



Tiffany & Co.: *Protecting Brand Image from Tarnish*

A woman strolls to the display window at the flagship Tiffany store in New York City, gazing longingly inside. She fantasizes about owning a luxurious piece of Tiffany jewelry.

Women dream in Tiffany blue. Their little blue boxes contain merchandise that women of all ages aspire to. She pictures the love of her life on one knee, asking for her hand in marriage, offering her a little blue box containing a beautiful Tiffany engagement ring. In another dream, the little blue box contains a pearl bracelet to celebrate the birth of her child. Or, perhaps a luxurious tennis bracelet is enclosed in the box, purchased by the woman herself. These are what the dreams of luxury are made of.

Mike Kowalski, CEO of Tiffany & Co. needed to stand his ground. He knew that the Tiffany brand was at risk. To refurbish the brand image, he had just executed another price increase on Tiffany's highly profitable line of silver jewelry, much to investors' dismay. Mr. Kowalski believed this was the first step to preserve the highest reputation for the luxury goods brand. But people across the business world and on Wall Street questioned whether this move was a good one for Tiffany & Co.

History of Tiffany & Company

Tiffany & Young was founded on Sept 18, 1837 by schoolmates Charles Lewis Tiffany and John B. Young as a stationary and fancy goods store. The store's revolutionary policy of non-negotiated pricing created headlines and generated a first day's revenue of \$4.98. In 1853,

This case was prepared by Research Assistants Molly LeBel, Kaylea Hoelscher, Lisa Starita, and Mark Teborek, under the direction of James S. O'Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources.

Copyright ©2007. Eugene D. Fanning Center for Business Communication. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form by any means – electronic, mechanical, photocopying, recording, or otherwise – without permission.

Charles Tiffany gained ownership of the entire company and officially changed the name to Tiffany & Co.

One of the company's earliest effects on American business was the introduction in 1845 of the first retail catalogue, which is still in circulation today. They continued to define the jewelry and luxury goods market when Tiffany's personal quality standard for silver eventually became the U.S. Sterling Standard in 1851. Tiffany's silver became the first American enterprise to win an award for excellence in 1867 at the Paris Exposition Universelle. Later, in 1907, a Tiffany gemologist helped define the metric carat as the standard weight measurement for diamonds and other gems.

The unique jewelry and luxurious pieces caught the imaginations of the New York City elite and wealthy, making Tiffany jewelry and diamonds a visible symbol of status and wealth. Tiffany's focus on quality and beauty was integral to their product line's developments and innovations. In 1886 the company introduced the "Tiffany Setting" which created a revolution in engagement rings by positioning the diamond high above the band, thus catching more light and enhancing its beauty.

Tiffany & Co.'s history is rich with instances in which their brand spoke of luxury, exclusivity, and prestige. Some of their most notable achievements include designing an inaugural presentation pitcher for President Abraham Lincoln, creating presentation swords for Generals Grant and Sherman during the Civil War, revising the Great Seal of the United States, as seen on the \$1 bill, and ownership of the "Tiffany Diamond," the largest yellow diamond in the world at 128.54 carats with 90 facets cut to focus on the gem's beauty, not size.

The company achieved international recognition in 1887 when Charles Tiffany acquired a collection of French crown jewels, officially solidifying Charles Lewis' position as the "King of Diamonds." 100 years later Tiffany & Co. went public with an IPO on the New York Stock Exchange. The first Tiffany & Co. retail store outside of New York opened in 1963 in San Francisco followed by their first international retail presence in Tokyo in 1996. Today, Tiffany & Co. stores can be found in most major cities around the world, as well as in many smaller markets across America.¹

The Little Blue Box

In 1837, the year that Tiffany & Young was founded, a shade of blue as unique as the pieces the store carried was chosen to represent Tiffany's focus on quality and sophistication. Today known as "Tiffany Blue," the color defines the brand's exclusivity and elegance. Charles Lewis Tiffany instructed that never was one of the "Little Blue Boxes" to leave the store unless a purchased Tiffany piece was contained within.

