

PGDM & IB, 2017-19

Luxury Marketing

DM-431/IB- 416

Trimester – IV, End-Term Examination: September 2018

Time allowed: 2 Hrs 30 Min

Max Marks: 50

Roll No: _____

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5	10 Marks each	3*10 = 30
B	Compulsory Case Study	20 Marks	20
		Total Marks	50

Section A

- Q1. What are the key success factors of a luxury brand and how they can be applied online?
- Q2. What role does country of origin play in luxury industry?
- Q3. The in-store experience is an important part of the purchase of a luxury good and is key aspect that distinguishes luxury goods from other products. Explain.
- Q4. How does a high-end luxury brand in any business grow without losing its exclusivity?
- Q5. What do you understand by the term 'Democratization of Luxury'? Also, discuss it in context of Indian luxury market.

Section B

- Q1. What is meant by the term 'Responsible' or 'Sustainable', particularly from the perspective of the luxury industry? Is sustainability a cost for luxury industry?
- Q2. How does Tiffany work to address environmental and human right concerns? What initiatives it can further take to promote sustainability?

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HOW I DID IT

TIFFANY'S CEO ON CREATING A SUSTAINABLE SUPPLY CHAIN

The jewelry company has long led the industry in working to address environmental and human rights concerns. by Frederic Cumenal

PHOTOGRAPHY BY DUSTIN COHEN

MARCH-APRIL 2017 HARVARD BUSINESS REVIEW 2

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hen I consider our competitive advantages at Tiffany, vertical integration stands out for two reasons: a deeply held business belief that great houses of luxury should craft their own designs, and an equally strong conviction that traceability is the best means of ensuring social and environmental responsibility.

Thinking back on the things that have informed my perspective as I've built my career, I realize that I've tended to focus on three passions. The first is brands. I've always been fascinated by what a fantastic vehicle a brand can be for communicating a company's culture and values. My second passion is global travel. Since my childhood in France, I've been curious about discovering new cultures, new geographies, and different ways of thinking around the world. My third passion is the realm of art and expression—the business of creating or collecting objects that are not just functional but truly beautiful. I've been very fortunate to have worked for companies that allowed me to pursue these passions.

I started my career at Procter & Gamble. P&G is a big global company that practically invented brand management, so it tapped into two of my interests. At P&G I had a chance to help market products in various industries and countries. My next job—after graduating from Harvard Business School—was with the Ferruzzi Group, an agricultural and industrial company in Italy; then I went to Mars, the U.S.-based candy company.

Before joining Tiffany, I spent 15 years at LVMH, the Paris-based luxury conglomerate. That was the first time a company connected all three of my passions. A global enterprise focused on luxury brands, LVMH makes truly beautiful and artistic products. In the early 2000s I became the CEO of Moët & Chandon, LVMH's €1.2 billion fine wine company, whose brands include Dom Pérignon champagne.

While working in that industry, I began to focus on sustainability and how the people leading businesses ought to think of themselves as stewards of natural resources. Moët & Chandon owns the largest vineyard in Champagne, and I spent a lot of time there. Leading wineries taught me to respect Mother Earth. To make spectacular champagne, you need to grow spectacular fruit—and to do it in a way that ensures the soil will remain fertile year after year.

In 2010 I received a call about a job at Tiffany. I was immediately interested. America has spawned many

great companies, but in my view, most true luxury brands are still based in Europe. Tiffany is one major exception. Because the company started in such a large market, it hadn't grown globally as much as it might have if it had launched in a smaller country. The more research I did on it, the more I recognized its potential for global growth. Tiffany has a storied history, but it was almost shy about expressing its character to consumers.

I'd been recruited with a clear path toward succeeding Mike Kowalski, then Tiffany's CEO and now its nonexecutive chairman. I joined as an executive vice president, and within three years I was president and sitting on the board. I worked closely with Mike to learn all the aspects of the business as I prepared to succeed him, and I thought about the priorities I would set when I took over, which I did in April 2015. When I began acting on those priorities, expanding a sustainable and socially responsible supply chain was near the top of the list.

AVOIDING "CONFLICT DIAMONDS"

Nobody used the word "sustainability" when Charles Lewis Tiffany cofounded this company, in 1837, in New York. But in his own way, Tiffany was ahead of his time. After opening his store in Manhattan, he began doing things in ways that continue to differentiate the company from its competitors even now.

