COVER

FLIPPING THE SWITCH

The future is here, and if companies want it to be a bright one, they need to drag themselves out of the Dark Ages. Here are the three most critical areas where changes are taking place.

BY JOHN COSTELLO

The laughter is somewhat reassuring. I am on a call with Ben Smithee, digital marketing guru and "millennial whisperer" extraordinaire, when I suggest our industry is still, by and large, stuck in a time warp.

"I don't know why you would say that!" he retorts, his wry laugh underscoring his sarcasm.

As a relative newcomer to the diamond and jewelry industry, I have always found its innately insular, conservative and old-fashioned traditions to be immediately transparent. While other sectors were busy embracing the future more than a decade ago — marketing to millennials, implementing digital strategies and meeting the financial obligations placed upon them by hard-to-please financial institutions — the industry I joined two-and-a-half years ago seemed to operate in a bygone era.

But while an industry based on trust will always view change with suspicion, the reality is that change is upon us. All the signs, reports and expert opinions reveal a critical window, or tipping point, for our industry, represented in three "Lightbulb Moments": Demographics, Digital and Disclosure.

Why Lightbulb Moments? Well, for those who react accordingly, there is a bright future full of possibilities and potential success. And for those who don't, the light of opportunity will, most likely, rapidly go out.

LIGHTBULB MOMENT
#1 - DEMOGRAPHICS

The demographic shift in terms of spending power means that if your organization is operating the same way it was 10 years ago, alarm bells should be ringing.

Millennial consumers now have the most spending power of any generation. But a different approach is necessary when it comes to communicating, marketing and selling to them, and many companies have found it difficult to adapt.

"I believe the jewelry industry is full of very intelligent business owners," says Smithee. "I just think [the rapidly changing landscape] has been a shock to their system. The jewelry industry's problem doesn't lie in seeing the future or recognizing the future, [but in] responding to it. And I say 'the future' very loosely, meaning it's kind of 'the present,' right?"

47%
OF MILLENNIALS BELIEVE SOCIAL MEDIA HAS HELPED INTRODUCE THEM TO NEW BRANDS

Smithee, who heads his own firm, The Smithee Group, has become something of a regular fixture at the JCK Las Vegas show. Each year, he holds talks and seminars showing why and how businesses need to react to the changing demographic of the marketplace.

"They've heard about the millennials," he says. "They've heard about digital natives, and they've heard about all these demographical traits. But they didn't necessarily feel the urgency to respond. Because I think they underestimated how quickly things would change. They underestimated the speed with which the millennial impact would actually happen. And now they see it, they're like, 'Wow, I know I have to be digital, I know I have to do all these things.' But yet I'd say it's a 50-50 split between people that want to spend and allocate funds toward the present/future, versus those that are still recognizing it but trying to avoid spending on it."

The benefits for those that can pivot to digital are well-documented. A study by Annalect, a digital-media consulting firm, shows that 47% of millennials believe social media has helped introduce them to new brands. Furthermore, 71% are more likely to buy from brands they "Like" on Facebook or follow on Twitter. This highlights how crucial it is for companies interested in communicating in the media-saturated world of millennials to ensure the online experience they offer resonates with these digital natives.

But that's not as simple an equation to solve as it may appear on the surface.

"[In traditional media,] you create your content, and then you 'set it and forget it,'" says Smithee. "Now, [with digital media,] it's constantly dynamic. Because you create your content one day, that means you have to create content for the next 30 days. That's just a Facebook post. Then you have Instagram stories, Snapchat and YouTube videos, and all of these advertisements. So the amount of content that you need to be creating today has exponentially increased because the duration of exposure has exponentially decreased."

As an example, he notes, "back in the day, if you ran a TV ad, you were one of maybe 10 different advertisers that a consumer would see during that TV program. So in that space, you were about 10% of that hour program. Now, in an hour that consumers spend on social media, the amount of exposure to ads and content pieces is in the thousands. So you're getting a fraction of the attention span."