Tiffany & Co. has long enjoyed a gilded reputation, conferred by its association with the happy things in life: engagements, weddings, babies, trophies, retirements, anniversaries and

romantic Hollywood movies.² Tiffany's little blue box represents quality. Consumers aspire to be associated with this brand and are willing to pay a premium for it.

Perhaps the best expression of the Tiffany brand is encapsulated in the 1961 film *Breakfast at Tiffany's*, based on Truman Capote's 1950 novel of the same name. Holly Golightly, the story's central character, played by Audrey Hepburn, captures the nation's admiration of the store and the aspiration of every girl who would look at the store's window displays in hopes of one day owning a Tiffany piece.

Return to Tiffany

In the late 1990's Americans had a voracious appetite for affordable luxury goods. In 1997 Tiffany & Co. capitalized on consumer sentiment and introduced the "Return to Tiffany" line of silver jewelry. The cornerstones of this campaign were a chain-link bracelet and necklace that contained a tag that stated "Please Return to Tiffany & Co. New York." The campaign was intended to make Tiffany seem less intimidating. CEO Mike Kowalski stated that "Tiffany wants people to aspire to be a customer, but never to feel excluded." The corporate strategy was for the relatively inexpensive silver product to draw in the larger upper-middle class demographic and increase sales. By enabling a younger demographic to access Tiffany merchandise today, executives hoped these customers would return to purchase larger items in various milestones of their lives, starting with a Tiffany engagement ring.

The "Return to Tiffany" product line was wildly successful. Between 1997 and 2002, Tiffany realized sales growth of 67% largely due to the inexpensive silver line. Earnings doubled over this time period, from \$72.8 Million to \$189 Million.³ By 2003, silver jewelry represented 31% of Tiffany's U. S. sales.⁴ Investors lauded Tiffany for the resulting sales increase, as the stock price responded favorably. In the late 1990's, Tiffany's stock price hovered around \$10.00 per share. By 2000, the price was over \$40.00 per share.⁵

A Tarnished Brand

Even with the success of the "Return to Tiffany" campaign, Tiffany executives worried that their merchandise was perhaps becoming too much of a fad. They wondered whether this fad could alienate the jewelry firm's older, wealthier and more conservative clientele. Worse, it could forever damage Tiffany's reputation for luxury.⁶ High-end customers were turning away from a brand that a growing number of them now perceived as targeting younger, less exclusive customers.⁷

There was similar concern about a tarnished reputation overseas. The silver jewelry so popular in America did not receive the same accolades in Japan. Tiffany executives soon realized that Japanese luxury consumers were even more fickle than American consumers. The

Japanese luxury consumer takes her purchases very seriously. If she's going to spend several thousand dollars on a piece of jewelry, she doesn't necessarily want to be buying it next to a teenager buying a piece of silver jewelry for \$100. Tiffany's sales in Japan were growing at around 12.5% a year between 1994 and 2000, but have since fallen 2.7% per year on average.⁸

The initial aspiration of the Return to Tiffany line was to "hook" consumers early. Tiffany wanted to draw in a younger demographic with more affordable goods, hoping that exposure to Tiffany goods would encourage girls to return to Tiffany for larger purchases in the future. But would these young girls want their engagement ring purchased at the same jeweler they used when they were 13? It was an important question for Tiffany to grapple with.

Yet another repercussion of the popularity of Tiffany's less expensive silver line was the increased in-store traffic. During peak shopping periods, Tiffany salespeople had to pass out pagers to customers to keep up with the demand for help. This was certainly not the shopping experience a Tiffany customer wanted if she were making a purchase upwards of \$2000. One shopper commented "I felt like I was in Macy's".⁹ This was a new experience for long-time Tiffany consumers and salespeople alike. And the experience wasn't in alignment with the store's lofty brand image. The large number of silver customers represented a fundamental threat – not just to the business, but to the core franchise.¹⁰

Tiffany & Co.'s regal history and brand equity are closely intertwined. The brand is as much a part of the company's long term financial success as are its revenues. Tiffany's diminishing brand equity could threaten the successful luxury goods business goods that Tiffany has enjoyed for so many years.