In the 1800s most jewelers were just retailers, and that's still true. They bought products from middlemen and resold them. By 1848, however, Tiffany had hired dozens of artisans to occupy a workshop above the store, making jewelry in-house. He wanted to design and manufacture the products he sold and to express his own artistic vision and talent. That was only the first step toward vertical integration. By the late 1800s he had set up an internal operation to cut and polish diamonds, applying stringent quality and workmanship standards. That didn't necessarily make the company more environmentally friendly than competitors, but Tiffany did gain much more control over its supply chain, which became important later on.

Tiffany's focus on sustainability began about 25 years ago. The company had gone public in 1987, and over the next decade it focused on growth and overseas expansion. For that it needed more precious metals and more diamonds. At the same time, people were becoming increasingly aware of the environmental and human costs of mining—specifically, that mines often use cyanide and other toxic chemicals to extract precious metals (especially gold) from

ore, and that some diamonds originate in countries with political conflicts or human rights abuses, so sales of those diamonds may be financing violence. Awareness of “conflict diamonds” increased even more after Leonardo DiCaprio’s movie *Blood Diamond* was released, in 2006.

In the decade before I arrived, Tiffany led the industry in working to address these environmental and human rights concerns. Its leaders spoke out against proposals to create gold and copper mines in Alaska’s pristine Bristol Bay and in Yellowstone National Park. In 2003 Tiffany led the effort to seek U.S. participation in the Kimberley Process Certification Scheme (KPCS), which works to stem the flow of conflict diamonds. (Tiffany chooses to go further, declining to buy stones from Angola, the Democratic Republic of Congo, and Zimbabwe, even though they are part of the KPCS, because of concerns about human rights abuses in these countries.) In 2006 Tiffany helped establish the Initiative for Responsible Mining Assurance, which aims to be the world’s first independent certification system for responsible operations at large-scale mine sites.

Our efforts with regard to responsible sourcing aren’t limited to gold and diamonds. For instance, more than a decade ago we were among the first companies to stop using coral in jewelry, and we urged the industry to recognize that coral is not a rock or a plant but a living animal and the foundation of healthy marine ecosystems.

LOOKING OUT FOR PEOPLE

I knew a bit about these issues when I joined the company, but I quickly learned much more. I began visiting our operations all over the world. We have five diamond workshops, where we cut and polish stones, and four jewelry-making or polishing facilities. In thinking about sustainability, our inclination is to focus on the environment, because mining by its very nature disturbs the earth and is going to have an environmental impact. But how our employees and the employees of the mines from which we source are treated is also crucial. When I began visiting our workshops and the mines that supply our diamonds, I paid special attention to the social development around them. I particularly remember my first visit to our diamond workshop in Botswana. Botswana is a democratic landlocked country consisting mostly of desert. Over the past 40 years or so its government has ensured that extraction of its primary natural resource, diamonds, has been for the benefit of all its citizens.

We are proud to contribute to this effort by training local workers to cut and polish diamonds to our exacting quality standards, thus helping them build skills and knowledge that can be used even beyond diamond processing. We have since contributed more than \$51 million to the economy of Botswana, where 98% of our polishers were local in 2016.

Our vertically integrated operation enables us to trace all our rough diamonds to a known mine or to a supplier with known mines. Unlike most jewelers, we buy directly from these sources, so we know exactly which source has provided each stone. (Our size also allows us to be choosy: We accept only stones that meet our stringent quality standards—about

YOUNGER PEOPLE INCREASINGLY CARE WHERE THEIR FOOD IS HARVESTED. WE THINK THEY’LL CARE ABOUT THE PROVENANCE OF THEIR DIAMONDS, TOO.

0.04% of the world’s gem-grade diamonds.) At our diamond workshops we laser-inscribe every stone larger than 0.18 carats with a microscopic code indicating its provenance so that we can ensure our chain of diamond custody. Many other jewelers buy from middlemen who commingle diamonds from multiple suppliers. Tiffany and its customers can be proud that our diamonds are a source of positive economic and social development.

