany diamond still held by the New York store and has been valued by the company at 22 million USD. The reason of purchasing this diamond was to continue to enhance the company's reputation of quality and excellence.

In 1886, Tiffany introduced the engagement ring, namely the Tiffany® Setting. This is one of the Tiffany's innovative designs. The diamond is lift above the band with six platinum prongs, allows the ring maximizing its brilliance. The Tiffany Setting is truly unique and elegant with high price. This is pursuing differentiation strategy of Porter's Generic Business Strategies due to its uniqueness and premium price. The Tiffany Setting has played a part in the world's greatest love stories and continues to be as one of the most popular engagement styles till nowadays.

After the stock market crash in 1929, the rich cut back on luxury goods. Tiffany's sales fell 45 percent in 1930, dropped another 37 percent in 1931, and yet another 45 percent in 1932 when the excise tax for jewelry increase 10 percent. After that the company lost 1 million USD a year throughout the decade. In order to stay in business, the London store was closed in 1940.

In 1956, Walter Hoving became chairman and chief executive officer of Tiffany. He discontinued merchandises which considered to be gaudy or vulgar and not worthy of Tiffany's attention. They were rings for men, leather goods, antiques, silver plate, brass, and pewter. The company hired Jean Schlumberger to design its finest and most expensive jewelry in order to create a new standard of quality for Tiffany's products. Jean Schlumberger was hired because Tiffany could not ignore the changes taking place in the field of metal arts as it was the era of the artist-jeweler (designer-craftsman). Tiffany diversified its product by adding high-quality but lower-priced goods such as silver key rings for 3.5 $. This move was to increase sales and customer base. Tiffany's net profit rose every year, from $173,612 in 1955 to $1.7 million in 1966.

Tiffany's business growth continued in the 1970s pursuing internationalization strategy and the strategy of diversification. In 1972, Tiffany established its operation in Japan with the opening of a Tiffany boutique in the Mitsukoshi department store. This move was driven by a valuable Japanese market. In 1974, *Elsa Peretti* design in silver and gold was introduced. Her design brought a totally different look to Tiffany jewelry, and was affordable for a much larger segment of the population.

Tiffany was sold to cosmetics seller Avon products Inc., in 1979. Avon opened Tiffany stores in Dallas and Kansas City, expanded its direct mail orders, introduced Tiffany credit cards, and streamline and computerize its back-office operations. But the company's ratio of operating profits to revenue fell from 17.6 percent to 6.5 percent between 1979 and 1983. This resulted from the company mainly tried to compete with department stores in selling low-margin watches, china, and glassware. The customers had also complained about declining quality and service due to the Fifth Avenue store had stocked so many inexpensive items. Avon later sold Tiffany to an investor group led by Tiffany's and backed by Bahrain-based Investcorp in 1984.

Under Tiffany & Co. new management, the company cut costs by closing the Newark plant and its Kansas City store, cutting staff, and embarking on program to wholesales its jewelry and silverware and the line of leather products. Tiffany was listed on the New York Stock Exchange in 1987 raising about $103million by selling 4.5 million shares of common stock. Tiffany diversified into new business in the same year by introducing a fragrance that sold at $220 an ounce, wool and silk scarves, and neckties. The company's product line of handbags, evening purses, wallets, and briefcases also expanded. Internationalization also continued. A London store was reopened in 1986 which then laid a solid foundation for the expanding of European market. After that Tiffany opened stores in Munich and Zurich in 1987 and 1988 respectively. Tiffany's reputation of emphasis on luxury has restored when the company displayed in five of its stores a collection of 22 individual pieces of jewelry made in its own workshop and valued more than $10 million.

Tiffany acquired *Howard H. Sweet & Son, Inc.*, a manufacturer of gold and silver jewelry and chains in 1989, and *McTeigue & Co.*, a manufacturer of gold jewelry in 1990. Diamond cutting and polishing were being purchased from a number of sources.

In 1991, Tiffany established a watch assembly, engineering, and testing operation in Lussy-sur-Morges, Switzerland.

In 1992, after the 1990-91 recession in the US, Tiffany had launched ambitious marketing campaigns by sending out “How to Buy a Diamond” and “Pearl Authority” brochures. This move was to convince buyers of Tiffany’s quality and make it seem attainable. Tiffany continued to maintain its high-style image through books on Tiffany objects and in-store table displays. Additionally, Tiffany avoided calling itself a luxury-goods firm but “a design-led business offering quality products at competitive prices”.
During the same year in 1992, Tiffany suffered a setback when sales to Mitsukoshi fell 35 percent. Sales decline was affected by the Japanese consumers had cut back on spending due to recession. In 1993, Tiffany took direct responsibility for sales, merchandising, and marketing at Mitsukoshi’s 29 Tiffany boutiques by buying out of its Japanese partner and run them on its own. This continuing internationalization was driven by growing in demands in Japan even the country’s economy slowed. Tiffany’s net sales rose during fiscal year 1994, which international retail accounted for 41 percent. This figure was up from 32 percent two years earlier.

Tiffany’s catalog was seen as powerful sales and image tools for its stores as well as a source of profit. In 1994, it reached 15 million. Tiffany’s direct marketing effort also included business-to-business sales, which included a business gift catalog each year. Business customers purchased for gift giving, employee service and achievement recognition awards, customer incentives, and other purposes.

Internationalization continued in mid-1995. Tiffany opened many boutiques (franchising stores) in Japanese stores, and one in Taiwan. Other parties operated four Tiffany boutiques in South Korea, and one each in Philippines, Abu Dhabi, Taiwan, Hong Kong, Hawaii, and Guam. More than half of Tiffany’s operating earnings coming from Japan. Tiffany’s London store was the only profitable in its European retail outlets. In Europe, Tiffany faced high competition from established local rivals such as Bulgari and Cartier.

Tiffany grew during the late 1990s mainly pursuing diversification strategy. Diversification would protect it against recessions and increase profits. Tiffany offered fine diamond jewelry to boost profits. The company increased its store count, hoped to cash in on middle-income shoppers, offered and promoted lower-priced merchandise such as boxes of sterling-silver key rings, pendants and charm bracelets, many priced under $100. In 1999, Tiffany introduced “Tiffany’s Lucida diamond ring”. Lucida cuts are fancy shaped diamonds, and this cut is patented exclusively by Tiffany & Co. Lucida diamond ring was originally meant for wedding rings. After numerous requests of customers, Tiffany then introduced Lucida engagement rings. In the same year, Tiffany expanded its service provision with the launch of e-commerce website Tiffany.com.

Tiffany established the wholly owned subsidiary, namely Laurelton Diamonds (a rough diamond trading and manufacturing firm) in 2002. This move was mainly to create a way to secure additional supplies of diamonds and cost efficiency, pursuing backward integration diversification. The company could control its global supply chain, and ensure the integrity and high quality of its diamonds from mine to finger.

In 2003, Tiffany diversified into new business by introducing “Tiffany Legacy collection” featuring diamond engagement rings and wedding rings. This move was driven by the changing consumer attitudes towards luxury consumption and luxury brands. These customer attitudes are aligned with the basic attributes of the Tiffany & Co. brand- timeless style, lasting value, enduring trust and emotional resonance. During the same year, the company established a new retail subsidiary, namely Iridesse focusing on pearls.

Internationalization and diversification continued in 2004. Tiffany opened ten stores and boutiques – four in the USA, three in Japan, one in Taipei, one in Shanghai, and one in London. The company also launched several jewelry lines including Atlas, Voile, and Rose. This move was in response to the company suffered from brand erosion and weakness in silver jewelry. In the same year, Tiffany invested in a joint venture with “Rand Precision Cut Diamonds” for a cutting and polishing in Johannesburg, South Africa. This move was triggered by the company began eyeing Africa as a place to base manufacturing, as the issues surrounding diamond beneficiation become more important.

Tiffany launched its e-commerce website in Canada and Japan in 2005 in order to sell online to customers, and an information-only website (www.tiffany.cn) in China in 2006. This is also a diversification move to provide comprehensive and convenient access to information relating to the company, and to satisfy the existing and potential customers by providing them important information related to Tiffany’s products. This reflects the company’s highest level of quality and customer service.

In the same year 2006, Tiffany entered into the eyewear market by signing a ten year eyewear license agreement with Luxottica Group (the global leader in eyewear) for the design, manufacturing and worldwide distribution of ophthalmic and sun collection under the TIFFANY & CO. brand name. This move was driven by the management with believes in Tiffany’s luxury brand that will generate exciting designs, high style and luxury accessory for customers.

Between January and July 2007, Tiffany expanded its business by opening new stores at various locations such as Las Vegas, Singapore, Korea, Japan, Mexico City, New Jersey, Belgium, Macau, Hong Kong and Kuala Lumpur. In December 2007, Tiffany and The Swatch Group entered into a strategic alliance to further the development, production and worldwide distribution of Tiffany & Co. brand watches.

In March 2008, Tiffany opened a store in Chengdu, China. A store is located in Manison Mode, a luxury retail center, the city’s most fashionable shopping area. This move was to introduce the residents and visitors to make shopping at Tiffany with a unique experience. Chengdu is a growing center of business, culture and tourism. The city’s high level of sophistication and the prominent location in the elegant Maison Mode provides the ideal environment for Tiffany & Co. store.

In 2009, Tiffany diversified into new business by launching a new jewelry line called “Tiffany Key Collection”. Tiffany Key Collection is inspired by real keys from the Tiffany & Co. Archives, and influenced by important Tiffany key-shaped jewelry and artifacts, including brooches, charms and gift to royalty and heads-of-state. During in the same year, Tiffany opened 14 new stores, including five in the Americas, six in Asia-Pacific and three in Europe. At the end of the year, Tiffany & Co. operated 220 stores spanning 22 countries.

In response to customer demand, Tiffany diversified into a new business by introducing an iPhone and iPod Touch application that lets shoppers browse engagement rings and size in June 2010. The application is known as the “Engagement Ring Finder”.

Consumers can use the app’s “ring sizer” to check their ring size. The app’s also allows the consumers to view diamonds of different carat sizes.

E-commerce has proven to be very successful and an efficient complement to Tiffany’s stores in the U.S, the UK, Canada, Japan and Australia. Tiffany responded to this result by planning to expand its e-commerce reach to continental Europe during in the year 2010. Tiffany will also diversify its online product inventory with a new line of bags and related accessories.

The company has further opportunities to win new customers as the world of luxury has changed in important ways. Today consumers are less interested in things that are transient or disposable, of poor quality or simply represent the latest fad. They are more recognizing the concept of luxury and lasting value, and increasingly focused on those brands that represent authentic luxury, that possess a recognizable legacy of craftsmanship and quality, brands that are sustainable. This is a growing sensibility among consumers to selectively focus on a few good things that will stand the test of time.

3.3.2 Zale Corporation

In March, 1924, Morris and William Zale founded Zale Corporation (Zale), known as “Zale Jewelers”, with the establishment of the first store in Wichita Falls, Texas. In addition to jewelry, inventory included small appliances, cameras and cookware. Zale had a vision to provide customers with quality merchandise at the lowest possible price. This can be regarded as cost leadership strategy of Porter’s generic strategies; having the lowest prices in the target market segment.

In 1925, Zale diversified into new business by offering credit “a penny down and a dollar week” with payments typically spread out over 12 months even to its low-income customers. This move was to make its jewelry and other merchandise affordable to the average working American. With the success of the credit policy, coupled with friendly service, and dedicated employees led to great success and expansion. By 1942, Zale operated 12 stores in Oklahoma and Texas.

During the World War II, Zale's expansion of new locations and production of consumer goods were limited. The company responded to the situation by maintaining its current price on jewelry, limiting expenses and looking for growth opportunities. With the acquisition of the Corrigan's of Houston in 1944, Zale entered into fine jewelry market segment. The acquired business was eventually leading to the launch of the Bailey Banks and Biddle brand targeted higher-income customers. This move can be regarded as diversification through synergy.

As the company grew to 19 stores in 1946, Zale opened a central design, display and printing operation in Dallas. This move was aimed to serve its business needs i.e. to support its operations. Between 1947 and 1957 were the years of growth, Zale opened more than 50 stores due to boom in consumer spending during postwar period. The company opened the first store in a shopping center, which was a major shift from operating only in downtown locations. Zale went public in the same year in 1957.

For Zale, the 1960s were the years of growth pursuing the diversification strategy into new business. The company produced shoes, sporting goods, drugs, furniture, and catalog pursuing diversification into new SBAs. This move was responded to the development of the first synthetic diamond technology, at that time viewed as a potential replacement for real diamonds in the retail jewelry trade. The company was changed from "Zale Jewelers" to "Zale Corporation" to reflect the diversity of the business. However, half of the company's revenue continued to come from its jewelry operations, with one highlight from the 1969 purchases of the Light of Peace diamond.

At the beginning of the 1980s, Zale started selling-off its non-jewelry retail businesses. Despite raising revenues, these businesses produced little of the company's profits. By that time, the synthetic diamond scare had passed, and the consumers had demanded on purchasing real diamonds. In 1986, Zale was sold to Peoples Jewelers of Canada and Swarovski International of Austria. In 1989, the company acquired Gordon Jewelers Corporation, a 469-store chain. At the end of 1980, the company had come back to its core jewelry business.

Zale and Gordon's chain had grown to 2,000 stores in the beginning of 1990s. However, in 1992, Zale Corporation filed for Chapter 11 bankruptcy due to its loss during the international recessions of the 1990s and debt. But Zale emerged from bankruptcy in

1993 as a financially stronger company after restructuring its debt. The new management team restructured the company by creating separate and independent divisions of the Zale and Gordon’s stores. Gordon’s was positioned as more of a regional player with its product line tailored for the local market. It targeted customers slightly more affluent than Zale’s middle-class customers. This can be regarded as focus (differentiation) strategy of Porter’s generic strategies. Zale also focused on promotions to the various gift-giving and high-traffic holiday periods that occur throughout the year, rather than depending on heavily on the November-December shopping season as it had been company tradition. The company entered the direct selling business in 1996. It produced first sales catalog, and then followed up with the launch of zale.com as its Internet shopping site. By 1998, Zale revenues increased to $ 1.43 billion, a 43 percent increase over 1994.