"I SAY 'THE FUTURE' VERY LOOSELY, MEANING IT'S KIND OF 'THE PRESENT,' RIGHT?"

Besides the explosion in the amount of content needed, the specific production and targeting of this content is different.

"The way we have to produce content has significantly changed, because the consumer mind-set has changed," says Smithee. "If you now look at [how far] in advance of an event people purchase a gift today, compared to 10 years ago, I would venture to say it's probably at least half the time. So as marketers and advertisers and brands, we have to be marketing more 'in the moment' instead of 'for the moment.'"

Moment marketing means reaching the right person at the right time, at the right place, in the right context. With marketing "in the moment," brands tailor their messaging to be hyper-relevant to a consumer's context right here, right now. But even more important than continually trying to be top of mind is being on top of the moments in consumers' lives as they experience them.

The good news is, the jewelry and diamond industry is quickly waking up to this demographic shift. "They're starting to spend," says Smithee. "I'd say at least half of our retailers are 100% digital at this point now. So we're starting to see the move." ■

Project Millennial

For those unsure about transforming their marketing, communications and advertising to target digital natives, Ben Smithee, CEO of The Smithee Group, believes the return on investment makes it a no-brainer.

"We have a client that we've been working with for about six months, and essentially, we're close to adding another quarter worth of sales as a direct result of digital and social. Not necessarily directly via e-commerce, but through increased traffic and increased sales because of the digital impact," he says. "This business is in a smaller town, and we see small businesses [with revenue of $500,000 to $1.5 million] all of a sudden becoming more relevant to the community where they reside. It's not like they have to go far and wide.... So sales increase as relevancy increases. And they're starting to see what they're desiring, which is an increasing trend [of having] a younger demographic coming into their store now – being relevant for customers, being relevant for engagement, being relevant for fashion jewelry."

LIGHTBULB MOMENT
#2 - DIGITAL

The tsunami of change ravaging our industry means the tipping points the sector is facing are all inherently linked. The new demographic landscape is one reason the trade needs to go digital, but there are other factors as well — such as the explosion of competition.

"We live in a world where [online sales platform] Alibaba has a one-day sale, and in the first hour, they sell $8.6 billion," says Doug Stephens, a retail industry futurist and author of *Re-Engineering Retail*. "It's just staggering — the magnitude, the scope, and the scale of e-commerce now. Just think about it: Amazon carries half a billion products on their website. Virtually anything you want can be on your doorstep in a matter of hours or days."

And don't be fooled into believing it's only low- to medium-priced goods selling on the internet; online is already becoming the next frontier for luxury brands.

"People like Jean-Claude Biver from LVMH Watches have been very vocal about the fact that millennials are feeling extremely confident buying high-priced luxury items online," says Stephens. "For example, [in November of 2016,] Alibaba sold a record 100,000 vehicles online in 24 hours as part of its annual Singles Day promotion. So this is not something anymore that's restricted to cheap electronics or the odd piece of apparel. Consumer confidence with buying extraordinarily expensive things online is increasing all the time."

And while luxury brands have been hesitant to migrate to an omni-channel environment of customer engagement and sales, those that have are reaping the rewards. In 2016, Tiffany & Co. was staring at a fall in sales for six straight quarters. The company was failing to connect with millennials, who saw the iconic luxury brand as tired and old-fashioned. Two years later, Tiffany is boasting a 53% rise in its first-quarter net earnings, due in part to the retailer's focus on delivering an "exciting" omni-channel experience for customers, according to CEO Alessandro Bogliolo.

Tiffany runs its own e-commerce sites in 13 countries, as well as selling some of its collections through two online designer fashion platforms — Farfetch and Net-a-Porter — that give the brand access to more than 40 countries. And in true omni-channel style, it has also been focusing on enhancing its brick-and-mortar stores to make them "more engaging and more fun and more modern," says Bogliolo.