A New Push to "Return to Tiffany"

In 2002, armed with brand erosion results of his research, Kowalski raised the prices on all of its most accessible collections, including "Return to Tiffany." The increase was not a response to rising costs or a desire for higher margins. It was a marketing decision intended purely to reduce sales.¹¹

Tiffany's next "campaign" would be one designed to encourage luxury consumers to "Return to Tiffany," especially those customers discouraged by the inexpensive product offerings and related fads. Tiffany would be trying to attract more big spenders by shifting its marketing away from low-priced jewelry to higher-end pieces that cost \$2000 and up.¹²

To try to reverse the slide in Japanese sales, Tiffany opened more modern, stand-alone stores in Osaka and the Marunouchi area of Tokyo that are focused on high-end jewelry pieces.¹³

Facing competition from premium jewelers, Tiffany underwent something of a face-lift, both physical and ideological. Their new message was "bring on the bling."¹⁴ In 2001, Tiffany began remodeling its flagship store in New York City. The flagship store was crucial to U.S. sales figures, accounting for anywhere between 13 to 25% of domestic sales, and the appearance

of this store would signal to tourists and New York opinion-makers the direction of the company.¹⁵

Like Tiffany's famed first floor, the newly designed second floor presents an open environment that allows for individual customer attention and augments the dazzling diversity and originality of Tiffany jewels, including the company's illustrious array of diamond engagement and wedding rings, as well as diamond jewelry of ultimate glamour; exquisite colored gemstones and luminous pearls from the South Seas.¹⁶ The second floor renovation also includes two private viewing salons for increased privacy and customer service during higher end purchases.

Current Dilemma

Tiffany & Co. is attempting to walk a razor-thin line: broadening offerings to the upper-middle-classes while pitching privilege to the truly rich. The dilemma is particularly common these days, as investors clamor for sales growth on one side and fickle luxury buyers demand exclusivity on the other.¹⁷

Tiffany first realized slowing sales of the silver jewelry line during the second quarter of 2004. After three rounds of price hikes, in 2002, 2003 and 2004, and price increases of more than 30%,¹⁸ the demand for Tiffany's highly profitable line of silver jewelry began to decrease.¹⁹ Mike Kowalski braced himself, as he knew investors would be pessimistic about an intentional reduction in sales of Tiffany's most profitable product line.

Mike Kowalski understood, more than most, that in today's marketplace, branding is of paramount importance. Few would argue that the Tiffany brand is their strongest asset. Tiffany & Co. has maintained its brand promise with unique, elegantly simple design and superlative, special designers.²⁰ For a luxury brand there is also equity in history, cultural references, innovations, and icons such as the French Crown Jewels, Holly Golightly, and the Tiffany setting. There is also brand value in customer touch points. Pagers as a touch point fail to demonstrate the exclusivity of the brand. So did low prices, teenage buyers, and widespread trends. Mike Kowalski must now determine how to revamp the Tiffany brand image and to return it to its former glory. But he must do so without alienating clients or frightening Wall Street.