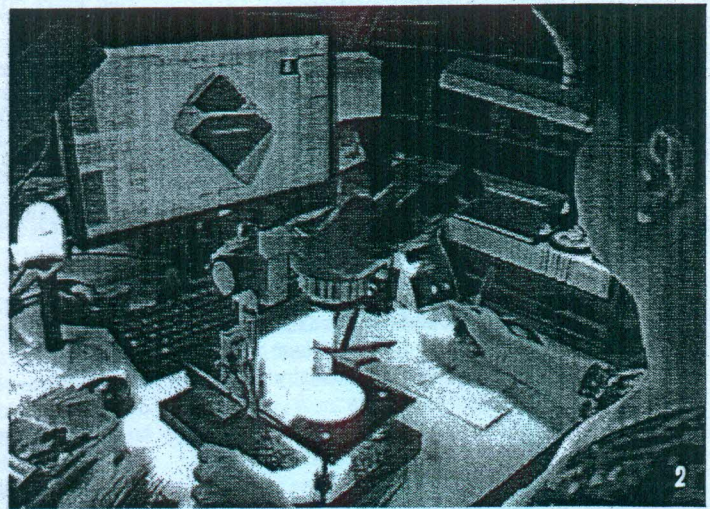
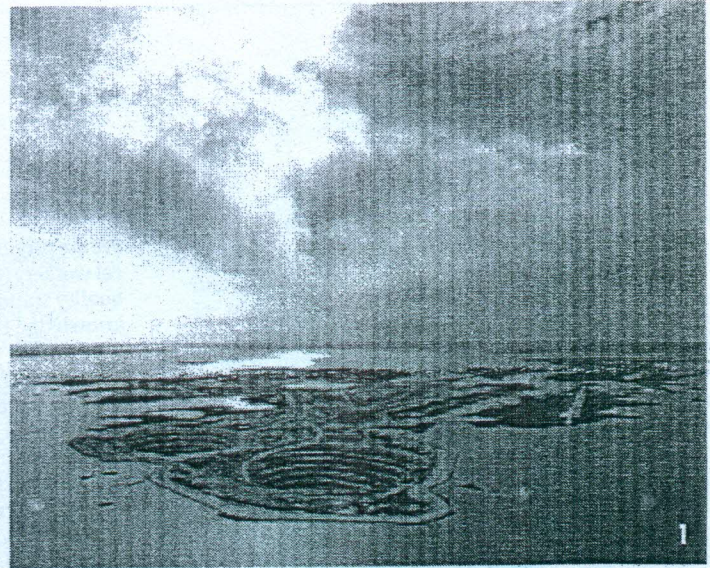
In 2014, just months before I became CEO, we decided to exert even more control over our supply chain. Diamonds that are smaller than 0.18 carats are called *melee*, and they’re often used in combination with other stones, such as to surround a large diamond in a ring. Traditionally, *melee* have been treated differently from larger diamonds; they’re more of a commodity, and we didn’t cut and polish them ourselves until just a few years ago. By 2014 we were operating diamond polishing workshops for larger stones in Belgium, Botswana, and Mauritius, along with one for *melee* in Vietnam. To diversify our polishing capacity in view of the increasing demand for *melee* diamonds, we decided to establish an operation in Cambodia.

At that time, the garment industry was beginning to leave Cambodia for lower-cost countries. When I visited the area, I was amazed by the dexterity and work ethic of the garment workers, who were losing their jobs. We trained them to handle melee diamonds in a custom-built, LEED-certified factory in Phnom Penh. We also worked with an economist to create a new methodology for calculating a fair living wage—factoring in variables such as family size, housing, and transportation costs—that was true to local realities. We instituted free lunches and maternity leave, and eliminated late-night shifts and weekend work, which is important for parents whose children are at home after school. Today our Cambodia facility employs nearly 800 people. Most of our industry still outsources this kind of work, but we’ve found that Tiffany’s internal facilities are highly efficient while offering workers a good standard of living.