53%
THE YEAR-ON-YEAR RISE IN TIFFANY & CO.'S NET EARNINGS FOR THE FIRST QUARTER OF 2018

Stephens highlights the importance of prioritizing online sales, suggesting that "we have, in an extremely short period of time, moved to a place where if a consumer sees an ad in a magazine for a particular ▸

product, their expectation is, they should immediately be able to go online and buy that product sight unseen. So the way we need to approach omni-channel now is that every single piece of media that a retailer puts into the marketplace should now be considered the store. It should be considered a direct path to purchase. So if a retailer advertises a diamond engagement ring, they should be prepared to sell that engagement ring online. Whatever that looks like. However that happens."

That "whatever" may entail "some sort of combination between things that need to happen in-store and things that can be done automatically online," he continues. "In fact, it's almost a role reversal between media and the physical store, where media is now becoming a primary buying channel and stores are becoming a primary media channel. So if a consumer is driving by your store and they happen to pull in, and it's the first time that they've ever been in your store...that should be a pivotal media experience. The consumer should walk away from that experience feeling like it was truly remarkable. And it should leave an impression on them that if they are ever in the market for what you sell, you immediately come to mind."

Still, for retailers looking to play catch up, Stephens warns against "knee-jerk reactions."

"It's definitely a process," he says. "And the mistake that too many retailers make is, they try to make some abrupt last-minute changes to their value proposition. It's a process that has to start by really and truly mapping what your customer journey looks like today. And it has to be done in excruciating detail. It's not just the big moments in that journey or in that decision process, but it's also the micro moments — so the whole process of navigating your store to find the product they want or need. And then what does that decision process look like? What are the steps the consumer goes through as they're deciding on which product to buy? What does the actual purchase process look like?"

While many retailers may be on board with the idea, they might worry about the financial investment necessary to bring their bricks and mortar up to par in this new omni-channel nirvana.

"Steve Jobs once said, 'When we think about the word "design," we oftentimes think of the way something looks. So if we say we have a beautifully designed customer experience, our minds immediately go to these very opulent-looking stores,'" says Stephens. "But his point was that when you dig deeper and you consider the word 'design,' it's really about the way things work. And I feel that's very true of customer experience. When I say you want to have an extraordinary customer experience in-store, that does not mean you have to go and spend millions of dollars designing your store. It really just means that you need to look at every moment of that customer journey and ask yourself: Could that moment be more surprising? Could it be more unique? Or more personalized? More engaging? And more repeatable? And if so, how can you do that?"

The answer to that last question, he stresses, "isn't always spending more money. It may just be retraining your staff. It may be hiring new people, a different kind of person, to work in the store. It may be just instituting some sort of practice or tradition that simply becomes an ingrained part of the experience, becomes part of the trademark of the brand. So the answer isn't always some huge outlay of cash. Transforming the customer experience is more centered around creativity." ■

$8.6 BILLION

ALIBABA'S ONLINE SALES IN THE FIRST HOUR OF ITS 2017 SINGLES DAY RETAIL EVENT

The 5 elements of a 'super' experience

Whether you have a jewelry store, a hotel, a restaurant, or an entertainment complex, every great experience has five characteristics, according to Doug Stephens, author of *Re-engineering Retail*. These five elements spell out the word "super," he notes, laying them out as follows:

1. SURPRISE. There is typically something that happens in the experience that is unexpected or uncharacteristic. So retailers need to look at their experience and ask themselves, "Where can we inject these moments of surprise where we can really delight a consumer with something they didn't expect?"

2. UNIQUENESS. Great brands – whether it's a Ritz Carlton hotel or a restaurant – change the script of the typical customer experience. If we think about going to a shoe store to buy a pair of shoes, there's a pretty typical customer script that you go through. What really extraordinary brands do is, they look at that typical experience, and they deliberately change it so it feels different. It feels unique. Every element feels somehow proprietary to that brand.

3. PERSONALIZATION. Great brands always find a way to make the consumer feel like the experience or the product or their time spent in the store was just for them. And that can take many forms.

4. ENGAGEMENT. Great brands typically deliver a fundamentally deeper level of engagement. They build stores that engage all five senses. So how can we incorporate scent, sound, even taste and touch into the experience so the consumer feels more fully immersed?