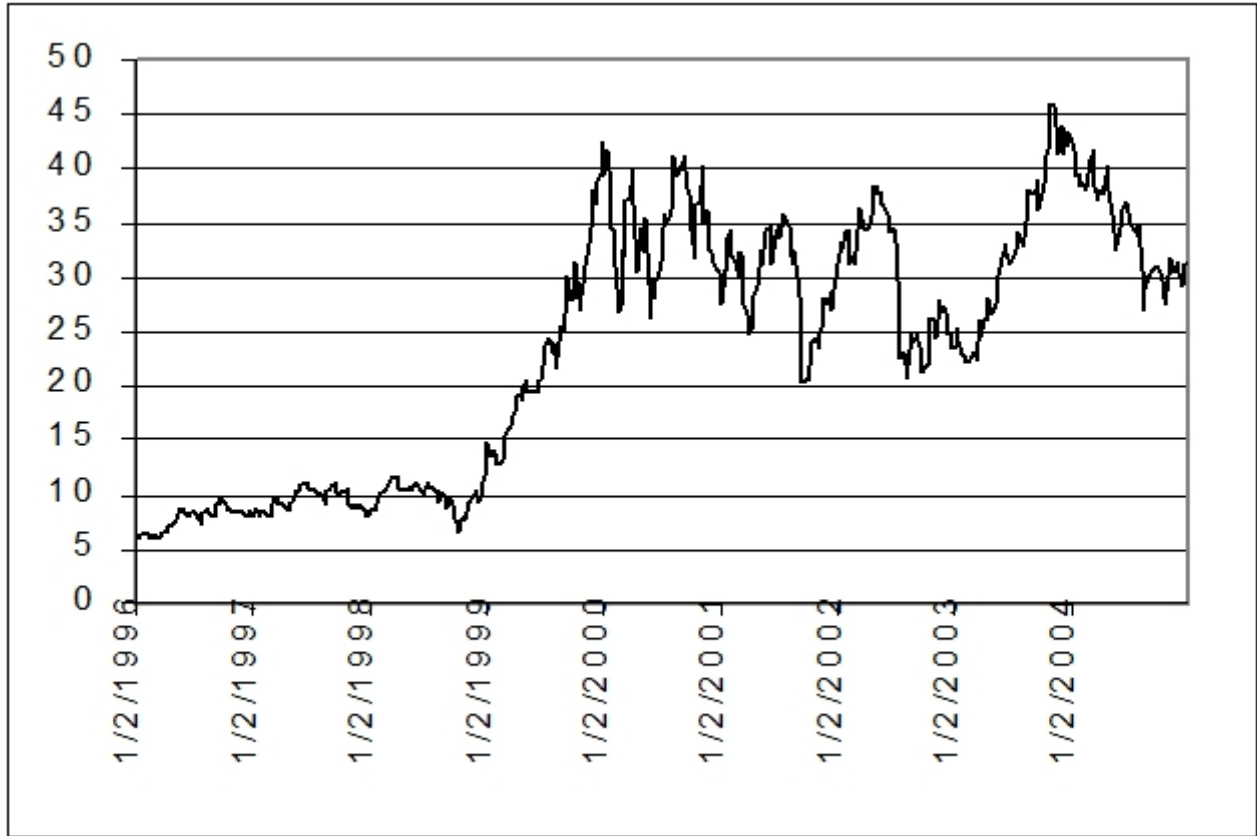
Discussion Questions

- Was raising silver jewelry prices the most effective way to improve brand equity? What long-term implications will this decision have on Tiffany's reputation?

- How should Tiffany & Co. communicate to the aspirational buyers, whom they once so highly sought?
- How and what should Tiffany & Co. executives communicate to shareholders?
- Does Tiffany risk alienating future clientele by placing its merchandise out of financial reach of the upper middle class consumer?
- How should Tiffany manage luxury buyers' perceptions of the brand?
- Tiffany & Co. communication is strictly regulated. Should this practice change in light of current brand image problems?
- Should Tiffany create a new off-brand? What do you anticipate this would do for the Tiffany Brand? What do you see as the positive aspects of such a strategy? Negative aspects?