In 1998, Zale launched Zales Outlet, which was established as an extension of the Zale brand and capitalizes on Zales’ national advertising and brand recognition. This can be regarded as diversification within the core SBA. Ten Zales Outlet stores were soon opened throughout the country to pursue sales growth through the growing outlet mall channel. Zales Outlet is well known for its unique selection at a competitive price, and it targets the higher-income and female customer pursuing focus (differentiation) strategy. Zale acquired People Jewellers of Canada (People went into bankruptcy and lost control of Zale in 1993) in 1999 and Piercing Pagoda, a gold kiosk operator, in 2000. Piercing Pagoda outlets are mostly mall kiosk operating base. It primarily targets younger customers or teens and offers low-priced gold jewelry and a selection of silver and diamond jewelry pursuing focus (low cost) strategy of Porter’s generic strategies. At the same year 2000, Zale partnered with WeddingChannel.com, online planning resource and bridal registry. This move enabled Zale to reach over 700,000 annual bridal customers, strengthen the brand name, and increase sales channels within the significant bridal market in the USA and Canada.

Zale diversified into a new business by launching private label credit cards for its customers in July 2000. This move was to help customers buying jewelry easier and to help facilitate the sale of merchandise to customers who wish to finance their purchases rather than use cash or other payment sources. The private label credit card is accepted at all Zales, Zales Outlet and Gordon’s stores nationwide as well as Zales.com.

In 2005, Zale entered into a multi-platform marketing partnership with The Knot, a leading life stage media and services company. The partnership was aimed to promote Zale's brand to over a million of brides and grooms, who turn to "The Knot" for their wedding planning trends and needs. Zale Corporation becomes one of the national retailers to reach the largest audiences of brides and grooms on the Web through sponsored content programs on The Knot TV.

Zale expanded its e-commerce business with the launch of www.gordonsjewelers.com in 2007. This move was to better focus on its core business and increase returns on capital. At the same year, Zale divested its Bailey Banks & Biddle brand due to the fact that Bailey didn't fit the rest of the company's portfolio. The company could allocate those resources toward brands that had higher returns on capital.

In February 2008, Zale launched a program to permanently reduce inventory levels. This was not caused by declining in market demands, but to improve merchandise presentation and inventory efficiency. The company's goal was to achieve a $ 100 million reduction in inventory.

In February 2009, Zale announced the second phase of its cost reduction plan for additional inventory and cost reductions. In the same year, the company diversified a new line of business within its core SBA by launching "The Prestige Diamond Collection", exclusively at Zales.com. It offers an enormous online selection for grooms to handpick and create a custom engagement ring and wedding band, and provides more than 30,000 diamonds and 2000 unique settings and carat sizes ranging from 0.33 to five carat (istockanalyst.com). The company targets grooms and bride-to-be customers and differentiates its brand by offering custom engagement rings to ensure perfection, pursuing focus (differentiation) strategy.

3.3.3 Blue Nile Inc.

Blue Nile is a Seattle based online retailer of certified high quality diamonds and fine jewelry. The company is a publicly traded company listed on the NASDAQ.

Blue Nile has its beginnings as RockShop.com in 1999 and underwent a series of renaming and acquisitions during this year evolving into Blue Nile Inc. . RockShop.com acquired assets of a Seattle jeweler, Williams & Son. Inc., including a small website and was renamed Internet Diamonds Inc.. Later on that year Internet Diamond was acquired by Mark Vadon and renamed into Blue Nile Inc. . The story goes that the business idea for Blue Nile Inc. is based on Mark Vadon's own frustrating search for an engagement ring, including his discouraging traditional shopping experience and his positive purchase and customer service experience with Internet Diamond Inc. at that time. Relating to his experience Blue Nile's vision and mission is to '… build the premier specialty retailer of jewelry by offering consumers high quality products at compelling values through an empowering shopping experience.' (Blue Nile Company Fact Sheet 2009, p.1)

Blue Nile started to build its brand, customer base and market presence transforming the existing Internet Diamond website into the Blue Nile portal www.bluenile.com and the company went public in 2004. Also in 2004 the company internationalized launching the website www.bluenile.co.uk to serve the United Kingdom and the greater European markets. In 2005 the website www.bluenile.ca was launched to further internationalize and serve the Canadian market. In 2007 two wholly-owned subsidiaries were established; Blue Nile Worldwide and Blue Nile Jewellery Ltd. Until today Blue Nile Worldwide is serving the customers through the UK website and Blue Nile Jewellery is a customer service and order fulfillment center based in Dublin, Ireland. The two existing websites were diversified and updated with a broader product and service range and the option to purchase in local currency. During 2008 the company increased the shipping from 12 to 35 countries in Europe and Asia-Pacific. In 2009 the main website www.bluenile.com serves the US and 14 additional countries. www.bluenile.co.uk serves the EU territory and www.bluenile.ca serves the Canadian territory. Altogether they serve and ship to 40 countries. The websites underwent a redesign in the beginning of 2009 and the company is now supporting financial transactions in 24 currencies in addition to the US dollar. For 2010 the company stated to focus on gaining market share.

Back in 1999, shortly before the dot.com bubble, the Blue Nile management has chosen to sell superior loose diamonds and diamond jewelry directly to its customers applying the e-commerce business model. The e-commerce business model allows the company to create an efficient cost structure through the elimination of traditional intermediates and fixed costs, maintain low inventories and develop lean supply solutions through exclusive supply relationships. Blue Nile's inventory for example is mainly a virtual inventory meaning that the products showcased on the webpage are in the suppliers' inventory and carried at no cost until the product is purchased. This kind of virtual inventory is maintained and secured through multi-year agreements with diamond suppliers including the exclusive offer of certain diamonds through the Blue Nile websites. This allows the company to position its brand Blue Nile and its products in the premium segment but price the products lower than the completion. Besides maintaining a capital-efficient business model and developing exclusive supply relationships, Blue Nile's differentiation strategy is the focus on the customer. From the very beginning customer satisfaction through high level customer service, service transparency, customer involvement and continuous interaction was a core strategy and activity for the company. The company's competitive advantage is built on product quality, product variety, product customization, product personalization, customer empowerment through education and assistance, customer service in combination with lower product prices and purchase convenience. Blue Nile's customer service personal does not work on a provision bases and provides the customer a pressure free individual service. The customers can contact them and visit the website as often as they want to decide and complete their purchase.

The Blue Nile founders and management saw the potential in the innovative business model, and looking back this decision gave Blue Nile an innovated edge and an early entry advantage over traditional brick-and-mortar companies. To maintain and broaden the competitive advantage Blue Nile's CEO Diane Irvin emphasizes once more that 'Our [Blue Nile's] focus is empowering the customer with information' (Krippendorf) and not to sell diamonds over the internet.

Blue Nile was set up 1999 as an online retailer shortly before the so called dot.com bubble busted in 2000 and the e-commerce market collapsed. Back then Blue Nile was still a privately owned company and reacted to the unfavorable market development with downsizing and reducing expenditures. (Cook, 2002)

Going public in 2004 the company set itself three goals as its fundamental cornerstones for its business. The first goal is to provide an unmatched shopping experience for the customers. The second goal is to enhance, grow and foster an environment of excellence amongst the employees and suppliers. The third goal is to create long-term value for the stakeholders.

Furthermore the company formulated a range of beliefs as guidelines for the management of Blue Nile's operations. The beliefs are the obsession about the customer, the focus to be the best diamond retailer in the world, to value supplier relationships, to balance growth with profitability and cash flow generation, to respect, appreciate and invest in the company's employees, to maintain a lean cost-conscious culture and to communicate open and honest.

The set of strategies to sustain growth, profitability are outlined in there order of importance in the annual reports and adapted to undergone business development and economic environment. The yearly reports of 2004/ 2005 stated for the upcoming business years 2005/ 2006 the strategies 'Increasing brand awareness', 'Focusing on customer experience', 'Increasing supply chain efficiency', 'Improving operational efficiencies', 'Expansion of product offerings' and 'Expansion into international markets'. During these business years Blue Nile was established as superior brand and the websites in the UK and Canada have been launched. For the business year 2007 the enhanced strategy out of the set became 'Expansion into international markets' and the wholly-owned subsidiaries were established as well as the existing websites updated and broadened. For the business year 2008 the company underlined the strategy 'Focusing on customer experience'. Facing the global economic down slope in 2008 Blue Nile managed to grow of its international business and increase the countries shipped to from 12 to 35. As a consequence of the global economic situation Blue Nile adjusted its strategies for the business year 2009. In its focus were and are still 'Innovate and enhance Blue Nile customer experience', 'Expand international markets', 'Optimize profitability and cash flow' and 'Enhance product assortment'. In line with the strategies the websites received a comprehensive facelift aiming at sophisticated branding, superior product presentation, comprehensive customer empowerment and exceptional value proposition. Additionally payment is accepted in 24 currencies in addition to the US Dollar. For the business year 2010 the company is focusing on growing the market share through 'Innovate the customer experience', 'Growth Profitability' and 'Pursue international business growth'. During September 2010 Blue Nile introduced a shopping application available on the App Store to compare and shop for Blue Nile product using Apple products. (Globe Newswire, 2010). In January 2011 the annual report 2010 will be published and reflect on the achievements.

All the above mentioned strategic components serve to achieve the company's main objective to '… maximize our revenue and profitability and increase market share both domestically and internationally by offering exceptional value to our customers through a high quality customer experience that leverages supply chain efficiencies and efficient cost structure.' (Blue Nile Annual Report 2009, p.4)

According to the Company Fact Sheet Blue Nile made its first quarterly operating profit in the 4th quarter of 2001. In May 2004 the company went public and filed an increase in net sales of 31,3% compared to 2003. The growth continued in 2005 with an increase of 20 %, in 2006 with an increase of 23,8% and 2007 with an increase of 26,9% in net sales compared to the year before. In 2008 with the down slowing of the US and the global economy net sales decreased by 7,5% and a slow increase by 2,3% in 2009. For the 2nd quarter 2010 the company announced a growth of 9.7% in net sales. Foreign sales, purchases made through one of the three websites and delivered outside the US, achieved in 2009 1,9% of the overall achieved 2,3%. 2008 foreign sales comprised 9,4% and 2007 it comprised 5,3% of total sales.

Blue Niles product portfolio consists of high quality diamonds and fine jewelry, with a particular focus on engagement diamonds. In 2009 69% of the revenue was achieved by the sales of engagement jewelry. (Blue Nile Company Fact Sheet 2009, p.1)

The product groups and services are Build Your Own Diamond Jewelry, Proprietary Diamond Search, Blue Nile Signature Diamonds, Fancy Colored Diamonds, Fine Jewelry and Diamond and Jewelry Consultants.

The company's core product and service is customized superior diamond jewelry, including engagement jewelry, and is incorporated in the 'Build Your Own Diamond Jewelry' service. The customer first applies the criteria shape, carat, color, price, cut and clarity to search the matching diamond out of the over 55 000 diamond inventory. In the next step the customer chooses based on the criteria shape, price, metal and styles the setting for the diamond. Both steps are supplement with a broad set of education and information on each criteria. Furthermore the pages shows customer reviews on diamonds and products, recently purchased diamonds and products as well as delivery and shipping. Throughout the whole process previews of the diamond, the setting and the final product are shown from real pictures taken out of different angles to animations of e.g. ring on a finger. In the last step the customer finalizes the customized product and is again supported with a broad range of information and interactive tools regarding e.g. ring size. During all these steps individual customer service is available via free phone service, email or a live chat.

The ‘Proprietary Diamond Search’ allows the customer to search the over 55 000 diamonds for the ideal loose diamond applying the same set of criteria as in ‘Build Your Own Diamond Jewelry’. Information, education and customer service is available to the same extend as mentioned earlier.

The ‘Blue Nile Signature Diamonds’ product group consist of exclusive hand selected and cut diamonds. The company states that the diamonds in this group are out of the top 1% of all diamonds in the world and cut to the company’s high level standards. Information, education and customer service is available to the same extend as mentioned earlier.

The ‘Fancy Colored Diamonds’ product group consist of rare colored diamonds. Out of 10,000 diamonds one diamond has a this unique esthetic property and is referred to as a fancy color diamond. These diamonds are extremely rare and high value. Information, education and customer service is available to the same extend as mentioned earlier.

The ‘Diamond and Jewelry Consultants’ service provides a broad range of background information and education material on diamonds, pearls, gemstones, materials and products. Furthermore it educates the customer throughout the whole purchasing process with relevant information.

The ‘Fine Jewelry’ product group consists of jewelry of a chosen range of products, like rings, earrings, necklaces, bracelets, watches and accessories within a certain price range. As in the other product groups the customer can customize the search according to the type of material, gemstone and pearl used for the piece but the piece itself is a readymade piece of jewelry.

In addition to the products and services mentioned above Blue Nile offers financing and insurance services, secure shipping services for save payment and delivery processes, product insurance documentation and maintains an affiliation program.

3.3.4 Signet Jewelers Limited

Signet Jewelers Ltd. is retail jewelry specialists with its corporate headquarter in Hamilton, Bermuda and its operational headquarters based in London, UK. The company is a publicly traded company and listed on the London Stock Exchange as well as the New York Stock Exchange.

