

Market Analysis

Summary

Jewelry manufacturing in the U.S. has seen sharp declines in recent years due to strong foreign competition. Many developing countries are in a good position to provide products at highly competitive prices. As a result, many U.S. firms have chosen to produce goods overseas.

Despite the decline in the number of domestic jewelry manufacturing establishments, sales of costume jewelry have seen sharp increases. The [organization] can capitalize on the growing social trend of buying American products, as well as sales from customers who wish to support a worthy cause.

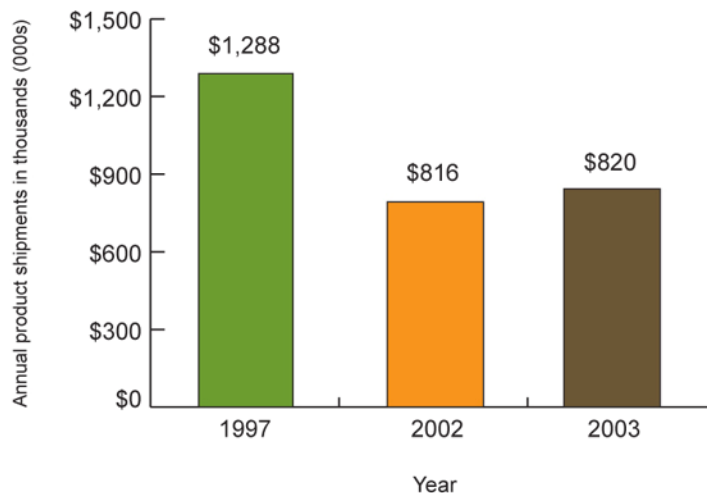
Industry Analysis and Market Growth

While the U.S. government classifies and tracks various industries, there is a limited amount of data for NAICS code 339914 and SIC code 3961. Because making costume jewelry requires a modest amount of skill and the start up costs for an entrepreneur are minimal, thousands of hobbyists have taken to designing their own jewelry pieces and selling them via the Internet and craft fairs.

It is difficult to determine the true size of the costume jewelry industry. A Google search for the term “handmade jewelry” yielded over seven million results. A Google search for “beaded jewelry” yielded over two million results.

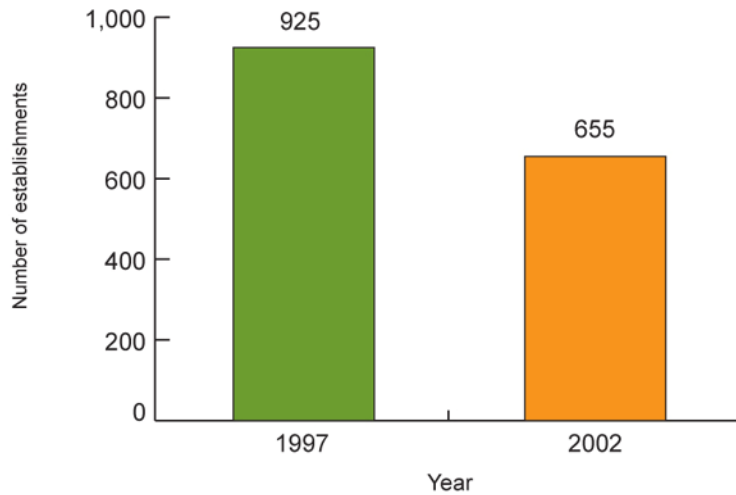
Information obtained on NAICS code 339914 shows that there were 655 costume jewelry establishments in 2002, and the value of shipments was over \$816 million. These establishments employed 8,129 workers. The number of establishments had decreased 29.2% between 1997 and 2002, while the value of shipments and number of paid employees decreased 36.7% and 44.8%, respectively (U.S. Census Bureau, 2009).