EDUCATING CUSTOMERS

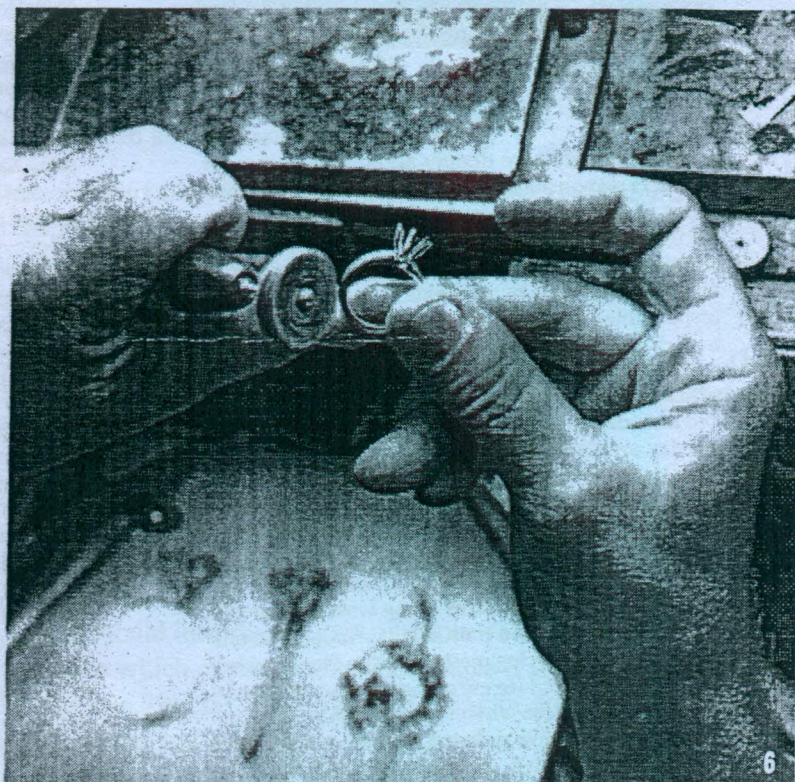
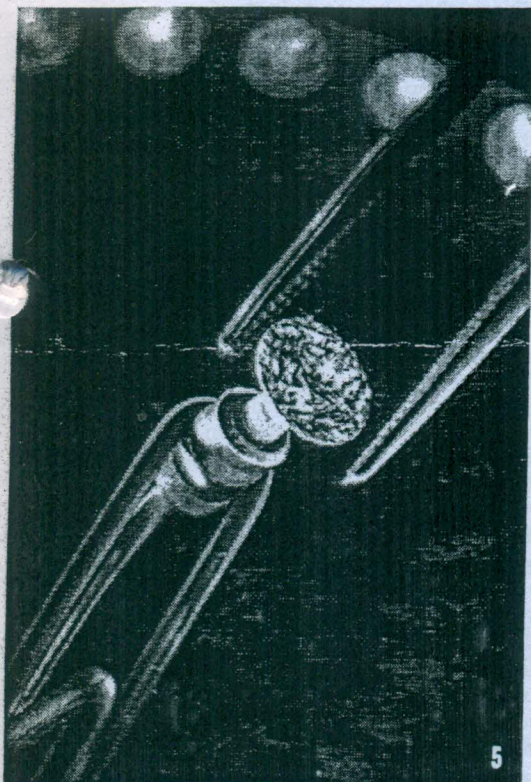
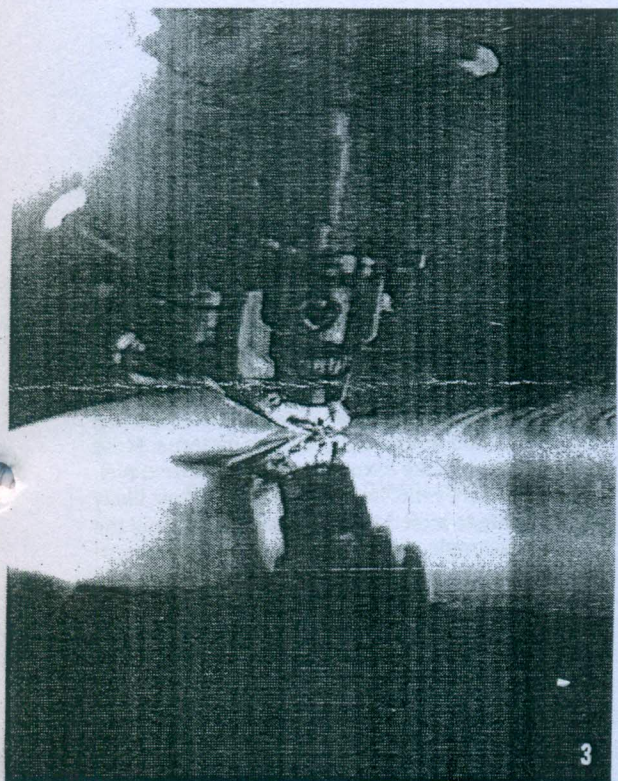
Soon after I became CEO, I formally created a position for the chief sustainability officer, who reports to me. Not many luxury companies have a CSO, and those that do usually have the person report to someone in the C-suite other than the CEO. But I thought it was crucial to signal both internally and to the entire industry that sustainability is of prime importance. I chose a company veteran for the role, Anisa Kamadoli Costa, who is charismatic and mission oriented. Under her guidance we set a goal of reducing our greenhouse gas emissions to net-zero by 2050 and created plans to work toward achieving that. It was a big step for Tiffany: We’d been focused on sustainability issues specific to our industry, and this made climate change part of our sustainability agenda.

In 2017 we’re taking another big step to give us more control over our supply chain. Tiffany is a U.S. company, but at its core it’s really a New York company—a product of the world’s creative capital. New York is where we were founded and where our headquarters and flagship store are located. We’re planning to open a New York-based innovation center, which will bring key individuals in our R&D, design, manufacturing, and supply chain teams under one roof. We believe that if we put our expert minds together and foster a collaborative energy among them, we’ll be able to move faster, be more innovative, and produce even greater designs, and to embed sustainability considerations throughout the process. It’s another example of the advantages of being more fully integrated than our competitors.