The Signet group Plc. started as a family business in 1949, when Leslie Ratner opened a jewelry store in Surrey, England. Over the next decades the company not grew organically with new branches, but also launched a manufacturing branch named Jadales to manufacture its own brand of watches. By the end of the 1970's the company operated more than 150 stores within the UK and decided to enter foreign markets. As a result of this decision the company internationalized and entered the Dutch market in 1975. Furthermore the company pursued its goal to grow into a national chain and acquired the Terry's Jewelers Ltd. in 1984. In 1985 Gerald Ratner took over the business from his father. Gerald Ratner's goal was to grow the Ratners group into the world's largest jewelry specialist. The following period was characterized by an aggressive growth through acquisitions and the inline diversification of the product mix. The two flagship chains Ratner's and H.Samuel were created and the acquisition of Ernest Jones Jewelers Plc. in 1987 opened up the middle and high-end segment in the UK. 1988 the company Time Jersey Ltd. was acquired as well as the Zales Jewelry Ltd., Salisbury and another 73 stores from the Next and Watches of Switzerland to strengthen the geographical and product portfolio mix. By the end of 1988 Ratner's UK portfolio had grown to 650 stores. Simultaneously to the growth in the domestic market Ratner's acquired in 1987 the Ohio-based Sterling Inc., which back then was the 4th largest specialty jeweler in the US with a portfolio of local brands and provided the basis for the company's internationalization. Soon after the acquisition of Sterling Inc., the Ohio-based Osterman's Inc. was acquired in 1988 and merged with Sterling Inc. to strengthen the geographical mix. In 1989 acquired Weisfield Inc. and a year later Kay Jewelers, one of the largest retailer chains in the US back then. By the end of 1990 Ratner's US portfolio had grown to 1000 stores. In 1992 Gerald Ratner had to resign from all his roles with the company after causing serious damage to the company by disparaging the products quality and design in public. To diminish the occurred damage and sustain the business operations the company's name was changed into Signet group and comprehensive restructuring actions were taken during 1993. The brand and product portfolio was scaled down, streamlined and grouped into a manageable amount of product groups for the UK and US market. There were no further internationalization actions in terms of entering new geographical markets and the level of diversification in the product mix was shrunk significantly. For the UK market H.Samuel and Ernest Jones were formed and for the US market Jared, the Galleria of Jewelry, Kay Jewelers and Regional brands. Also the retail portfolio was cut down significantly, especially in the UK. It took almost 6 years to re-establish the Signet Group and 1999 the company returned to profitability. In 2000 Marks & Morgan Jewelers Inc., the 9th largest specialty retailer back then was acquired to strengthen the geographical mix and was partly merged with the Kay retail brand. In 2008 the company's name Signet Group Plc. was changed into Signet Jewelers Ltd and the corporate headquarter was moved to Hamilton, Bermuda with the operational headquarter remaining in London, UK. The decade until 2010 has been used to strengthen product group brands, strengthen the geographical presence and become the leader in each product brand segment.

The Signet Groups mission is to build long term value through customer focus. (Signet Jewelers, Annual Report 2009/2010). The mission is supported through a set of operating principles like excellence in customer service, high quality merchandise selection, excellence in execution, test before invest and continuous improvement.

For the years 2002 until 2009 the group's strategy was lined out to maintain a strong balance sheet, to continue the achievement of sector leading performance standards on both sides of the Atlantic, to maximize store productivity in the US and the UK and to grow new store space in the US. For 2010 the strategy was lined out to enhance position as strongest middle market specialty retail jeweler, to reduce business risk and to focus on profit & cash flow maximization to maintain a strong balance sheet. Furthermore the annual report 2010 states that as reaction to the development in the global economic environment to pursue a lower risk strategy and ...'to aim to maximize sales by gaining profitable market share in existing stores by focusing on enhancing competitive strengths rather than opening additional locations.’ (Signet Jewelers, Annual Report 2009/2010)

The group strategy is further adapted to the two divisions in the UK and US, with an individual set of competitive strengths.

The strategy for the UK division is to ’to increase average transaction value by focusing on merchandise where the division’s competitive advantages are greatest, particularly diamond jewelry, differentiated ranges and watches, thereby improving store productivity and achieving operational leverage.’ (Signet Jewelers, Annual Report 2009/2010) As part of the long term strategy for the UK division the company concentrates on major shopping centers to increase profitability and anticipates a further small reduction in store space. Furthermore there will be continuous improvement actions in the key areas customer service, merchandising, marketing as well as real estate.

The mentioned key areas sum up to the competitive advantage of the UK division. Store Operations and Human Resources are seen as the ability of the continuously trained employees to assist with excellent customer service the customer through the jewelry purchase. The commission based compensation aims at recruiting and retaining high quality employees. Merchandising describes the offered selection and offered greater value, focusing on the company’s leading supply chain capability, an exclusive product range to differentiate and 24h re-supply capability. Marketing describes integrated traditional retailing and e-commerce concepts as well as extensive customer relationship marketing. Real estate describes primary locations with traffic flows and high visibility, with store design enhancing the product quality and making the concept attractive to landlords.

While the UK division’s strategy focuses on increasing store productivity, the US division’s strategic focus is on growing space to achieve brand and market leverage. For the KAY Jewelers a long-term potential for growth of over 400 stores is stated I the annual report 2009/2010 and the Jared stores have stated long-term potential for over 300 stores. Furthermore there will be continuous improvement actions in the key areas store operations and human resources, merchandising, marketing, real estate as well as customer finance. (Signet Jewelers, Annual Report 2009/2010)

The sum and interaction of stated key areas achieve Signet competitive advantage for the US division. Similar to the UK division Store Operations and Human Resources are also seen as the ability of the continuously trained employees to assist with excellent customer service the customer through the jewelry purchase. Merchandising is described as the demand-driven customized product mix for each store, the focus on leading supply chain capability and 24h re-supply capability. Marketing is based on the largest marketing budget within the segment, empowering the leverage of the leading brands in targeted middle market. Real Estate describes the high-quality store base with well-designed stores, high product and brand visibility and customer traffic flow. It also describes the result of being an attractive tenant. Customer finance describes the competitive advantage to proceed purchase operations until the very end out of one hand.

The Signet group states the combination of Store operations and Human Resources, Merchandising, Marketing, Real Estate and Customer Finance as competitive strengths for the US division. As for the UK division Store operations and Human Resources are seen as the ability of the continuously trained employees to assist with excellent customer service the customer through the jewelry purchase. Merchandising is the combination of the supply chain capability, individual product selection for each store and 24h re-supply capability. Marketing describes broad advertisement leverage, national television campaigns and extensive customer relationship marketing. Real estate describes the well tested store design as well as locations and attractiveness to landlords. Customer finance describes the facilitation of customer transactions through financing options.

The Signet Group has a set of exclusive brands for the UK and the US market, all widely diversified and combined to a specific product mix to target different market segments.

The middle segment of the UK market is served with the brand H.Samuel. According to the brand review 2010 H.Samuel is the largest specialty retail jewelry chain in the UK with an approximate 6% market share and accounted in 2010 for 12% of Signet’s sales. The product portfolio consists of gold, silver and diamond jewelry, watches as well as gifts and collectables from known brands. Since 2005 H.Samuel operates an online store under www.hsamuel.co.uk and 347 stores by January 2010.

The upper middle segment of the UK market is served through the brand Ernest Jones. According to the brand review Ernest Jones is the second largest specialty retail jewelry brand in the UK with an appropriate 5% share of the market. Ernest Jones accounted in 2010 for 10% of Signet’s sales. The product portfolio consists of diamond and gold jewelry and prestige watches from well-known brands. Since 2006 Ernest Jones operates an online store under www.ernestjones.co.uk and 205 stores by January 2010. E-commerce, although growing, accounts in both cases for only a small amount of the division sales.

The US division serves the market with the brands Kay Jewelers, Jared The Galleria of Jewelry and Regional brands. Kay Jewelers and regional brands target the middle market of the US market. The brand review indicates the brand as the largest specialty retail jewelry brand in the US based on sales. In 2010 Kay Jewelers accounted for 46% of Signet’s sales. The brand operates the website www.kay.com and 923 stores by January 2010. The 260 regional brand stores accounted for 10% of Signet’s sales.

The US product portfolio for the middle market consist of the following registered trademarks, selling jewelry, watches, accessories, gifts and collectables in an individual product mix: Kay Jewelers, Jared The Galleria Of Jewelry, JB Robinson Jewelers, Marks & Morgan Jewelers, Belden Jewelers, Weisfield Jewelers, Osterman Jewelers, Shaw’s Jewelers, Rogers Jewelers, LeRoy’s Jewelers, Goodman Jewelers, Friedlander’s Jewelers, Every kiss begins with Kay, Peerless Diamond, Hearts Desire, Perfect Partner, Open Hearts by Jane Seymour and Love’s Embrace.

The brand Jared the Galleria of Jewelry targets the upper middle market and is stated to be the leading US specialty retail jeweler by revenue in 2010. The brand accounted in 2010 for 22% of Signet’s sales. The product portfolio consists of loose diamonds, colored gemstones, jewelry as well as customized jewelry as well as watches and accessories. The brand operates the website www.jared.com and 178 stores. The e-commerce share of sales is growing but represents only a small amount of the sales for both brands.

For both divisions a range of differentiated merchandise is exclusively developed and continuously adapted to changes in user behavior and to update the merchandise mix. The Leo Diamond range consist of certified diamonds enhancing diamond brightness and exclusively sold through the Signet group stores. The Peerless diamond range consists of certified diamonds emphasizing the ideal cut and return of light exclusively sold through Jared stores. The Le Vian prestigious fashion jewelry brand exclusively sold through Signet regional stores. The exclusive collection Open Hearts is a cooperation with celebrity Jane Seymour. For 2010 the collection Love's Embrace is launched.

In terms of revenue growth Signet has been experienced a period of slow growth for the years 2005 and 2006 with +4,6% and +5,0% respectively. The year 2007 was characterized through a major growth in revenue of +12,8%. The economic downturn also impacted on Signets operations and they achieved a growth of 3% in 2008 before the sales growth declined to -8,8% in 2009.

3.4 Cross-Case Analysis

The main focus of this paper is to identify a possible link between a company's strategy and its profitability. The cross-case analysis is used to investigate each case company's business positioning strategy applying the generic strategies in combination with Porter's competitive analysis model and each company's growth strategy applying the concepts of diversification and internationalization. Each company's financial key ratios will be used as profitability indicators and set into context with their level of diversification and internationalization. The produced graphs will visualize a possible link between the company's strategy and its profitability and provide the base for discussion.

3.4.1 Summary on case companies strategies

3.4.1.1 Tiffany & Co.

Tiffany & Co (Tiffany or "the company") is a holding company that operates through its subsidiaries. The company engages in product design, manufacturing and retailing of a range of jewelry items. Its products include a selection of jewelry, timepieces, sterling silverware, china, crystal, stationery, fragrances and accessories. The company conducts its operations across four geographical segments; Americas, Asia-Pacific, Europe and others.

Tiffany has its own manufacturing facilities which produce approximately 60% of the merchandise sold by Tiffany and the rest (almost all non-jewelry items) are purchased from third parties. The majority of precious metals, gold and silver, used in their workshops are purchased from a single mine in the USA that meets the high standard of social and environmental responsibility. In order to avoid “conflict diamonds”, Tiffany established Laurelton Diamonds, a wholly owned subsidiary. Laurelton Diamonds procures rough diamonds and manage the world wide supply chain that sources, cuts, polishes, and supplies finished stones to Tiffany. This allows better margins by eliminating the middle-man, and ensures that Tiffany access to scare and high end diamonds supplies. Additionally, Tiffany purchases diamonds only in those countries that are full participants of “the Kimberly Process Certification Scheme (KPCS)”. This is to ensure that diamonds are conflict-free.

After the diamonds, gems and precious metals have gone through mining, cutting, and polishing, they are set into finished jewelries that are designed by Tiffany’s designers who are the best jewelry designers in the world. Once the jewelries are finished and ready to be sold, they are sent to Tiffany’s central distribution center, namely the Parsippany distribution center. Tiffany uses various logistics companies those provide a smooth safe from their warehouses and manufacturing facilities to their retail shops. Tiffany mainly uses Brinks Inc. to handle the majority of the jewelry shipments to the retail store. Brinks Inc also handles high-value international shipments. For less valuable and small orders, Tiffany uses UPS for domestic deliveries and DHL Worldwide Express for international shipments. Tiffany conducts its business through three distribution channels:

1. **US retail**: consists of retail sales transacted in Tiffany & Co. stores in the U.S, and non-internet, catalog, business-to-business and wholesale operations within the U.S.
2. **International retail**: includes stores and department store boutiques outside the US as well as business-to-business, Internet and wholesale sales of TIFFANY & Co. products outside the U.S.

3. **Direct marketing**: includes Internet operation and catalogs.

Tiffany differentiates their products by providing unique or superior value to customers through product features, quality, and after-sale service and support. Customers value the differentiated products more than they value low costs and they are willing to pay higher price based on the products characteristics, the delivery system, the quality of service, and/or the distribution channels (Akan et al, 2006). On top of that, Tiffany's brand is well-known for its high-quality jewelry, excellent customer service, an elegant store and upscale store locations, distinctive and high-quality packaging materials (the Tiffany & Co. blue box), and sophisticated style and romance (Tiffany's annual report 2009-2010). Tiffany enjoys strong brand value in a fragmented global jewelry retail industry. This strong brand value enables Tiffany in gaining market share in a highly competitive market which supports and enhances their differentiation strategy. Tiffany maintains the strength of its brand by staffing with friendly and knowledgeable employees. Their retail stores are quiet and well decorated, and are in the best high street and luxury mall locations.

The jewelry retail industry is highly fragmented and is dominated by unbranded retailers. Therefore, quality, reputation, customer perception, professional sales advice and the shopping experience play the most important factors which drive customers' decision when buying jewelry. Tiffany has been doing well in identifying the needs of its customers and providing the products they desire. Its innovation and creativity with new products' designs and styles keep customer's interest. This supports a way to implement its differentiation strategy. (Isaksaetre et al, 2009; Akan et al, 2006)

Tiffany had started its business as a stationery store and eventually expanded to fine jewelry. Tiffany has been around for more than century. It started with small and grew, and adapted to market as it changed. The company increases the profitability and grows through diversification (greater sales volume obtained from new products and new markets) and internationalization. The non-core SBAs (such as rings for men, leather goods, silver plate, brass and antiques) that were not in line with company's vision were divested from its business portfolio in 1956. Tiffany's core SBA is jewelry, and other related SBAs include loose gemstones (diamond and colored gemstones), accessories (belts, money clips, tableware, leather goods and scarves, etc.), and fragrances. Among its new product lines, the “Tiffany Keys Collection” was the most successful product introduction, and it expects to become a perennial favorite among customers.

Another growth strategy Tiffany pursuing is internationalization. One of Tiffany’s key strategies is to selectively expand its global distribution (Tiffany annual report, 2009-2010). The company expands its distribution by adding stores in both new and existing markets. Tiffany conducts its business across four geographical segments; Americas, Asia-Pacific, Europe and others. The USA is the largest market for Tiffany in Americas, Japan is the largest market in Asia-Pacific, and the UK is the largest in Europe.

3.4.1.2 Zale Corporation

Zale Corporation (Zale or "the company") is a specialty retailer of fine jewelry and watches in North America. The company primarily operates in the US, Canada and Puerto Rico. As of July 2010, Zale operated 1,218 specialty jewelry stores and 672 kiosks located mainly in shopping malls in the US, Canada, and Puerto Rico and online at www.zales.com, www.zalesoutlet.com and www.gordonsjewelers.com.