NAICS Code 339914: U.S. Product Shipments



Source: U.S. Census Bureau, Business and Company Resource Center

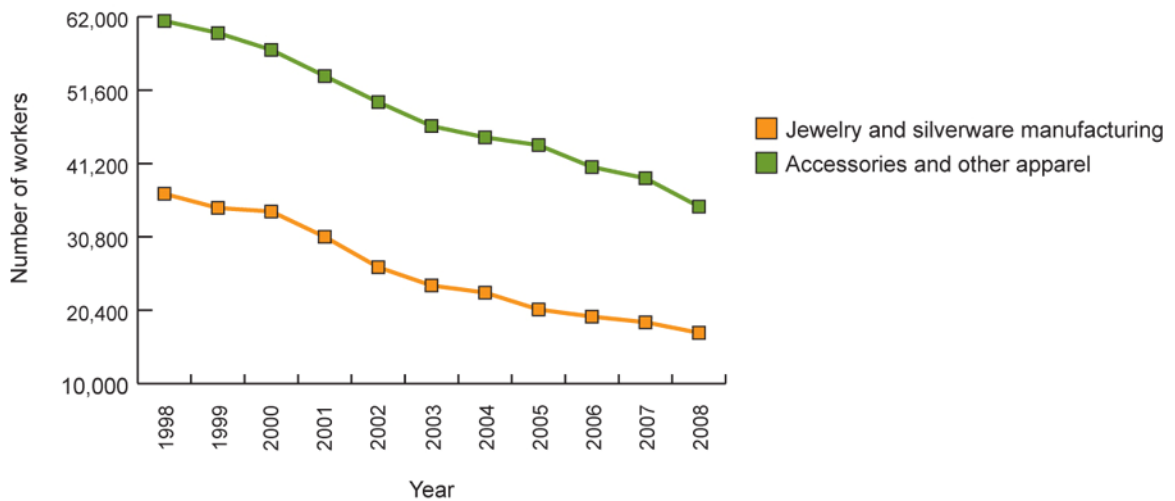
NAICS Code 339914: U.S. Establishments



Source: U.S. Census Bureau

Further research from the Bureau of Labor Statistics showed that the number of workers in the “jewelry and silverware manufacturing” industry decreased 43% between 1998 and 2008. The “accessories and other apparel” industry saw a 53% decrease in its workforce during the same period. While the workforce in both categories decreased over this ten year period, wages for both types of workers increased 37% (BLS, 2009).

Number of Workers: U.S. Jewelry Industry



Source: Bureau of Labor Statistics

The decline in U.S. jewelry manufacturing can be explained by demand for less-expensive pieces and strong foreign competition. Price competition from overseas has resulted in weaker sales for American manufacturers. In fact, by 1998, approximately 50% of the jewelry sold in the United States was imported (Costume Jewelry Industry Yearbook, 2001). Many jewelry items are produced partially or completely by hand, therefore developing countries are in a favorable position to provide them at very competitive prices. As a result, many U.S. firms have chosen to produce goods overseas.

Despite the decline in the number of domestic jewelry manufacturing establishments, sales of costume jewelry rose 5.3% in 2004 in the United States alone according to *National Jeweler* magazine. Sales of fine jewelry saw an even larger increase in sales with 6.6% growth in 2004, and both segments are expected to experience added revenue in the coming years (Braverman, 2005).

Between 2006 and 2007, sales of costume jewelry rose 20% (Foreman, 2007). According to department store jewelry buyer, Tania Wicklow, “[The sector] is... at an all-time high. I don’t think it’s reached its peak (Foreman, 2007).”

The [organization] can capitalize on the growing social trend of buying American products, as well as sales from customers who wish to support a worthy cause.

Market Segmentation

Consumer Analysis and Market Segmentation

According to the Bureau of Labor Statistics' 2007 Consumer Expenditure Survey, the ideal consumers of "other apparel products and services" are college-educated white women, age 35 to 44 and living in urban areas. Furthermore, women fitting this description who also live in a household with two earners and make \$50,000 or more per year (BLS, 2009).

The [organization] is fortunate to have an existing customer base that is a good fit for the jewelry business. Customer research performed for the organization on behalf of [firm] in [year] indicated that [percent] of the [organization's] customers are women. Eighty percent of the customers are between the ages of 25 and 54, and 88% have education beyond high school [(firm, year)].

Jewelry is considered by many to be a luxury item, and in trying economic times sales of luxury items tend to suffer.

The cost of gold and silver has risen significantly in recent years. Research suggests consumers are looking to purchase items that look trendy, but without a huge price tag. Costume jewelry, similar to the handmade pieces [organization] intends to manufacture, offers a stylish alternative to fine jewelry. In fact, according to Michael Coan, associate professor and chair of the jewelry design department at the Fashion Institute of Technology, a consumer that was once in the market for a fine jewelry piece costing several hundreds of dollars can now find a comparable piece of costume jewelry for much less. "The economy makes things much sweeter for fashion jewelry," says Coan (Tell, 2008).