FROM MINE TO RING

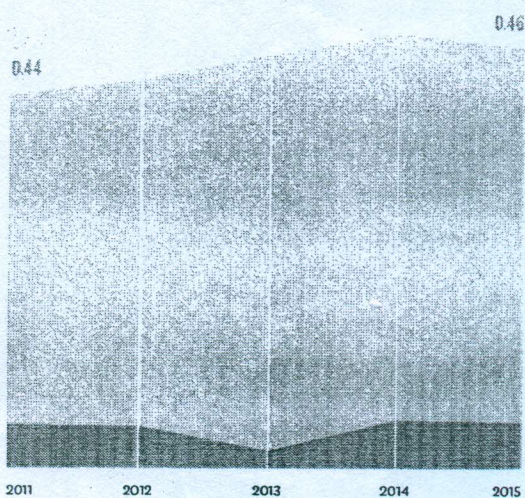
1. The Diavik mine in Canada’s Northwest Territories, where Tiffany sources many of its diamonds.
2. Mapping the plan for a rough diamond using 3-D imaging at a Tiffany workshop in Antwerp.
3. A diamond being polished on a wheel coated with diamond crystals.
4. Tiffany polishers at work in Antwerp.
5. A diamond being inspected under a microscope for final grading.
6. A craftsman in New York prepares a setting for mounting.



TIFFANY FACTS & FINANCIALS

FOUNDED 1837
HEADQUARTERS NEW YORK, NEW YORK
NO. OF EMPLOYEES 10,600

10% SALES INCREASE FROM 2014
NET EARNINGS



SOURCE TIFFANY & CO.

Although we care deeply about producing our products responsibly, we have some distance to go in terms of educating our customers about this benefit. We increasingly see interest in sustainability as a key consideration for our customers, particularly with engagement rings, but the extent to which socially responsible practices actually influence purchasing behavior is still difficult to measure.

We sell a lot of engagement rings to young men, who at this stage in their lives usually have only limited knowledge of jewelry. This is often their first big jewelry purchase. They already face a steep learning curve to understand cut, carat, clarity, color, and Tiffany's unique fifth dimension: presence (the precision of cut, symmetry, and polish that profoundly influence a diamond's brilliance, dispersion, scintillation, and overall appearance). Educating them about sustainable practices along with all that can be a challenge. But we train our salespeople to talk about how our sourcing methods differ from those of our competitors and we encourage customers to consider those practices when choosing where to shop. Younger people show growing concern about where their food is harvested, so we think they'll care about

the provenance of their diamonds, too. We continue to invest in CSR communications to make that happen.

ADAPTING TO DEMOGRAPHIC CHANGES

Like all other luxury brands, we've faced challenges in the market over the past couple of years. The appreciation of the U.S. dollar puts pressure on some of our costs and influences spending patterns. Many people tend to make luxury purchases while traveling, and recent events have affected (and most likely will continue to affect) how people move around the globe. For example, over the past 15 years Chinese consumers have been a major growth engine for luxury brands, both within China and when they travel. This could change during the next year, partly because of decisions in Beijing to increase import taxes. We're also living in a world that feels more uncertain, which may make people rethink their relationship with luxury.

Demographic changes are forcing us to be more innovative. For example, marriage rates are dropping slightly in the United States and Western Europe. Bridal jewelry purchases constituted 29% of our worldwide revenue in fiscal 2015, so that's a trend we watch closely. However, engagement rituals are evolving in other parts of the world, especially China, so we believe the global market for engagement and wedding rings is still growing. And we see other ways to expand sales: Same-sex marriage is now common in the West; couples are buying rings or other jewelry to signify non-marital commitments; and jewelry is frequently a sign of love—for a partner, a family member, or a friend. (At our new innovation center, designers are working on products for all these relationships.) Love will be here as long as humanity is; no matter what demographic trends we see, we're confident about that.

We're also convinced that our vertically integrated strategy continues to make sense. For me, the fact that we design and manufacture the majority of our own products isn't just a matter of image, quality, or craftsmanship. It's a practice that's especially important in the luxury market. I believe that the most successful luxury houses of the future will be the ones that are the most integrated.

When a business faces headwinds, it's natural to take a critical look at the cost structure. At some companies, CSR initiatives are the first things to be cut during a challenging financial time. But at Tiffany we don't see sustainability as a cost. We see it as a way of doing business and as a competitive advantage—one that we don't ever intend to change. ☺

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