Zale purchases the majority of its merchandise in finished form from a network of established suppliers and manufacturers located primarily in the USA, India, Southeast Asia and Italy. All of Zale’s purchasing is done through buying offices at its headquarters (Store Support Center). As of July 2010, the company’s total inventory had approximately four percent of raw materials and 14 percent of finished goods. (Zale’s annual report, 2010, p. 6)

Zale is operated under three different business segments: Fine Jewelry, Kiosk Jewelry and All Other. Fine Jewelry comprises of five brands: Zales Jewelers, Zales Outlet, Peoples Jewelers, Gordon’s Jewelers, and Mappins Jewelers. Each brand specializes in fine jewelry, watches and diamonds. These companies pursue focus (differentiation) strategy by focusing on value-oriented consumer and targeting higher income/ middle-class customers with unique selection at a competitive price. Their products are available both in stores and online.

The Kiosk Jewelry operates under the brand names Piercing Pagoda, Plumb Gold, and Silver and Gold Connection (collectively, “Piercing Pagoda) specialize in gold and silver products, including entry level of diamond merchandise. The Kiosk Jewelry segment pursue focus (low cost) strategy by offering low-priced merchandise and targeting mainly young and fashion forward customers. These kiosks are strategically located in high traffic areas in the mall where they are visible and accessible for customers.

The “All Other” segment provides insurance and reinsurance facilities, which are marketed primarily to its private label credit card customers through Zale Indemnity Company, Zale Life Insurance Company, and Jewel Re-Insurance Ltd.

Zale was first established with a vision to provide its customers with quality merchandise at the lowest possible price. In 1944, Zale entered into fine jewelry market segment by diversification through acquisition. The company divested its non-jewelry businesses during 1980s as they produced little profit. In 2007, Zale divested another brand (Bailey Banks & Biddle) which was not fit the company’s portfolio. Fine jewelry remained Zale’s core SBA, and other related SBAs include product financing and product insurance.

Zale’s internationalization is limited. The company’s property, plant and equipment locations are limited to North America. The company has expanded its business online in order to reach more customers. However, it has mostly expanded in North America. Therefore, Zale’s growth is limited as it focusing mainly on regions in North America.

3.4.1.3 Blue Nile

The company is operating an e-business model, displaying and distributing the products through distinctive websites, maintaining a virtual inventory, sourcing diamonds directly and signing exclusive online distribution agreements. The company’s revenue is generated through one SBA only, i.e. online retailing jewelry. The US market is the company’s largest by revenue, but the growth is bigger in all other countries served.

Blue Nile powerful market position and competitive advantage is based on its achieved value positioning, empowered customer confidence, efficient virtual inventory and international presence. The e-business model allows the company to offer the same high quality diamonds at a lower price than its competition and customers benefit directly from this value proposition. Blue Nile increased customer confidence with several initiatives and measurements to overcome the barrier of purchasing diamonds online. The key factors here are user friendliness, easiness of use, transparency, online education, personal customer service, fast delivery and money-back guarantee. Another benefit of the e-business model is the opportunity to avoid the costly maintenance of inventory. The company maintains interactive outsourcing and sources its products directly from diamond cutters, thereby cutting out several layers from the traditional supply chain and reducing cost once more. In combination with exclusive distribution ships Blue Nile can secure the availability of the products for its customers. The expansion of an e-business is relatively easy to established economies like in Europe or emerging economies like in Asia or India, since all the potential customers need is access to the internet and a credit card system. Blue Nile is growing faster outside the domestic market and serves the demand through international websites, easy accessibility, payment facilitation and foreign currency acceptance. The growing accessibility of the internet and the acceptance of e-commerce will open new business opportunities for Blue Nile. In combination with the enlargement of its product range with non-engagement and non-diamond jewelry Blue Nile aims at gaining market share within the consolidated jewelry retailing market.

The risk for an e-business model like this is the degree of confidence in the approach purchasing diamonds and diamond jewelry unseen online. The more reluctant the potential customers get the greater the impact on Blue Nile’s business. This is one of the major concerns for Blue Nile and the company addresses the risk by customer empowerment, education and its ‘recently bought’ as well as ‘customer testimonials’’ features. Another development impacting Blue Nile’s business profitability is the increase in wholesale prices of diamonds and the impact on the company’s margins.

Blue Nile has positioned itself within a specialized, relatively small and fragmented business segment, the diamond and diamond jewelry retailing industry, and focuses with its core product on a specific customer group with a demand for a unique product, engagement jewelry. Relating to the competitive analysis and generic strategies in figure 4 Blue Nile might be able to forward the increase in raw material prices to a certain degree to the end customer or cut on their margins to sustain the product price advantage over its competition to smooth out the increase. Blue Nile's generic strategy can be defined as a type 5 strategy according to figure 3. Within the small sized market of diamonds and diamond jewelry Blue Nile achieved a dominant position through focusing on a specific customer and product group, the engagement jewelry. Since the product is purchased based on its value, perceived value and unique purpose Blue Nile benefits from its cost leadership position. The ability to offer the same product at a lower price than the competition and simultaneously benefiting from higher margins than the competition gives Blue Nile a sharp competitive edge.

Blue Nile's competitive advantage is built upon its lower product prices achieved through a cost-efficient business model combined with achieved higher margins and a diverse range of products and services enhancing as well as empowering and encouraging the customer to purchase online.

Blue Nile's core product is still engagement jewelry but over the years the company has broadened its product range into the SBA's loose diamonds and gemstones, fine jewelry and accessories. Around the SBA's the company developed an extensive range of supplement services like the Jewelry Consultants, Customer Education, Customer Testimonials, interactive online tools as well as databases. The company also diversified into related profitable SBA's like product financing, product insurance and product maintenance. Blue Nile strategically diversified close around its core SBA's and is focusing on any available supplement service to enhance the added value and benefits of the product for the customer. All actions taken are in line with the strategy to build a center of excellence and expertise around the core SBA's to achieve a superior purchase experience for the customer.

Blue Nile is seeking for customers worldwide and its internationalization is closely connected to the availability of the internet, access to it and the availability of related financial services like credit card payment or online systems like e.g. Pay Pal. To enter and penetrate a market the economy needs to have the technology, the purchasing power and the consumer habit to use the internet on a regular basis for purchases of any kind. With these requirements in place internationalization can be achieved in a rather cost-efficient way, since no facilities have to be rented and only a small amount of additional staff has to be hired, if at all. Blue Nile started its business operations in the US and went from there in 2004 to Western Europe and in 2005 to Canada, representing economies with the required level of technology, spending power and consumer habits. Before the economic slowdown the Asian-Pacific region was encountered and the numbers of countries served though the three existing websites increased to 40. Blue Nile is following the acceptance of e-commerce in its internationalization, since e-commerce and its acceptance are the basis for its business operations.

3.4.1.4 Signet Jewelers

Signet Jewelers Limited is a specialty retail jeweler and generates its revenue from the SBA's jewelry retailing, watches and aligned products and services. The company operates through 1913 stores in the two geographic segments the US and the UK. The US segment is the company's largest market by revenue with a moderate increase as for the UK segment experienced a moderate decrease in revenue.

The UK segment includes Ireland and the Channel Islands. The segments within the US markets are served US wide through Kay Jewelers in-mall and off-mall locations and regionally through a range of brands, mainly mall-based. The third brand Jared The Galleria of Jewelry serves US wide through its superstore concept. Kay Jewelers and the regional brands cater to the lower and middle market segment whereas Jared The Galleria of Jewelry caters to the upper end of the middle market segment. The segments within the UK market are served through the brands H.Samuel, Ernest Jones and Leslie Davids. H.Samuel stores cater to the core middle market, Ernest Jones stores cater to the upper middle market and Leslie Davis stores cater to the upper end of the middle market.

Signet's strong position within the jewelry retailing market is based on its strong market presence, divers brand as well as store formats to serve a broad range of customers within the middle segment of the jewelry retailing market and its contract manufacturing strategy. To achieve and sustain its advantage on cost and quality Signet supplies the contract manufacturing partners with polished loose diamonds. This strategy allows the company to gain an in-depth understanding of the manufacturing cost, allows them to achieve better prices for the finished commodities and reducing the cost of merchandise. As outcome of this the company can offer a more attractive value to its customers and increase margins and market share in the long run. The restructuring and relocation of its operations in 2008 supports the actions above and brings them closer to the main market, the US.

However Signet's declining sales can be an indicator for e.g. an outdated marketing and merchandise mix, not appealing to the middle segment or corresponding to the current economic development. In the middle segment the company is not only competing against other companies like Blue Nile Inc. or Zale Corp., but also against other activities like vacation or other leisure activities as well as e.g. electronics. The annual reports also show an increase in the company's debt level, which might force them to use a significant amount of the cash flow from its operations to pay the debts off.

Signet has positioned itself within the middle segment of the jewelry retailing industry, a high competitive and fragmented segment, and focuses through its different brands on several sub-segments within the middle segment. According to Figure 2 Signet's generic strategy can be classified as 'Focused Cost Leadership'. Within its segment Signet is aiming to secure the lowest product prices in combination with the best value for the customer. Furthermore Signet is targeting different customer groups with different product mix and store concepts to leverage its presence within the middle market segment.

Signets competitive advantage is based on its competitive prices achieved through contract manufacturing, its well established brands and its customer proximity.

Signet has diversified its merchandise into the SBA's loose gemstones, jewelry and accessories and focuses within in each store brand on an individual product mix. In-store-services like customer education and service support the SBA's. In addition to the SBA's the company has diversified into the related SBA of Jewelry repair services. Signet has diversified close around its core SBA's, investing and enhancing in its brands and the actions are in line with the strategy to rather focus on its competitive advantage than on opening additional locations.

Signet grew heavily and fast through a series of acquisitions and invested heavily capital over decades to achieve its current market presence. The acquired businesses were chosen on their geographical location and market leverage as well as their established brand to sustain Signets leadership position within the middle segment. The growth strategy consumed a vast amount of capital leading also to today's debt level.

3.4.2 Companies' Key Financial Ratios

Tiffany & Co.

Ratio	2005	2006	2007	2008	2009
Revenue growth	8.5 %	10.5 %	14.7 %	(2.7 %)	(4.9 %)
Operating profit margin	11.7 %	11.5 %	12.6 %	8.2 %	9.8 %
Return on Assets	9.3 %	9.4 %	10.8 %	7.1 %	7.6 %

TABLE 1. Key Financial Ratios of Tiffany & Co.

Source: Company's annual report 2009-2010

Tiffany's worldwide sales revenue increased approximately 9%, 11% and 15% in 2005, 2006 and 2007 respectively. The company worldwide sales decreased 3% in 2008 and 5 % in 2009. Sales decreased were affected by the global economic downturn that began in the latter half of 2008.

Tiffany was able to control its costs and expenses associated with business operations efficiently between 2005 and 2007, which indicated by the operating profit margin of 11.7% in 2005 and 12.6 % in 2007. In 2008, the operating margin was 8.2 %, which was affected by sales revenue during fourth quarter (the starting of economic downturn). Even though sales revenue decreased 5% in 2009 compare to 3% in 2008, the company generated higher operating margin. It resulted from the company's cost-saving initiatives that included significant reductions in staffing and marketing spending (annual report 2009-2010).

Tiffany's return on assets ratio was 7.6% in 2009 compared to 7.1% in 2008. This indicates that the company generated better net revenue from its invested capital.

Zale Corporation

Ratio	2005	2006	2007	2008	2009
Revenue growth	(10.5 %)	4.5 %	(0.1 %)	(0.7 %)	(16.8 %)
Operating profit margin	7.6 %	3.3 %	2.9 %	(0.1 %)	(13.6 %)
Return on Assets	7.7 %	3.3 %	3.6 %	0.04 %	(15.4 %)

TABLE 2. Key Financial Ratios of Zale Corporation

Source: Company's annual report 2009

Zale's sales revenue decreased approximately 17% in 2009 compared to 0.1% in 2007. A sale decreased in 2009 was due to the extremely challenging economic environment and increase in store-wide discounts during the 2008 Holiday season (annual report 2009).

In 2009, the company business operations' costs and expenses increased sharply which related to charges associated with store closures, store impairments and goodwill impairments (annual report, 2009). Based on the figure shown in table 2, it can be considered that the cost increasing was faster than sales revenue.

Zale's return on assets ratio was approximately negative 15% in 2009. This indicates that the company was unable to generate net revenue from its invested capital in that year.

Blue Nile Inc.

Ratio	2005	2006	2007	2008	2009
Revenue growth	20.1 %	23.8 %	26.9 %	(7.5 %)	2.3 %
Operating profit margin	10.1 %	7.9 %	8.3 %	6.1 %	6.5 %
Return on Assets	9.5 %	10.7 %	10.9 %	13.0 %	9.8 %

TABLE 3. Key Financial Ratios of Blue Nile

Source: Company's annual report 2008 & 2009

Blue Nile's sales revenue decreased approximately 8% in 2008 after it had increased 27% in 2007 compared to 20% in 2005. Sales in 2008 was affected by the weakened global economic and financial market conditions that created uncertainty for consumers, and macroeconomic downturn had a significant impact on consumer spending, most notably on purchases of expensive items, including jewelry (annual report, 2008). Additionally, it was impacted by rising prices for diamonds.

The company operating profit margin was 6.5% in 2009 compared 6.1% in 2008. It primarily resulted from increasing sales through websites, improving in operating margins and the efficient management of operating costs (annual report, 2009). Additionally, as an online retailer, the company does not incur most of the operating costs associated with physical retail stores, including occupancy costs and related overhead.

Compare to other companies, Blue Nile was performed well in using the assets to generate income in especially in 2008, which represented 13%. The company excelled at making large profit with little investment.

Signet Jewelers Limited

Ratio	2005	2006	2007	2008	2009
Revenue growth	4.6 %	5.0 %	12.8 %	3.0 %	(8.8 %)
Operating profit margin	12.3 %	11.2 %	10.9 %	9.2 %	(9.8 %)
Return on Assets	8.9 %	8.3 %	7.2 %	6.1 %	(13.3 %)

TABLE 4. Key Financial Ratios Signet Jewelers Ltd.