According to *Women's Wear Daily* magazine, women tend to purchase jewelry in tough economic times as a means of updating an older wardrobe (Tell, 2008). Updating a wardrobe full of pricey business suits can cost a professional woman thousands of dollars, while adding a few new jewelry pieces to her collection can freshen a wardrobe without a hefty price tag.

The distinct difference between the fine and costume jewelry segments though, is that costume jewelry tends to be purchased much more by women for themselves.

According to Pam Danziger, founder of the luxury marketing firm, Unity Marketing, "The fine jewelry market is split about 50/50 between men buying and women buying, with men buying for girls and women buying for themselves. But if you look at costume jewelry, it's almost all women buying for themselves. (Braverman, 2005)"

Consumers in the costume jewelry segment value each piece for its design element. Jewelry pieces are not limited to fine materials such as gold and precious stones. Designer Karen Erickson of jewelry brand Erickson Beamon states, "If I want to use

string and make something beautiful and relative to fashion, then string can be my medium. (Tell, 2007)”

Bold, trendy costume jewelry pieces are seen throughout the pages of fashion magazines. An increasing number of A-list celebrities are seen wearing jewelry that promotes a cause. [Organization] hopes to capitalize on this current trend with its own line of “jewelry with a purpose”.

[Organization] has the opportunity to capitalize on this unique aspect of the costume jewelry market by creating unique pieces valued for both their design elements, as well as for their support of a worthy cause. Scott Shram, general merchandising manager for accessories and apparel at retailer Henri Bendel says, “Pricing or labeling [of jewelry] doesn’t have the resistance you’d think it does if the piece you are presenting is telling a story and creating an emotion for the customer. (Tell, 2007)”

The organization’s current customer base is made up of the types of consumers who enjoy splurging on luxury items. The emotion created by the organization’s gourmet food products can be transferred easily to a product like jewelry.

In a marketplace in which rising energy prices and higher living costs affect many other purchases, experts feel that accessories sales will continue to perform strongly; provided the product is compelling, consumers will buy it. However, the accessories must provide the customer with a reason to buy.

During the 2006 Christmas holiday season, [organization] tested the jewelry concept with its customers. Several hundred jewelry items were constructed – predominantly necklaces – which were sold during the [organization’s] annual Holiday Fair., at which there were approximately 400 customers in attendance over a three day period. The jewelry was well received and nearly all pieces sold, resulting in \$4,800 in additional revenue for the organization.

Through the market test, the organization gathered information from its existing customers about styles and trends, average price points, as well as overall enthusiasm for the product expansion. Most of the interest was in necklaces and bracelets, and customer feedback indicated that the [organization] should focus its efforts in these two categories.

Customer Survey

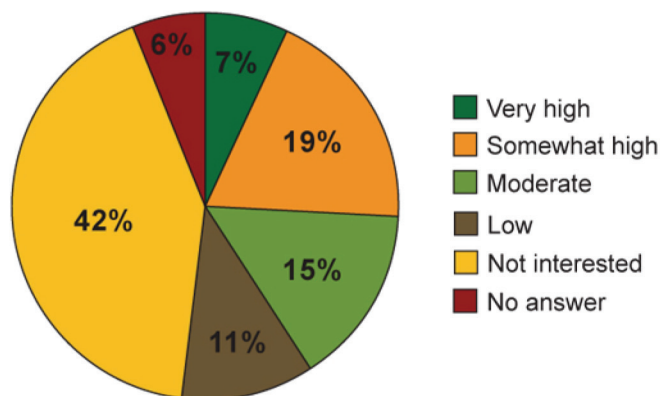
During the month of February 2009, 307 of the [organization's] retail customers were surveyed about their interest selling in handmade jewelry products.

The survey population consisted of [retailers] in 40 states. A significant number of the retailers selling the [organization's] [other] products make an ideal base from which to sell jewelry.

Of the 307 surveys sent, the [organization] received a 26% response rate. When asked their level of interest in selling necklaces similar to prototype images that were provided in the survey, over a quarter of the respondents said their interest level was “somewhat high” or “very high”. Respondents with a moderate level of interest in necklaces equaled 15% (L. Moore, 2009 [Organization] Survey, February 04, 2009).

When asked about necklaces, 42% of respondents said they had “no interest”. While this figure seems to be somewhat high, there is a good explanation for the data. Most of the respondents with “no interest” are franchisees of [organization], a national chain of [product]. Many of the “no interest” respondents commented that they liked the prototype jewelry images, but were contractually obligated to buy jewelry from [organization]. Other “no interest” respondents operate [product] shops, and would not be a target for jewelry sales.