5. REPEATABILITY. How do you ensure that whether a customer comes in on a Wednesday morning just after opening, or on a busy Saturday afternoon, they are always getting the same level of trademark excellent experience in your store?

LIGHTBULB MOMENT #3 - DISCLOSURE

Millennials demand it and technology empowers it, so the move toward transparency is the industry's third Lightbulb Moment.

Blockchain — the digital ledger technology that can improve the traceability of stones through the supply chain — was the talk of JCK Las Vegas this year, feeding into an overriding message that has become prevalent in the past year or so: Transparency needs to be viewed as a competitive advantage.

Of course, this is easier said than done for a traditional and insular industry.

Indeed, both De Beers and Alrosa, in a discussion at JCK about the traceability benefits blockchain offers from mine to finger, were unconvinced that full disclosure of a diamond's precise origin was something retailers or consumers were interested in.

Such thinking jars with those who believe it should be left to consumers and/or retailers to decide what elements of a diamond's journey interests them.

"I don't think it's a good idea necessarily to make presumptions about what the consumer wants or needs," says Andrew Bone, executive director of the Responsible Jewellery Council (RJC). "I think what the industry has to do is attune itself to listening to the consumer."

The RJC's mission is a simple one, but far from straightforward: to drive the industry toward transparent and responsible business practices and supply chains.

"You can never do enough," says Bone, agreeing that it is not an easy challenge. "What you can do, though, is make sure that you are continually moving in the right direction and that you have momentum working together with other members of the international jewelry industry. To a lesser or greater extent, this industry is 600 to 800 years old. And if you look back to, say, 20 years ago, none of the structures supporting transparency and better business practices existed."

"WHAT THE INDUSTRY HAS TO DO IS ATTUNE ITSELF TO LISTENING TO THE CONSUMER"

Today, there are two key forces dragging the trade toward transparency: the consumer and the threat of legislation.

Millennials in particular have a more complicated relationship with diamonds than did previous generations. They are demanding total openness about a stone's ethical journey, and if retailers can't provide that, it becomes incredibly hard to sell diamonds to this market segment.

But even if the industry turns a blind eye to customer demand, legislators may prove harder to ignore.

"Some people in the industry may believe that this move to greater transparency does not need to include them," says Bone, but "the real and lasting cost will come as a consequence of doing nothing. And that can often manifest itself as legislation, which can be a ball and chain to the industry. Legislation is something the industry will have no control over, and it is rare for it to be repealed. So it's likely to be there for the foreseeable future."

As such, he says, those concerned about the cost of transparency should "look at the costs of not making that investment."

While tracking the mine-to-market journey is an ongoing project, there is a more immediate transparency issue: finance. Scandals such as the Nirav Modi fraud case in India not only affect consumer perception of the diamond trade's integrity, but have a crippling impact on the availability of financing, as banks either leave the industry or implement stringent rules and regulations.

"I see that the banks are requiring more accurate disclosure of the fair market value, as well as the cost basis of the inventory of some of my clients," says Robert Hoberman, managing partner at accounting firm Hoberman & Lesser. "Gone are the days when you could just give the bank any number for inventory. Now they want to make sure it's real, it's accurate, and it conforms to the way you keep your books and records — for example, the way you maintain your memo system."

The future for those who are unwilling or unable to meet these strict new standards could be stark. Hoberman points to two major negative consequences that could occur. "A bank could pull its financing [due to] not being able to rely on your financial information — and there are a very limited number of banks servicing the industry today," he says. "Or a company could be the subject of an IRS audit, either on a random basis, a triggered basis on IRS criteria, or subject to a whistleblower action. And then the tax consequences could be significant, [and] there could be criminal possibilities [as well]."

As with the other Lightbulb Moments, the time for the trade to react to this issue is quickly slipping away.

"I still think it's a bit of a ticking time bomb," says Hoberman. "And I don't think the majority of people are addressing it." ■