Tiffany & Co.: Protecting Brand Image from Tarnish Appendix

Tiffany Stock Price During Case: 1997 – 2004



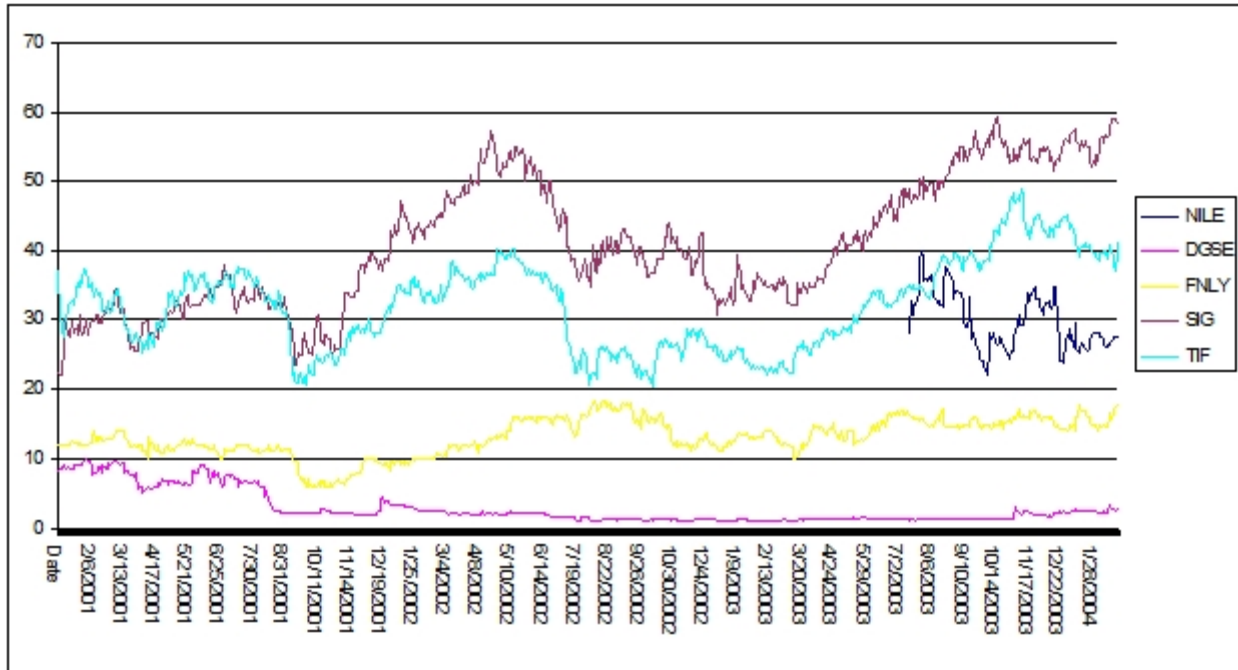
US Jewelry Industry Comparison

		<i>P/E</i>	<i>Market Cap</i>	<i>TTM Revenue</i>
Blue Nile, Inc.	[NILE]	52.05	\$630.5M	\$251.6M
Zale	[ZLC]	26.05	\$1.3B	\$2.5B
Tiffany and Co.	[TIF]	24.11	\$5.5B	\$2.5B
DGSE Companies Inc	[DGSE]	19.71	\$13.4M	\$46.8M
Signet Group	[SIG]	15.49	\$4.1B	\$3.6B
Birks & Mayors	[BMJ]	10.47	\$92.8M	\$293.9M
Finlay Enterprises	[FNLY]	4.88	\$83.9M	\$1.0B