Based on the images shown, what is your level of interest in selling handmade artisan necklaces from _____



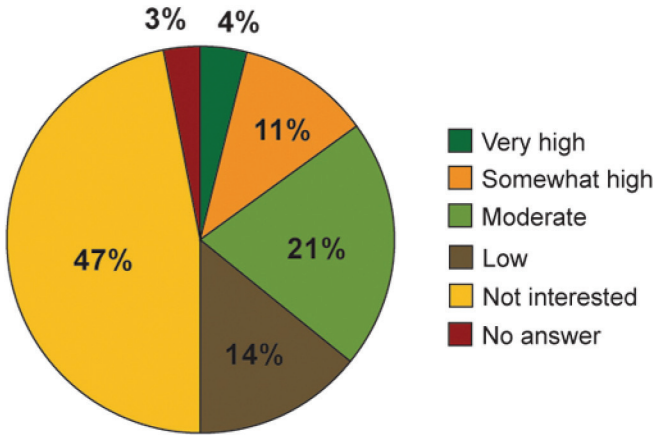
Source: 2009 _____

When asked their level of interest in selling bracelets similar to prototype images that were provided in the survey, 15% of the respondents said their interest level was “somewhat high” or “very high”. Respondents with a moderate level of interest in necklaces equaled 21% (L. Moore, 2009 [Organization] Survey, February 04, 2009).

When asked about bracelets, 47% of respondents said they had “no interest”. The reason

for the high number of “no interest” respondents was the same as for the necklaces – [organization] franchisees that are contractually unable to purchase other brands of jewelry and [product] retailers that would not purchase jewelry.

Based on the images shown, what is your level of interest in selling handmade artisan bracelets from [redacted]

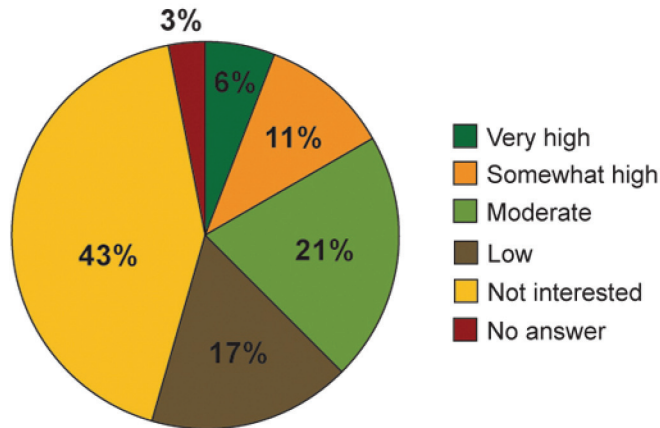


Source: 2009 [redacted]

When asked about their interest in selling beaded earrings similar to images that were provided in the survey, 17% of the respondents said their interest level was “somewhat high” or “very high”. Respondents with a moderate level of interest in necklaces equaled 21% (L. Moore, 2009 [Organization] Survey, February 04, 2009).

When asked about beaded earrings, 43% of respondents said they had “no interest”. The reason for the high number of “no interest” respondents was the same as for the necklaces and bracelets – [organization] franchisees that are contractually unable to purchase other brands of jewelry and [product] retailers that would not purchase jewelry.

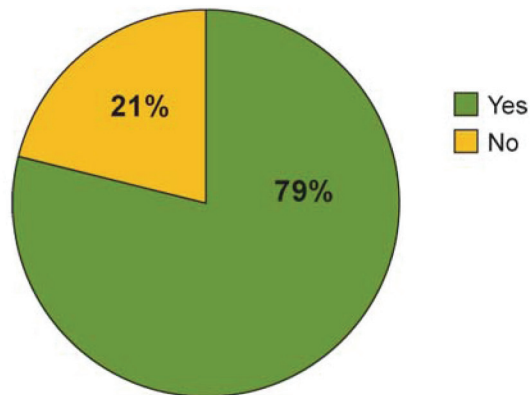
Based on the images shown, what is your level of interest in selling handmade artisan earrings from [redacted]



Source: 2009 [redacted]