Source: Company's annual report 2005, 2009 & 2010

In 2005 to 2007, Signet's sales revenue increased approximately 5 % and 13% respectively. Sales increased 3% in 2008 and decreased approximately 9% in 2009. A sale decreased was resulted from economic downturn which started in the latter of 2008. Jewelry purchases are dependent on general economic conditions (Annual report, 2009). Therefore, economic crisis many unfavorably impact the sales and earnings.

During 2005-2009, the company generated the lowest operating profit margin in 2009. The reason was due to increase in expenses associated with new stores and a higher cost of gold (Annual report, 2009). It also can be considered that the business operation costs were increasing faster than sales revenue.

Signet's performance on using assets to generate net income was weakening during 2005-2008, indicated by the figure of 8.9% to 6.1%. In addition to that, the company was unable to generate net revenue from its invested capital in 2009, which return on assets ratio was approximately negative 13%.

3.4.3 Level of diversification

As discussed in chapter 2.2.1 diversification describes the company's decision to grow through either related or unrelated diversification into new SBA's[2]. To decide on the case companies' level of diversification each company's development of main SBA's and related SBA's will be investigated. Unrelated SBA's will not be taken into account for the analysis.

To define each company's SBA's the product categories are listed in the Tables 5-7.

Blue Nile	Signet	Zale	Tiffany
• Items: Diamonds Colored Gemstones Diamond jewelry Pearl jewelry Platinum jewelry Sterling jewelry Engagement rings Wedding rings Anniversary rings Ear rings Necklaces Pendants Bracelets Watches/accessories	• Items: Jewelry items Diamonds Colored gemstones Gold Watches Gifts	• Items: Jewelry Bridal jewelry Watches	• Items: Diamonds Jewelry Watches Cuff links Money clips/card holders Eyewear Fragrances Key rings Scarves Small leather goods Sterling accessories Writing instruments Gifts Tableware

TABLE 5. Case companies' product category: Item

Source: Adapted from companies' annual reports 2005 - 2009.

[2] see chapter 2.2.1 Diversification

Blue Nile	Signet	Zale	Tiffany
• Related Services: Jewelry repair Product Financing Product Insurance	• Related Services: Jewelry repair	• Related Services: Product Financing Product Insurance	• Related Services: Not indicated

TABLE 6. Case companies' product category: Related Services

Source: Adapted from companies' annual reports 2005 - 2009.

Blue Nile	Signet	Zale	Tiffany
• Unrelated Services: Not indicated	• Unrelated Services: Not indicated	• Unrelated Services: Insurance facilities Private label credit card (until June 2010)	• Unrelated Services: Not indicated

TABLE 7. Case companies' product category: Unrelated Services

Source: Adapted from companies' annual reports 2005 - 2009.

To define the main SBA's, products with similar attributes and similar use are grouped together, e.g. jewelry, rings, pendants and ear rings, regardless their material and gem stones are grouped together under jewelry. Furthermore loose diamonds and colored gemstones are grouped together as loose gemstones, since they are loose and neither into any material nor are they ready for wearing. Then there are accessories like watches, cuff links, belts, money clips, tableware, leather goods and scarves, writing instruments and eyewear. The decorative character of these products is merged with a function e.g. monitoring time, keeping trousers up or shades your eyes. Fragrances are kept as a SBA of its own.

The four identified main SBA's' Jewelry', 'Loose Gemstones', 'Accessories' and 'Fragrances' and their distribution are shown in Table 6 below.

Blue Nile	Signet	Zale	Tiffany
• Main SBA's Loose gemstones Jewelry Accessories	• Main SBA's Loose gemstones Jewelry Accessories	• Main SBA's Jewelry Accessories	• Main SBA's Loose gemstones Jewelry Accessories Fragrances

TABLE 8. List of SBA's per case company

Source: Adapted from companies' annual reports 2005 - 2009.

To define the companies' number of related SBA's the related services are grouped into 'Product Financing', 'Product Insurance' and 'Maintenance', including product reparation, maintenance and cleaning. In this case related SBA's are not part of the main SBA's but they support their functions and contribute to their profitability. Table 7 below lists each company's related SBA's.

Blue Nile	Signet	Zale	Tiffany
• Related SBA's Prod. Financing Prod. Insurance Maintenance	• Related SBA's Maintenance	• Related SBA's Prod. Financing Prod. Insurance	• Related SBA's Not indicated

TABLE 9. List of related SBA's per case company

Source: Adapted from companies' annual reports 2005 - 2009.

The findings of Table 7 suggest that, according to Tiffany's annual reports, the company has not diversified into any related SBA. Without any reliable source of information to disproof the suggestion, the sum of main and related SBA's will be considered. The findings and statements on the profitability of Tiffany's unrelated SBA's will be distorted through their non-existence and considering the sum of SBA's the effect shall be minimized.

With the number of main SBA's and related SBA's defined the case companies' level of diversification can be investigated documenting their increase or decrease during the time period 2005 – 2009. The development of the SBA's, here the sum of main SBA's and related SBA's, according to the case companies' annual reports is shown in table 8 below. The detailed development is documented in the Appendix.

Number of SBA's	2005	2006	2007	2008	2009
Tiffany	4	4	4	4	4
Zale	4	4	4	4	4
Blue Nile	6	6	6	6	6
Signet	4	4	4	4	4

TABLE 10. Case companies' number of SBA's 2005-2009

Source: Adapted from companies' annual reports 2005 - 2009.

According to the annual reports there have been changes in the product mix as well as changes to brand and product lines within the SBA's 'Loose gemstones', 'Jewelry', 'Accessories' and 'Fragrances', but there has been no diversification into an additional main SBA to the ones listed above. Similar in the case of the related SBA's 'Product Financing', 'Product Insurance' and 'Maintenance'.

Based on the findings displayed in Table 8 the major portion of the investigate case companies, Tiffany, Signet and Zale, have diversified into 4 SBA's, whereas Blue Nile has diversified into 6 SBA's. This suggests that Blue Nile is currently the most diversified company out of the four investigated case companies. The remaining three companies are equally diversified.

3.4.4 Level of Internationalization

As discussed in chapter 2.2.2, the reasons firms go international are to grow and increase their profitability. Firms may export and/ or invest in foreign country in looking to increase profits and grow beyond their own borders (Rugman, 2003, p.4). Therefore, increasing profitability and searching for new markets (Arkpinar, 2009, p. 5) are major motives behind internationalization.

There are several alternative ways to evaluate level of internationalization. In our analysis, we are going to evaluate firm international business activity by looking at foreign sales revenues from 2005 to 2009 (See the below charts).

A company will be an international if its foreign sales are higher than 50% of total sales. In other word, if the company generates sales revenue from foreign country more than its home country.

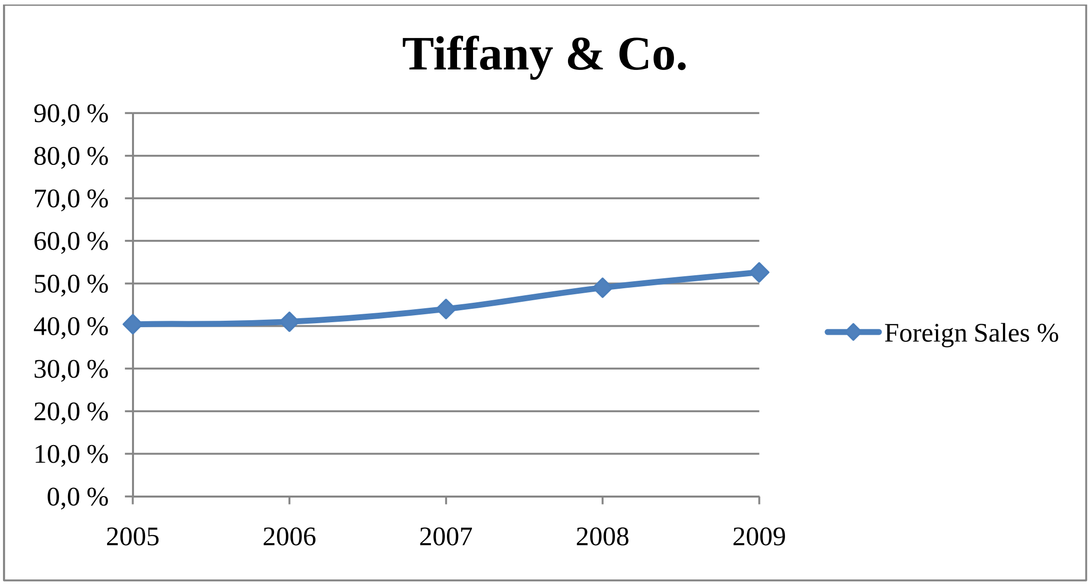

FIGURE 8. Tiffany & Co.'s Foreign Sales Percentage 2005-2009

Source: Adapted from company's annual reports

Tiffany's level of internationalization showed a continuously increasing trend from 2005 to 2009, approximately from 40% to 53%. The company's foreign sales were generated from its international retail stores and department store boutiques, Internet and catalog sales, business-to-business sales, and wholesale distribution outside the USA. In 2007, Tiffany's foreign sales revenue accounted for 44% of net sales, resulting from store expansion outside the USA mainly in Asia-Pacific and entering into a strategic alliance with The Swatch Group. The company sales in most markets were affected by the global economic downturn in the end of 2008 and during 2009. However, its level of internationalization increased from 49% in 2008 to 53% in 2009. As of 2009, 53% of total sales are from foreign markets; therefore, Tiffany is an international company.

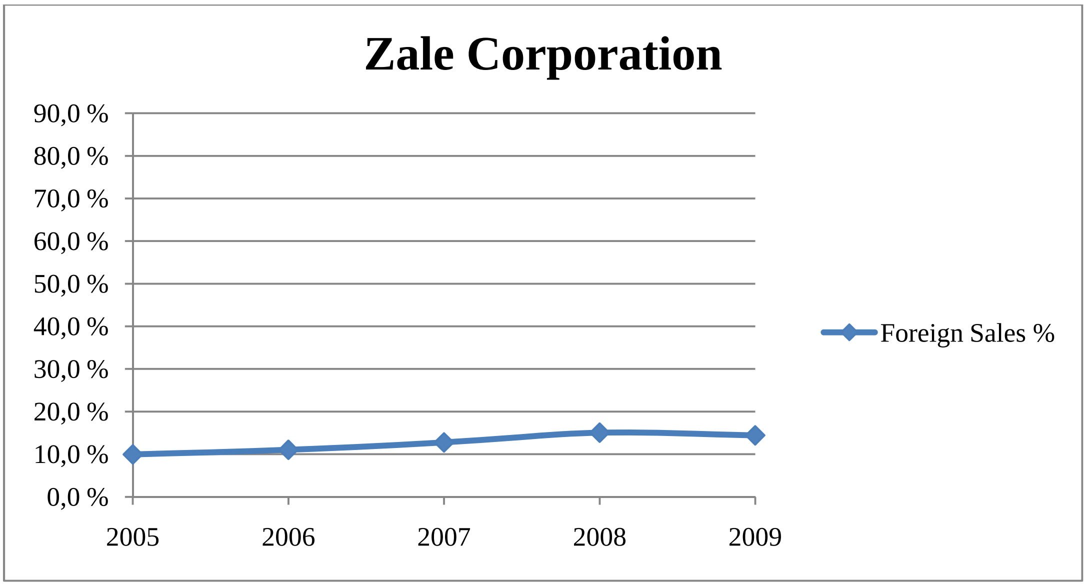

FIGURE 9. Zale Corporation's Foreign Sales Percentage 2005-2009

Source: Adapted from company's annual reports

Zale's level of internationalization showed a continuously increasing trend from 2005 to 2008, approximately from 10% to 15%. But it decreased approximately 1 % in 2009. The company generated international sales revenue through its fine jewelry segment and kiosk jewelry segment (until 2007) outside the USA mainly in Canada. During 2008, the company opened additional stores in Canada. The company's level of internationalization rose from 13% in 2007 to 15% in 2008. Zale Corporation is a domestic company as its foreign sales is less than 50 % of total sales.

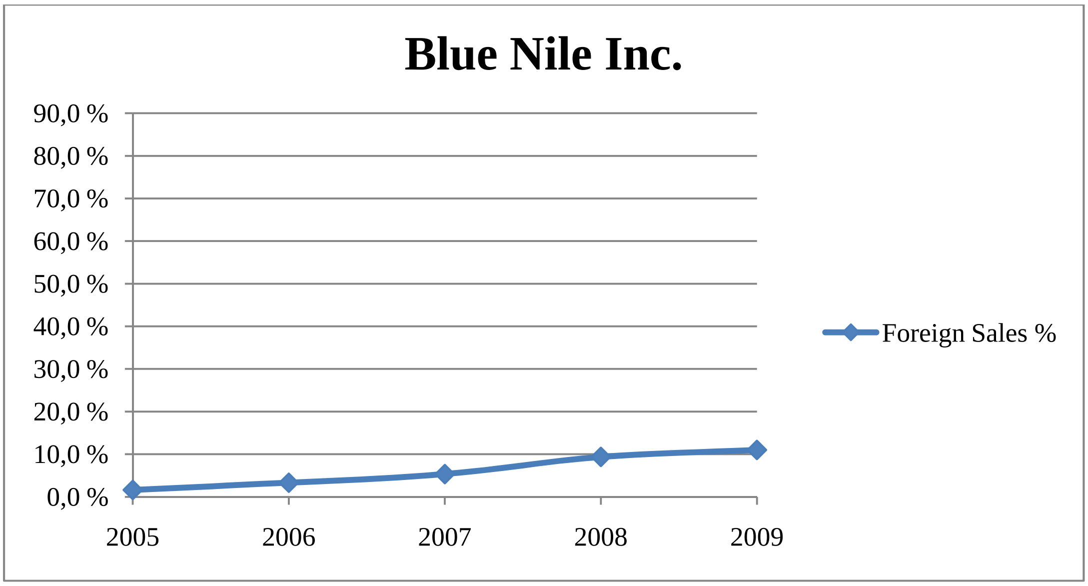

FIGURE 10. Blue Nile's Foreign Sales Percentage 2005-2009

Source: Adapted from company's annual reports

Blue Nile's level of internationalization showed a continuously increasing trend from 2% in 2005 to 11% in 2009. Blue Nile generated international sales revenue from serving consumers in over 40 countries through its trademark e-commerce website www.bluenile.com (including bluenile.co.uk and bluenile.ca) and insurance operation. Despite global economic downturn, Blue Nile's level of internationalization rose from 9% in 2008 to 11% in 2009. It was resulted from the company expanded its customers' ability to shop and transact in 22 additional foreign currencies. Additionally, the company also monitored international sales performance on a non-GAAP basis which eliminates the positive or negative effects that result from translating foreign sales into US dollars (annual report, 2009). As in 2009, the company's foreign sales accounted for 11% of total sales; therefore, it is a domestic company.