Source: Yahoo Finance

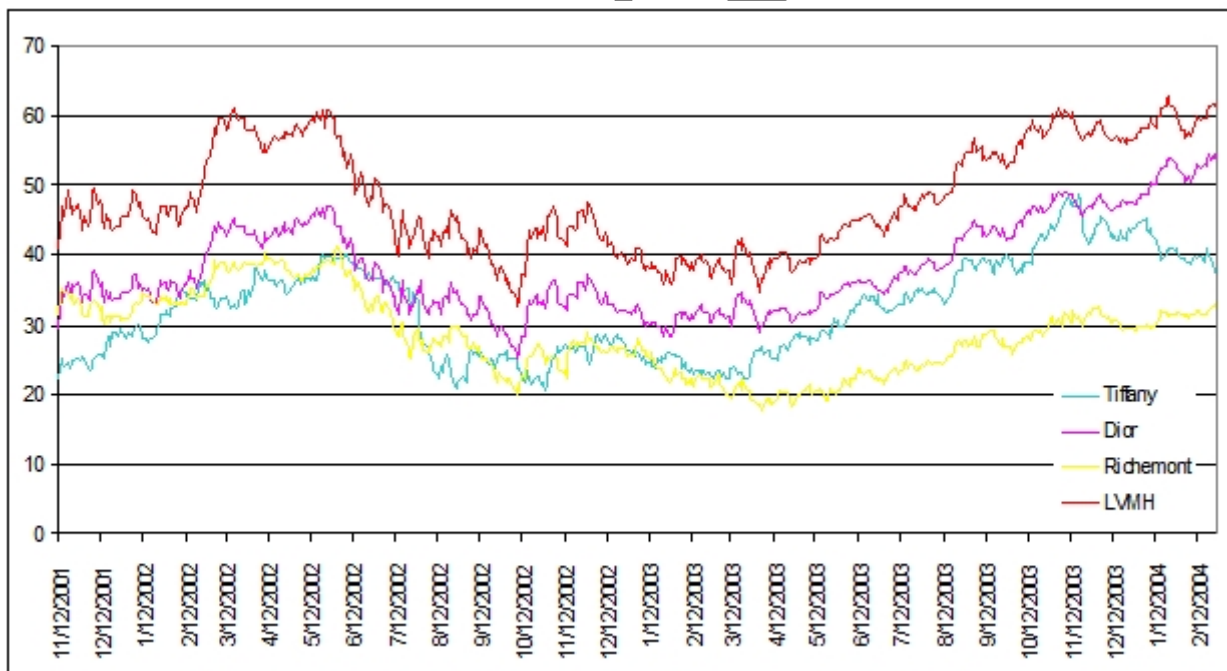
Tiffany & Co. vs. US Peers, 2001-2004

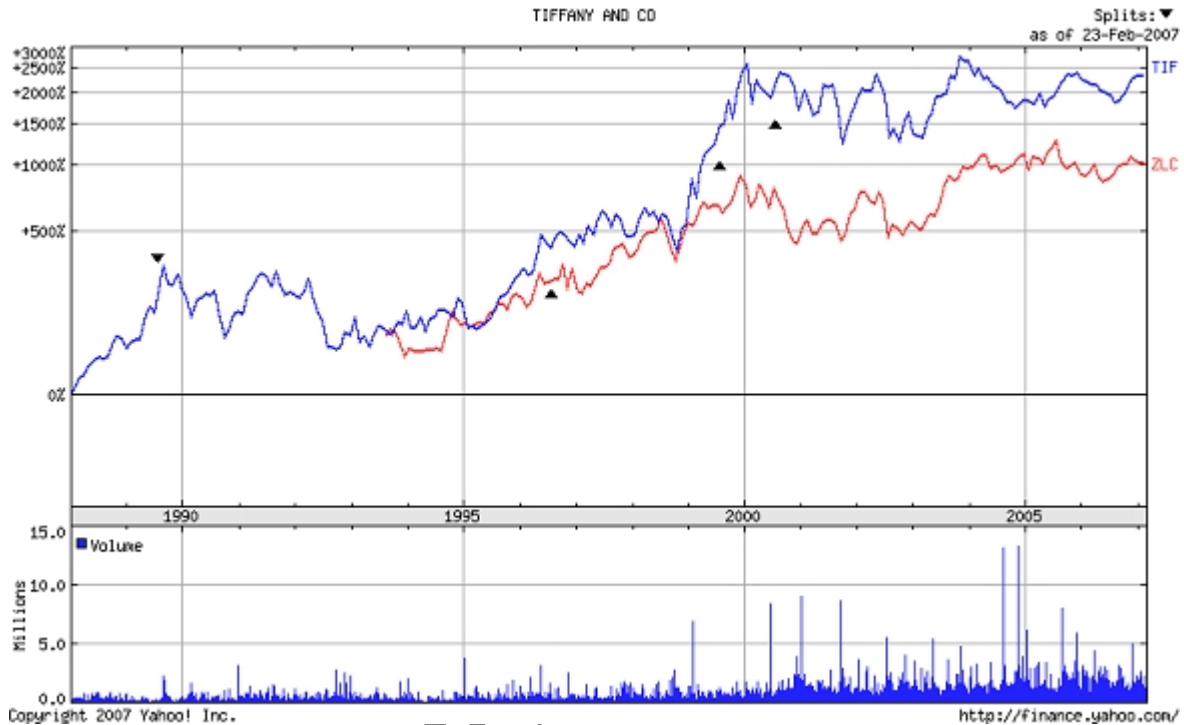
Source: Yahoo Finance



Tiffany & Co. vs. International Peers 2001-2004
Tiffany Vs. Zale stock performance

Source: Yahoo Finance





References

- ¹ <http://www.tiffany.com/about/Timeline.aspx>
- ² Kuczynski, Alex, "A Story in Every Box," *The New York Times*, February 8, 2007, p. G1
- ³ Byron, Ellen, "To Refurbish Its Image, Tiffany Risks Profits," *The Wall Street Journal*, January 10, 2007, pp. A1, A15.
- ⁴ Ibid.
- ⁵ <http://finance.yahoo.com/charts#chart2:symbol=tif;range=my;indicator=volume;charttype=line;crosshair=on;logscale=on;source=undefined>
- ⁶ Byron, Ellen, "To Refurbish Its Image, Tiffany Risks Profits," *The Wall Street Journal*, January 10, 2007, pp. A1, A15.
- ⁷ "Repairing the Flaw in a Diamond Brand," *Marketing*, January 31, 2007, Mark Ritson on Branding, p. 21
- ⁸ Creswell, Julie, "Tiffany Readies for a Blue Christmas," http://money.cnn.com/magazines/fortune/fortune_archive/2004/12/13/8214231/index.htm
- ⁹ Byron, Ellen, "To Refurbish Its Image, Tiffany Risks Profits," *The Wall Street Journal*, January 10, 2007, pp. A1, A15.