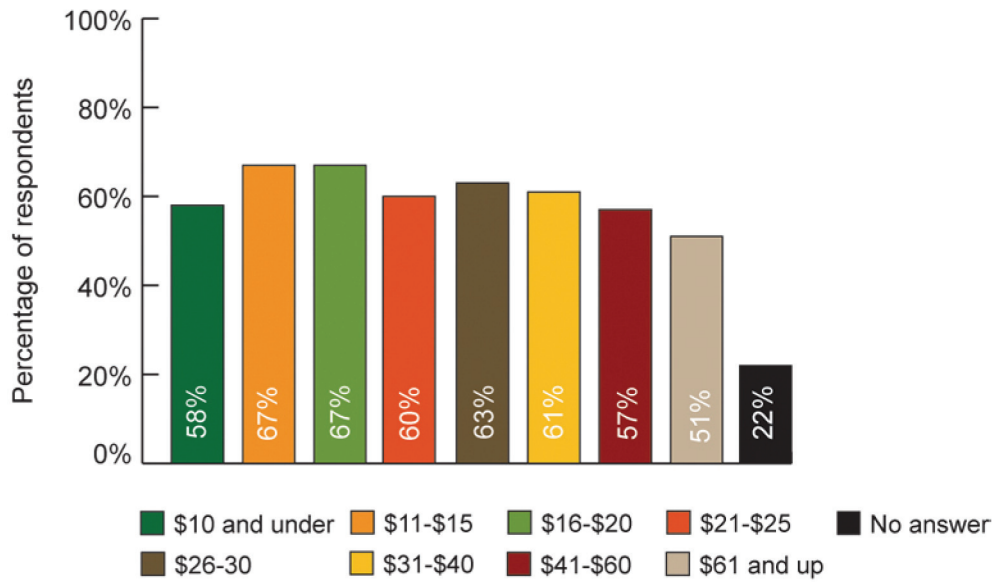
Other key findings from the customer survey were that most of the [organization's] retail accounts sell jewelry from other manufacturers, so there is a great opportunity for the organization to penetrate the market (L. Moore, 2009 [Organization] Survey, February 04, 2009). Of the customers that sell jewelry from other manufacturers, there are a wide range of prices.

Do you sell jewelry from other manufacturers?



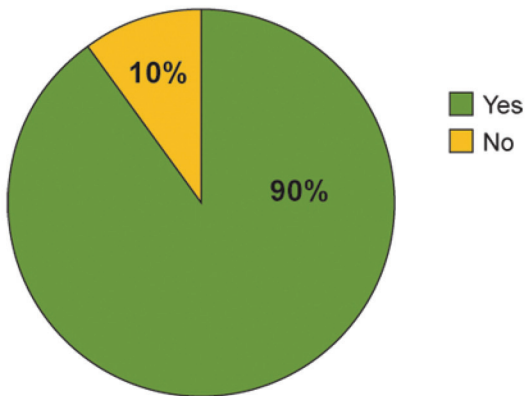
Source: 2009 [redacted]

What is the price per piece of your current jewelry offering? Please check all that apply.



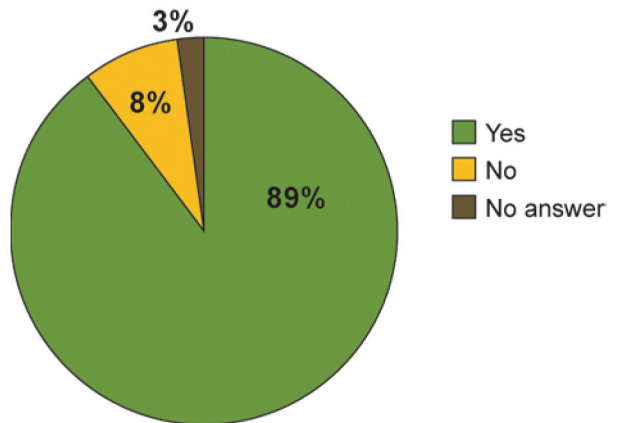
Source: 2009

In addition to [redacted] do you sell other "products with a purpose"?



Source: 2009

Do you sell fair trade products?



Several conclusions can be drawn for the survey data. The organization was able to rule out customers that are not targets for jewelry sales, as well as customers that cannot under contract purchase jewelry from [organization].

Another insight provided in the comments on the surveys was that many respondents said they strictly sell fair trade items, and while the prototype images in the survey were attractive and would sell well, they would not buy unless the products were fair trade. The take-away lesson from this is that [organization] will have to build supplier relationships with companies that sell beads and other jewelry components that qualify as fair trade products.

[Organization] must stay true to its values, while making a product with a certain look and feel that will sell to middle-age, affluent women.