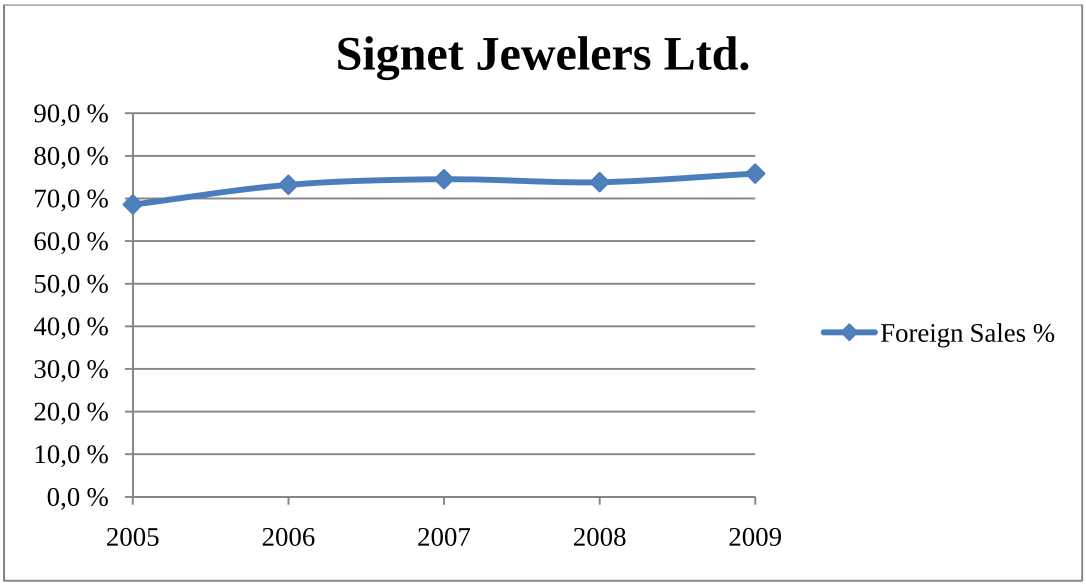

FIGURE 11. Tiffany & Co.'s Foreign Sales Percentage 2005-2009

Source: Adapted from company's annual reports

Signet Jewelers' level of internationalization showed a continuously increasing trend from 69% in 2005 to 75% in 2007 and decreasing to 74 in 2008 and again increasing to 76% in 2009. The company generated its international sales revenue from the retailing of jewelry, watches, other products and services in the US division (Datamonitor, 2009). In 2006, the company expanded and enhanced its online presence at kay.com. Signet's internationalization level rose from 69% in 2005 to 73% in 2006. However, further international growth slowed between 2007 and 2009. As Signet foreign sales accounted for 76% of total sales in 2009, the company is an international company.

The above findings will be used in 3.4.5 to assess the companies' profitability versus their level of internationalization.

3.4.5 Analysis and Findings

As stated earlier the objective of this research is to investigate whether there is a connection between a company's business model and its profitability. So far the case companies business models have been reviewed against the theoretical background and the emerged main strategies have been described. For the analysis and assessment the defined level of diversification, indicated through the amount of SBA's, as well as the level of internationalization, indicated through the percentage of foreign sales, is related to two financial key ratios, the Operating Profit Margin (OPM) and the Return on Assets (ROA) and additionally to the Revenue Growth (RG), since companies diversify and internationalize to grow their revenues and profitability. In the case of the level of diversification it has been stated earlier that sum of main and related SBA's will be used to assess profitability.

The OPM is calculated by dividing the operating profit figure by the net sales figure for a certain period, normally the company's fiscal year. The result is given as percentage and indicates a company's profitability before taxes and interest paid. The OPM is used to picture a company's profitability over longer time periods, to describe its development and also to compare against e.g. market average or competition. It also enables e.g. the company's board to evaluate the management's strategies and activities controlling cost. An overtime increasing OPM is interpreted as a consequence of strategically reasonable and profitable decisions and actions taken and desirable for any business operation.

In relation to the number of SBA's the OPM indicates how profitable they are and if there is a significant difference between the number of SBA's and growth in profitability.

The ROA is calculated by dividing the net income figure by the total assets figure for a certain period, normally the company's fiscal year. The result is given as percentage and gives information about how efficient a company utilizes its assets, in this case its equity as well as debts, to generate profit. The ROA is used to compare a company's profitability over longer time periods and picture its development. It is also used for the comparison of similar companies and their profitability.

The ROA indicates the ability of the management to achieve profit on a made investment and the higher the ROA the higher is the achieved profit on a compared small investment.

The investigated time period 2005 – 2009 was heavily impacted by the economic crisis and therefore the average OPM as well as ROA percentage and average RG are used in the analysis below to provide a more general basis for the conclusions and generalization of the findings. The number of SBA's has not changed over the years 2005-2009 and the number used is based on the year 2009. The detailed values and calculations are displayed in the appendix.

In the first step of the assessment of each company's profitability the in Table 8 defined number of SBA's is related to the average RG, the average OPM and the average ROA percentage.

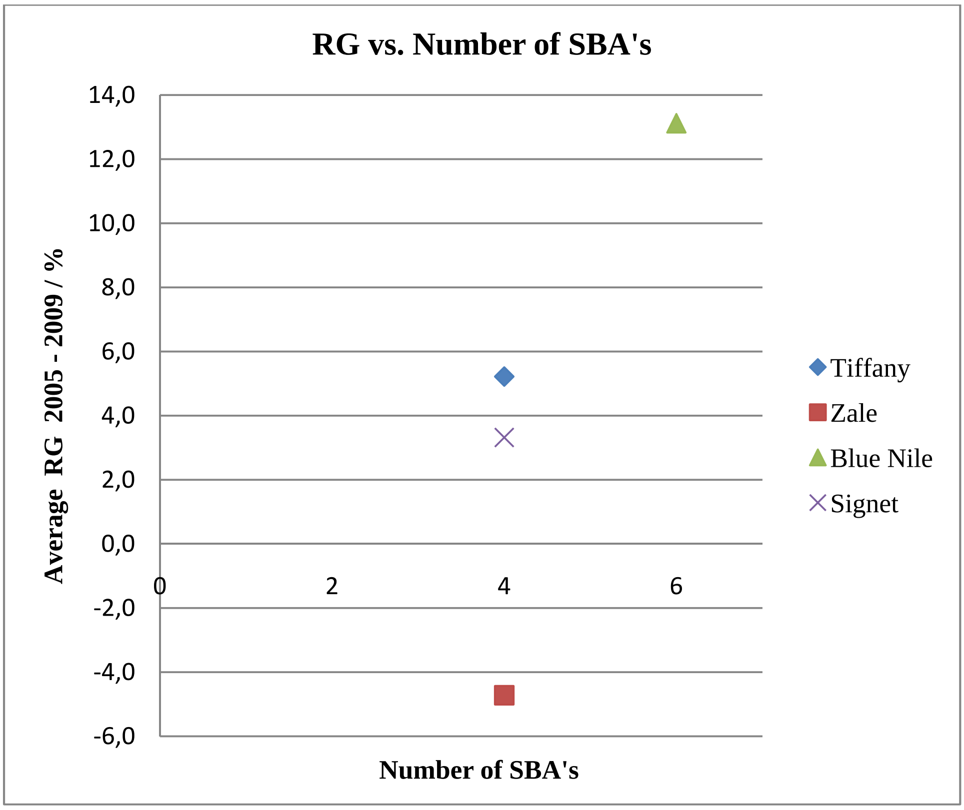

FIGURE 12. Profitability: Average RG vs. Number of SBA's

Figure 8 suggests heavily a correlation between the level of diversification and the RG. Blue Nile with its 6 SBAs is strongly outperforming the other companies with a RG of 13,1% and a difference of 7,9% to Tiffany, scoring second with a RG of 5,2%. However, taking the other companies into account the suggestion gets diluted. Tiffany's extreme counterpart is Zale with a RG of – 4, 7% at the same level of diversification.

Figure 8 does not provide any evidence of a strong correlation between the level of diversification and the achieved RG, since the differences amongst the companies with a similar level of diversification are too big to draw a general conclusion supporting the statement.

The following Figure 13 investigates and visualizes the case companies positioned according to their average OPM in relation to the level of diversification. An in comparison higher OPM is considered as an indicator for a capable management taking the correct decisions to foster profitability.

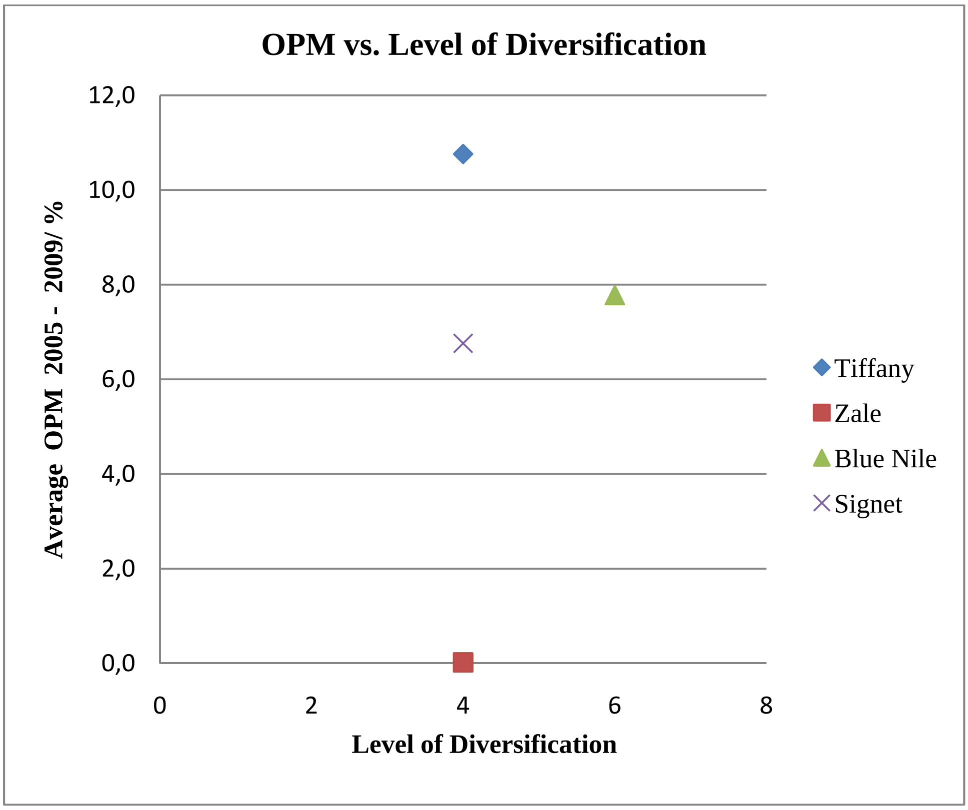

FIGURE 13. Profitability: Average OPM vs. Number of SBA's

Although Blue Nile scored the highest in Figure 12 on the RG, Tiffany outperforms Blue Nile remarkably with an OPM of 10, 8% over 7,8%. Additionally Tiffany achieves the highest OPM with two SBAs less then Blue Nile. This suggests that Tiffany's business operations are run very efficiently and profitable. Surprisingly well positioned is Signet with an OPM of 6, 8%. Compared to Tiffany, who is also running 4 SBAs, it is not as efficiently and profitably managed, but compared to Blue Nile with 6 SBAs and an OPM of 7,8% it is performing excellent. Zale's management is not classified as efficient with an OPM of 0,02% only.

Figure 13 does not provide any evidence of a reliable correlation between the level of diversification and the achieved OPM. For the profitability assessment other factors in the company's internal and external environment need to be considered .

The following Figure 14 investigates and visualizes the case companies positioned according to their average ROA in relation to the number of SBA's. As mentioned earlier the ROA indicates the management's ability to achieve a profit on an investment. A high ROA indicates the capability of the management to achieve a substantial profit on a comparable small investment.

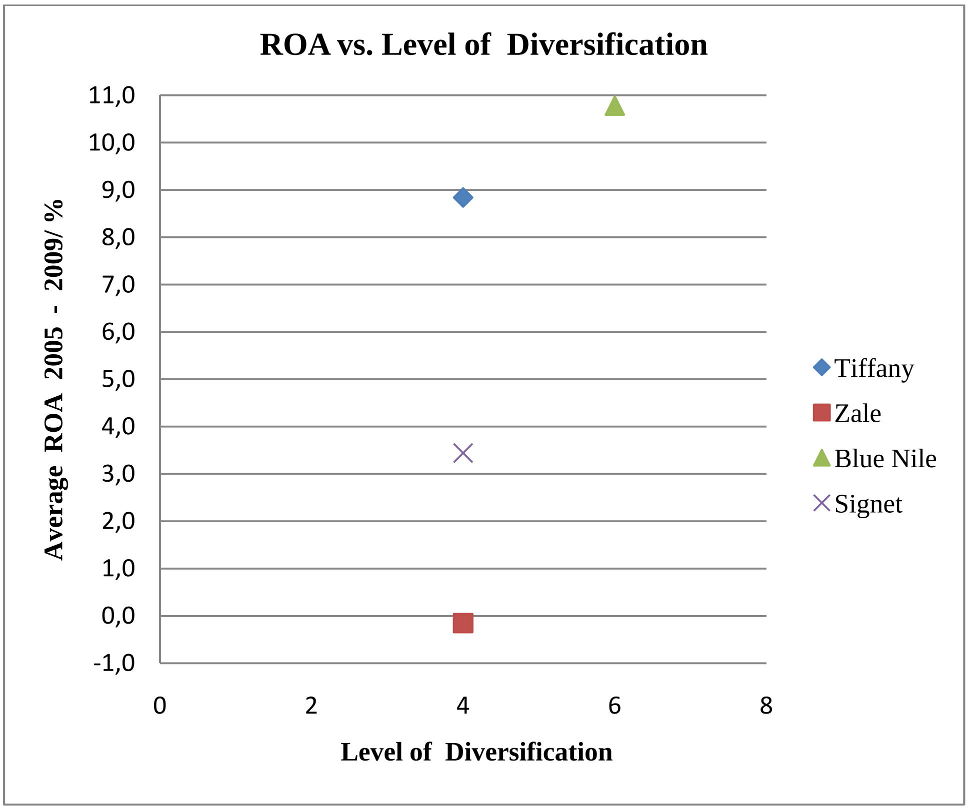

FIGURE 14. Profitability: Average ROA vs. Number of SBA's

In the first place Figure 14 suggest that a higher level of diversification correlates with a higher ROA, since Blue Nile achieves the highest ROA of 10,8% with 6 SBA's. In contrary to the initial suggestion stand the three other case companies with 4 SBA's each and very different ROA achieved. Tiffany achieves the highest ROA of 8,8%, Signet achieves 3,4% and Zale achieves – 0,15%.