- ¹⁰ "Repairing the Flaw in a Diamond Brand," *Marketing*, January 31, 2007, Mark Ritson on Branding, p. 21
- ¹¹ Ibid.
- ¹² Creswell, Julie, "Tiffany Readies for a Blue Christmas," http://money.cnn.com/magazines/fortune/fortune_archive/2004/12/13/8214231/index.htm
- ¹³ Ibid.
- ¹⁴ Kuczynski, Alex, "A Story in Every Box," *The New York Times*, February 8, 2007, p. G1
- ¹⁵ <http://www.shareholder.com/tiffany/releasedetail.cfm?ReleaseID=28102>
- ¹⁶ "Tiffany & Co. Celebrates Completion of Floor Renovation in New York Flagship Store; Redesigned Second Floor is New Home for Diamonds and Important Jewels." From: Business Wire | Date: 11/5/2001 <http://www.encyclopedia.com/doc/1G1-79735656.html>
- ¹⁷ Byron, Ellen, "To Refurbish Its Image, Tiffany Risks Profits," *The Wall Street Journal*, January 10, 2007, pp. A1, A15.

¹⁸ “Repairing the Flaw in a Diamond Brand,” *Marketing*, January 31, 2007, Mark Ritson on Branding, p. 21

¹⁹ Ibid.

²⁰ Openshaw, Jennifer, “In Search of Shine at Tiffany’s,” February 16, 2007

<http://www.thestreet.com/pf/funds/toponepercent/10338976.html>.

Do Not Copy