The difference in performance can be related to the different business models and strategies perused. The E-commerce business model allows Blue Nile to generate a higher ROA, since its investments - like computer equipment, software, website, leasing household and improvements as well as furniture and fixtures - are significantly smaller and its generated profit significantly higher due to its leaner business structure with e.g. a virtual inventory and less staff. In this context Blue Nile can be seen as the deviation from the norm distorting the findings, but impressively illustrating the benefits of a pure E-commerce model in this retail industry.

As for the remaining three companies, Tiffany, Signet and Zale, they share the same level of diversification with significantly different ROA results. Investigating the business models and strategies it can be supposed that Tiffany strives on an extremely strong brand and a very solid market position, enabling them to generate significant profits on their investments. One of Signet's main strategy is to invest in store space to foster growth, but its ROA only shows a moderate achievement. Zale is displaying a decrease in many of the areas investigated and surely the company's limitation in investment and growth show in its negative ROA.

Based on the difference in performance of the three case companies with 4 SBA's the conclusion is drawn that there is no evidence for a direct correlation between the level of diversification and a company's profitability. In addition to the level of diversification a company's business model, strategies, brand value and position contribute to its performance as well as profitability have to be taken into account for assessment.

In the second step the in 3.4.4 defined Level of Internationalization is related to the average RG, the average OPM and the average ROA percentage.

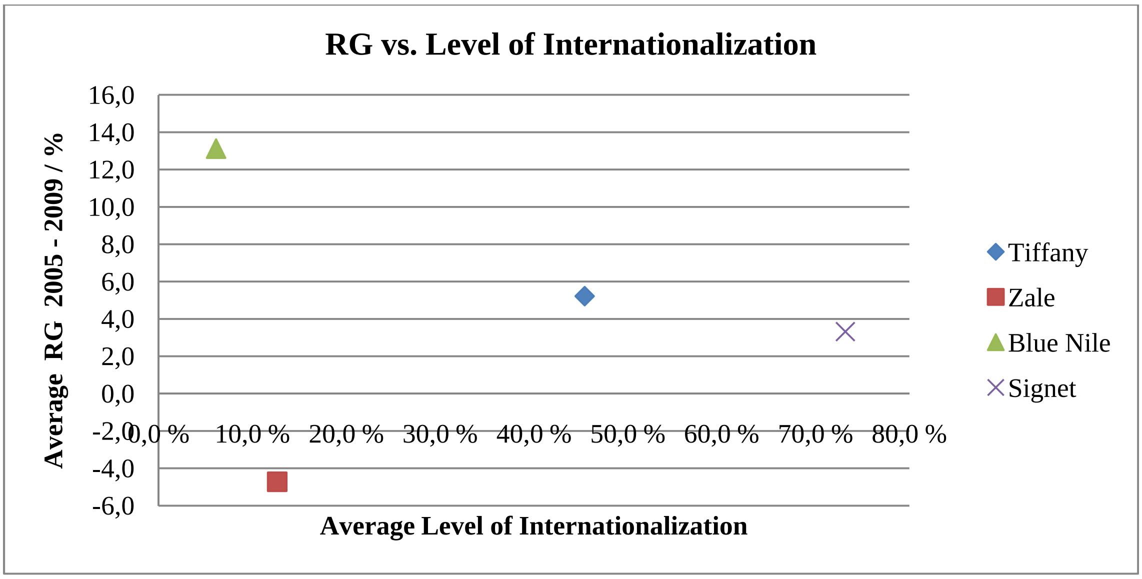

FIGURE 15. Profitability: Average RG vs. Level of Internationalization 2005-2009

As discussed earlier in chapter 3.4.4, firms internationalize in order to increase company’s profit and grow. However, based on our findings (see Figure 15), the most international company, Signet Jewelers (average internationalization level of 73%), could generate average sales revenue growth approximately at 3% compare to Blue Nile which is the least international company (average internationalization level of 6%) at 13%.

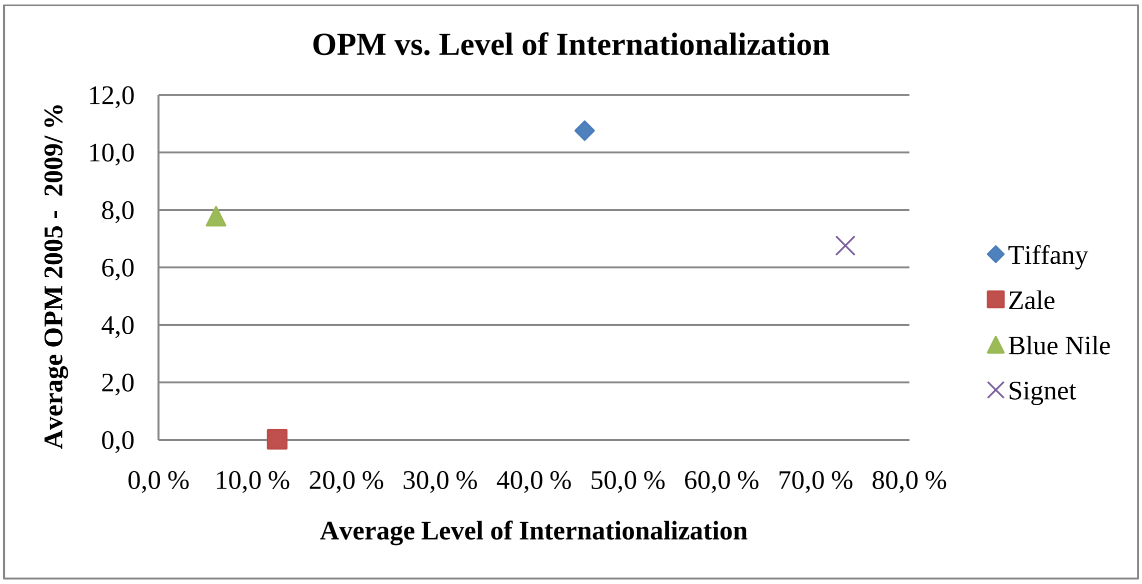

FIGURE 16. Profitability: Average OPM vs. Level of Internationalization 2005-2009

As mentioned above, operating profit margin indicates a company's profitability before taxes and to evaluate the management cost and expense controlling. From our findings (Figure 16), Tiffany, the second international company (average internationalization level of 45%) performs the best in controlling costs and expenses associated with business operations. Its average operating profit margin is 11%. The highest internationalization does not contribute the best profitability in term of cost and expense controlling. As shown in the above figure, Signet's average operating profit margin stand at 7% compare to Blue Nile at 8%.

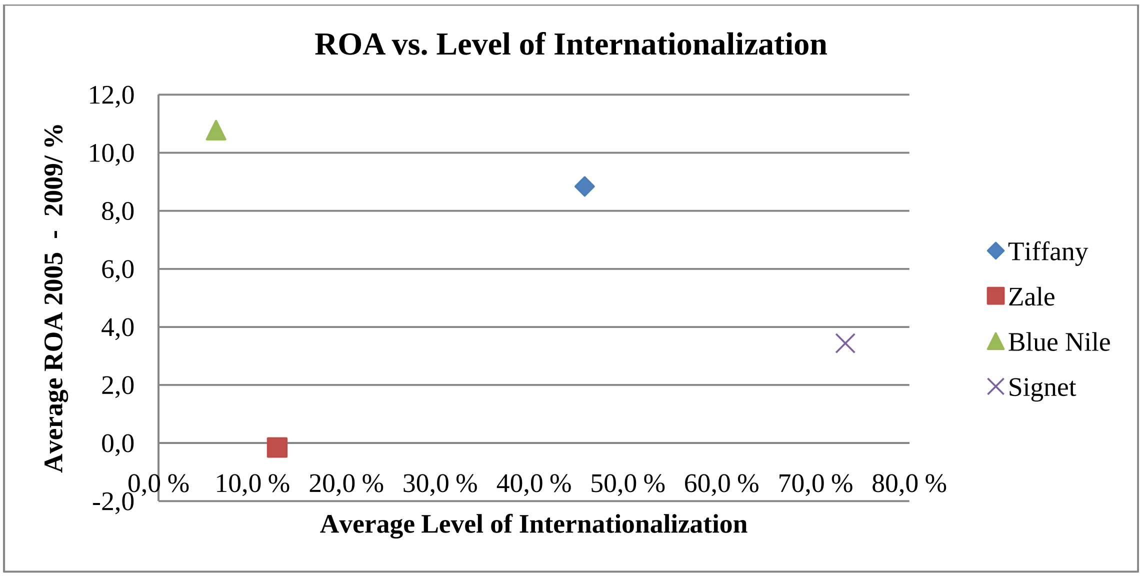

FIGURE 17. Profitability: Average ROA vs. Level of Internationalization 2005-2009

As discussed earlier in this chapter, "Return on Asset" indicates how efficient a company utilizes its assets to generate profit, and indicates management's ability to achieve large profit with little investment. In our findings, shown in above figure, the highest internationalization level does not correlate to the ability to generate large profit from little investment. It can be seen that Blue Nile, the lowest internationalization level, generates larger profit with little investment compare to Signet. Blue Nile's average return on assets stands at 11% compare to Signet's at 3%.

4 DISCUSSION

Business Strategies/Generic Strategies and Jewelry Retail Industry

The global Jewelry Retail Industry is highly fragmented and competitive. Companies compete with a large number of independent international and local jewelry retailers, as well as encounter significant competition in all product lines. Companies gain a competitive advantage over their competitors by successfully implementing business strategies that are geared towards reducing cost and/or differentiate their products and services. Therefore, the company may pursue cost leadership, differentiation, focus strategy or a combination.

In a competitively fragmented global jewelry retail industry, Tiffany & Co. enjoys its strong brand value (the most important company's asset). Tiffany differentiates its products by providing unique or superior products through its brand, which is well-known for its reputation of high-quality products, excellent customer service and distinctive value-priced merchandise and does not engage in price promotional advertising. Tiffany successfully implements a differentiation strategy by being innovative and creative. With its innovation and creativity, Tiffany introduces many new products' designs and styles that keep customer's interest. For example, Tiffany Setting, engagement ring, is one of the Tiffany's innovative designs, and is well-known for its unique and elegant.

Zale Corporation offers fine jewelry through five brands that focus on the value oriented customer. Zale brands are relevant by offering quality product at great prices. Zale targets varied customers (higher income & middle-class) and offer lower opening price points in each product categories and brands it offers, pursuing focus (differentiation) strategy. Additionally, Zale also pursues focus (low cost) strategy by offering low-priced merchandise and targeting younger customers through Kiosk Jewelry segment. As an increasing number of customers prefer products and choices at lower price points, Zale is well positioned itself to cater to this customer base. Zale increases its customer base without diluting the brand image by offering a variety of brands that target varied customers.

Blue Nile's brand is well respected by consumers in term of offering a broad selection of high quality jewelry at very competitive prices. In a highly competitive jewelry retail market, Blue Nile achieves a dominant position through focusing on its core product that is engagement jewelry and on a specific customer group who demand for a unique engagement product, pursuing focus (differentiation) strategy. Blue Nile also pursues cost leadership strategy with the ability to offer the same product at a lower price than its competitors. Its lower product prices are achieved through a cost-efficient business model; an efficient online cost structure and a unique supply solution that eliminates traditional layers of diamond wholesalers and brokers.

Signet has a strong position within the jewelry retail market results from its strong market presence and divers brand. Its US division targets an under-served sector at the upper end of the middle market, and its UK division targets the upper middle and end of markets. The company achieves advantages on cost and quality through its contract manufacturing strategy; supply polished loose diamonds to the contract manufacturing partners. The company can be described as pursuing focus (low cost) and cost leadership strategy as it targets a specific group of customers for each business segments and aim at securing the lowest product.

Growth Strategies and Jewelry Retail Industry

Diversification and internationalization are the two major types of growth vectors, and are alternative routes for expanding a company's portfolio in terms of growth. Growth also improves the effectiveness of the company. Larger companies have a number of advantages over smaller companies such as economies of scale resulting from marketing or production synergies. The company may pursue one or both types of growth strategies or the company may prefer diversification over internationalization except the firm's objectives cannot be met through diversification. The reason is because internationalization is much more difficult, risky and costly than diversification. As for jewelry retail industry which is competitively fragmented and moving toward consolidation, companies cannot rely only on a single product and domestic market in order to stay in business and grow. For example, Zale's growth is limited compare to other three companies in our case studies. This is because Zale's market is mainly domestic- the United State.

Companies pursue diversification strategy is in responding to needs of markets or consumers. As Tiffany & Co., it has adapted its business to market as it changed. Tiffany's core SBA (strategic business area) is jewelry, and it diversifies new product lines within the core SBA such as timepieces, sterling silver goods (other than jewelry), china, crystal, stationery, fragrances and personal accessories. Some companies such as Zale, Blue Nile, and Signet specialize in one or two areas in which Tiffany active. Zale's and Blue Nile's core SBA are jewelry, but they also diversifies into new SBAs; product financing and product insurance which Tiffany is not active. Blue Nile additionally diversifies into new SBAs such as product maintenance. Signet's core SBAs is jewelry and its new SBAs include associated services; Jewelry repair services.

Companies pursue internationalization in order to grow, increase their profitability and search for new markets as well as response to needs of business. Tiffany has selectively expanded its global distribution in order to grow and increase profit. In response to needs of business, Tiffany established the Laurelton Diamonds, a rough diamond trading and manufacturing company, in Belgium, Vietnam, Canada, Botswana and South Africa to control the worldwide supply chain that cuts, polishes and supplies finished to Tiffany. This is to secure supplies of diamonds and costs as well as to ensure the integrity and high quality of its diamonds. As for Zale, it has expanded its business by establishing distribution operation in North America mainly in Canada. Blue Nile is different from other companies as its internationalization is connected to the availability and accessibility of the Internet, accounting and logistic service in target country. Currently, Blue Nile serves customers in over 40 countries in Americas, Western Europe, and Asia-Pacific. For Signet Jewelers, the company mainly focuses on two geographic segments- the US division and the UK division. Signet's degree of internationalization is higher than other companies. More than 70% of its total revenue is generated from international market (the US division). Therefore, internationalization is important for Signet to grow and increase profitability.

Companies' Strategies and their Performance

This research aimed to investigate the link between a company's strategy and its performance. The strategies that companies pursue in this investigation are Porter's generic strategy and growth strategies: diversification and internationalization. Based on this finding, there is a positive impact on generic strategies and companies performance. But growth strategies that companies pursued do not have positive or negative impact on companies' performance. However, further studies are required.

The findings show that Blue Nile pursues “focus (differentiation”) and “cost leadership” strategies tend to generate the best revenue growth and return on assets in average for a period of time (2005-2009). In other words, Blue Nile generates better revenue growth than other companies and excels at making a large profit from little investment. Tiffany, who pursues mainly “differentiation strategy”, performs better than all other companies in controlling costs and expenses associated with business operations, and Blue Nile is next to Tiffany. Zale Corporation pursues mainly “focus strategy” tend to have limitation on revenue growth, and under-performance on controlling cost and expense and generating better profit from investment.

The level of diversification (within the Core SBA and new SBA) does not have positive or negative impact on companies’ performance. Blue Nile has the highest number of SBAs (Strategic Business Area) at 6 compare to other three companies who has 4 each. Blue Nile has the best performance by measuring the revenue growth and return on asset, but Tiffany generated the highest in operating profit margin. It can be considered that the more diversify the company tend to have better performance in generating profit, but not in controlling costs and expenses.

The findings also show that the level of internationalization does not have positive or negative impact on companies’ performance. Blue Nile who has the lowest level of internationalization performs better than Signet Jeweler (the highest level of internationalization) in term of revenue growth and return on assets. Tiffany who is the second highest level of internationalization performs the best in generating the operating profit margin. Therefore, the highest internationalization does not prove that the company will have the best performance in generating revenue growth, controlling costs, and generating larger profit from little capital investment.

This study provides better understandings on the strategies that companies pursue and their performance which should be useful for managers of multinationals. The study provides evidence that company should differentiate its products with competitive price, which in line with pursuing differentiation focus and cost leadership strategy. The company should not rely only on a single product which is risky, and in order to grow the company should internationalize.

If we are to enter into this industry, we will start with online retail business. Since, information technology has facilitated every step of the online retail business, and customer satisfaction has been the key factor of this success. In nowadays modern society, a customer who is technological know-how needs high levels of quality, more variety, and excellent service, lower cost and higher speed. In order to succeed in online business, a company needs to adopt modern business structures and implement strategies that help to meet basic customer needs. Such strategies are differentiation, cost leadership and diversification. Additionally, a company needs to have trustable suppliers, effective and efficient logistic and reliable accounting system. As an online retailer, a company can allow the customer to choose products while using the idea of virtual stores help the company to save costs and at the same time to deliver quality products and services to customers.

5 CONCLUSIONS

This research investigates growth strategies of multinational companies to identify whether there is a link between the companies performance and its pursued strategies. The authors are interested in understanding, analyzing and defining the possible connection and drawing conclusions on the most promising business and growth strategies for a possible business of their own. The Jewelry Retail Industry is chosen due to a personal proximity of one of the authors, but the findings are investigated on their transferability to other industries and potential to be generalized.

As case companies four major competitors within the global jewelry retail industry have been chosen: Blue Nile Inc., Signet Jewelers Ltd., Tiffany & Co. and Zale Corporation.

The research questions to answer the main research question of ‘Is there a connection between a company’s perused growth strategy and its profitability?’ are the following:

1. What kind of business models and strategies do global jewelry retailers pursue?
2. What growth strategies do global jewelry retailers pursue?
3. Is there a link between a company’s strategy and its performance?
4. If there is a link are the findings transferrable to other industries or markets?

Before addressing the research questions in detail one by one, a theoretical background is compiled to provide the necessary information for the case companies business and growth strategies analysis and assessment. For the analysis and assessment of the case companies’ business models and strategies, the authors review the concepts of strategic management, Porter’s competitive analysis, including the Five Forces Model, the Generic Strategies as well as the Value Chain and the Competitive Advantage. Other concepts like e.g. the Blue Ocean are introduced only briefly to give a more comprehensive context on the subject strategic management. For the analysis and assessment of the case companies’ growth strategies, Ansoff’s concept of diversification and also the concept of internationalization are reviewed.

Subsequent to the theoretical background the case companies are introduced and an overview is given of their historical development, their business operations, product mix and chosen financial figures.

With the case companies introduced, the first research question is addressed by relating the case companies' business models and strategies to the theory provided. The findings are summarized for each case company.

Similar to the procedure before the case companies' growth strategies are related to the discussed theory and the findings summarized for each company to answer the second research question.

The first findings are used to assess the profitability of the case companies and answer the third question. The relationship between the case companies' growth strategies and their performance is evaluated by calculating the level of diversification and internationalization for each company and compared with three key financial ratios: revenue growth, operating profit margin, and return on assets. These ratios support the determination of the profitability and performance of company from different angles.

Based on the findings some of the case companies pursue one of Porter's generic strategies and some pursue a combination of one or two. The companies diversify (within the main SBA and into new SBAs) in response to the market and to adapt to market change. The companies enter into international market to grow and increase profit as well as to satisfy the needs of its business. The company, who pursues a differentiation strategy and combines it with a cost leadership strategy, tends to have a better performance and seems to be more profitable.

The research does not provide a concise answer to the main research question 'Is there a connection between a company's perused growth strategy and its profitability?' It provides evidence that a higher level of diversification and internationalization does not translate directly into a higher profitability. It also provides evidence that perused growth strategies contribute to a company's profitability as a strategic management element in conjunction with other elements, like e.g. the business model.

Nevertheless, within a highly competitive market like the jewelry retail industry, companies cannot rely only on a single product in order to sustain and grow business. It is mandatory for the companies to diversify and internationalize as element of their strategic business development.

For businesses not operating within the jewelry retail industry the research provides a better understanding of the case companies' implemented business and growth strategies, their theoretical background and their performance, which is considered to be useful and beneficial for their own business conducting. The main transferrable findings are that a business cannot sustain its operations without growth through diversification and internationalization, but growth strategies only do not assure profitability. They have to be seen as one strategic element within the process.

Throughout the condition of the research the authors found the e-commerce business model very appealing for a business of their own. Compared to the traditional brick-and-mortar an e-commerce business appears to be easier to set up and operate with a smaller budget. Regarding the products sold over the internet the authors believe that online retailing and shopping overcame the obstacles of an alien, unreliable and untrustworthy way of doing business and shopping and as the case companies show also for high end and high value products. The authors will continue to investigate the e-commerce business models and evaluate the possibilities for their own businesses.

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APPENDICES

Appendix 1. Companies' Key Financials

Tiffany Key Financials ($)

in thousands	2005	2006	2007	2008	2009
Sales revenues	2 309 245	2 552 414	2 927 751	2 848 859	2 709 704
EBIT	270 593	294 615	369 999	232 155	265 676
Net profit	261 396	272 897	323 478	220 022	264 823
Total assets	2 817 344	2 904 552	3 000 904	3 102 283	3 488 360

Source: Annual report 2009-2010

Zale Corporation Key Financials ($)

in thousands	2005	2006	2007	2008	2009
Sales revenues	2 062 196	2 153 955	2 152 785	2 138 041	1 779 744
EBIT	155 707	70 840	63 155	-1 692	-242 518
Net profit	106 225	48 054	57 486	631	-189 503
Total assets	1 371 878	1 449 639	1 600 144	1 415 260	1 230 972

Source: Annual report 2009

Blue Nile Key Financials ($)

in thousands	2005	2006	2007	2008	2009
Sales revenues	203 169	251 587	319 264	295 329	302 134
EBIT	20 553	19 980	26 587	17 856	19 678
Net profit	13 153	13 064	17 459	11 630	12 800
Total assets	138 005	122 106	160 586	89 665	130 415

Source: Annual report 2008 & 2009

Signet Jewelers Key Financials ($)

$ millions	2005	2006	2007	2008	2009
Sales revenues	3 004,8	3 154,1	3 559,2	3 665,3	3 344,3
EBIT	379,5	354,3	387,3	336,2	-326,5
Net profit	255,8	238,0	252,7	219,8	-393,7
Total assets	2 873,5	2 863,1	3 508,2	3 599,4	2 953,9

Source: Annual report 2008 & 2009

Appendix 2. Companies’ Average Key Financial Ratios

Calculation of average value Revenue Growth

Revenue Growth	2005	2006	2007	2008	2009	**Avarage RG 2005-2009**
Tiffany	8,5	10,5	14,7	-2,7	-4,9	5,22
Zale	-10,5	4,5	-0,1	-0,7	-16,8	-4,72
Blue Nile	20,1	23,8	26,9	-7,5	2,3	13,12
Signet	4,6	5,0	12,8	3,0	-8,8	3,32

Source: Adapted from company's annual reports

Calculation of average value Operating Profit Margin

Operating Profit Margin	2005	2006	2007	2008	2009	**Avarage OPM 2005-2009**
Tiffany	11,7	11,5	12,6	8,2	9,8	10,76
Zale	7,6	3,3	2,9	-0,1	-13,6	0,02
Blue Nile	10,1	7,9	8,3	6,1	6,5	7,78
Signet	12,3	11,2	10,9	9,2	-9,8	6,76

Source: Adapted from company's annual reports

Calculation of average value Return On Assets

Return On Assets	2005	2006	2007	2008	2009	**Avarage ROA 2005 -2009**
Tiffany	9,3	9,4	10,8	7,1	7,6	8,84
Zale	7,7	3,3	3,6	0,0	-15,4	-0,15
Blue Nile	9,5	10,7	10,9	13,0	9,8	10,78
Signet	8,9	8,3	7,2	6,1	-13,3	3,44

Source: Adapted from company's annual reports

Appendix 3. Companies Strategic Business Areas

Companies' Diversification (Main and related SBA's) 2005-2009

Number of SBA's	**2005**	**2006**	**2007**	**2008**	**2009**
Tiffany	4	4	4	4	4
Zale	4	4	4	4	4
Blue Nile	6	6	6	6	6
Signet	4	4	4	4	4

Source: Adapted from companies' annual reports

Appendix 4. Companies' Diversification 2005-2009 (Main SBA's)

Main SBA's	Loose gemstones	Jewellry	Accesoires	Fragrances	Total 2009
Tiffany	1	1	1	1	4
Zale	0	1	1	0	2
Blue Nile	1	1	1	0	3
Signet	1	1	1	0	3

Main SBA's	Loose gemstones	Jewellry	Accesoires	Fragrances	Total 2008
Tiffany	1	1	1	1	4
Zale	0	1	1	0	2
Blue Nile	1	1	1	0	3
Signet	1	1	1	0	3

Main SBA's	Loose gemstones	Jewellry	Accesoires	Fragrances	Total 2007
Tiffany	1	1	1	1	4
Zale	0	1	1	0	2
Blue Nile	1	1	1	0	3
Signet	1	1	1	0	3

Main SBA's	Loose gemstones	Jewellry	Accesoires	Fragrances	Total 2006
Tiffany	1	1	1	1	4
Zale	0	1	1	0	2
Blue Nile	1	1	1	0	3
Signet	1	1	1	0	3

Main SBA's	Loose gemstones	Jewellry	Accesoires	Fragrances	Total 2005
Tiffany	1	1	1	1	4
Zale	0	1	1	0	2
Blue Nile	1	1	1	0	3
Signet	1	1	1	0	3

Source: Adapted from companies' annual reports

Appendix 5. Companies' Foreign Sales Percentage

Tiffany & Co.

$ (in thousands)

Sales Revenue	2005	2006	2007	2008	2009
Domestic	1 378 166	1 510 833	1 645 712	1 458 598	1 283 869
Foreign	934 626	1 049 901	1 293 059	1 401 399	1 425 835
Total	2 312 792	2 560 734	2 938 771	2 859 997	2 709 704
Foreign Sales %	40,4 %	41,0 %	44,0 %	49,0 %	52,6 %

Source: Adapted from company's annual reports 2007, 2008, 2009-10

Zale Corporation

$ (in thousands)

Sales Revenue	2005	2006	2007	2008	2009
Domestic	1 857 296	1 916 655	1 877 985	1 816 141	1 523 044
Foreign	204 900	237 300	274 800	321 900	256 700
Total	2 062 196	2 153 955	2 152 785	2 138 041	1 779 744
Foreign Sales %	9,9 %	11,0 %	12,8 %	15,1 %	14,4 %

Source: Adapted from company's annual reports 2009

Blue Nile Inc.

$ (in thousands)

Sales Revenue	2005	2006	2007	2008	2009
Domestic	199 869	243 270	302 230	267 670	268 898
Foreign	3 300	8 317	17 034	27 659	33 236
Total	203 169	251 587	319 264	295 329	302 134
Foreign Sales %	1,6 %	3,3 %	5,3 %	9,4 %	11,0 %

Source: Adapted from company's annual reports 2005, 2008, 2009

Signet Jewelers Ltd.

$ (in thousands)

Sales Revenue	2005	2006	2007	2008	2009
Domestic	964 630	845 300	907 100	959 600	808 200
Foreign	2 104 820	2 308 800	2 652 100	2 705 700	2 536 100
Total	3 069 450	3 154 100	3 559 200	3 665 300	3 344 300
Foreign Sales %	68,6 %	73,2 %	74,5 %	73,8 %	75,8 %

Source: Adapted from company's annual reports 2007, 2008, 2009, 2010