

Teaching Note

BIRKS: THE SPARKLE OF A CHERISHED BRAND

Robert Mackalski, Alfred Jaeger, and Phoebe Balshin wrote this teaching note as an aid to instructors in the classroom use of the case Birks: The Sparkle of a Cherished Brand, No. 9B18A014. This teaching note should not be used in any way that would prejudice the future use of the case.

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SYNOPSIS

Birks Group Inc. (Birks) is a high-end designer and manufacturer of Birks-branded jewellery, and a mono-brand and multi-brand retailer of luxury jewellery and watches. It operates 29 retail outlets across Canada, under its Maison Birks and Brinkhaus banners, and 17 stores in two U.S. states, Florida and Georgia, under the Mayors banner.

After restructuring the company and rehabilitating the brand, chief executive officer Jean-Christophe Bédos needs to decide how to best grow the iconic Canadian company in a rapidly changing consumer, retail, and luxury market. He must decide what balance Birks should strike between pushing the brand in Canada, in existing U.S. markets, in new U.S. markets, and in international markets. Although the luxury jewellery industry has not performed well in the digital marketplace, he is eager to investigate Birks's e-commerce options as well. How far and in what directions should Bédos extend the Birks brand?

LEARNING OBJECTIVES

This case focuses on brand and retail strategy in the luxury jewellery space. Using the case, students will achieve the following learning objectives:

- Understand how changing consumer behaviour affects the luxury retail landscape and prestige branding.
- Examine the role that company history and country of origin play in branding.
- Evaluate growth opportunities via brand extension, domestic expansion, and international expansion.

POSITION IN COURSE

This case is appropriate for use in an MBA or executive education course on brand management, luxury branding, retail management, or international marketing.

RELEVANT READINGS

- Glyn Atwal and Alistair Williams, “Luxury Brand Marketing—the Experience Is Everything!,” *Journal of Brand Management* 16, no. 5–6 (2009): 338–346.
- Marco Catena, Nathalie Remy, and Benjamin Durand-Servoingt, *Is Luxury e-Commerce Nearing its Tipping Point?*, McKinsey & Company, October 2015, accessed January 18, 2018, <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/is-luxury-ecommerce-nearing-its-tipping-point>.
- Pamela Danziger, “Luxury Brands Are in Danger of Losing American Millennials: How to Get Them Back,” *Forbes*, September 11, 2017, accessed December 2, 2017, www.forbes.com/sites/pamdanziger/2017/09/11/luxury-brands-are-in-danger-of-losing-it-with-american-millennials-how-to-get-it-back/.
- Suzanne Kapner, “Tiffany & Co., the Luxury Brand with a Midlife Crisis,” *Wall Street Journal*, July 9, 2017, accessed December 2, 2017, www.wsj.com/articles/tiffany-hunts-for-path-to-regain-cool-1499621248.
- Trevor Nace, “12 Most Expensive Gemstones in the World,” *Science* (blog), *Forbes*, November 2, 2015, accessed December 2, 2017, <https://www.forbes.com/sites/trevornace/2015/11/02/12-most-expensive-gemstones-world/#3f29a63a1538>.
- Jonathan Wilson, Giana Eckhardt, and Russell Belk, “Luxury Branding Below the Radar,” *Harvard Business Review*, September 2015, 26–27. Available from Ivey Publishing, product no. F1509A.
- Ho Yin Wong, Kylie Radel, and Roshnee Ramsaran-Fowdar, *Building A Marketing Plan: A Complete Guide* (New York: Business Expert Press, 2011), 47–59.

RELEVANT VIDEOS

- “Blood Diamonds—The True Story,” YouTube video, 44:45, posted by “Bob Bangso,” December 24, 2011, accessed December 2, 2017, <https://youtu.be/eThlmx7w9r0>.
- “The Truth,” YouTube video, 2:59, posted by “Maison Birks,” July 19, 2016, accessed December 2, 2017, <https://youtu.be/8bTEsMd3iUc>.

ASSIGNMENT QUESTIONS

1. What is involved in purchasing luxury jewellery? How has the luxury jewellery market changed since Birks’s beginnings in 1879?
2. Describe Birks’s heritage. What is the “DNA” of the Birks brand? What makes it unique?
3. How optimistic are you about Birks’s future?
4. How should Birks grow its business?

TEACHING PLAN

This case can be taught in an 80-minute class, divided into three major segments based on the above questions:

Discussion Point	Time (Minutes)
Introduction	5
Assignment question 1	20
Assignment question 2	15
Assignment question 3	5
Assignment question 4	30
Wrap-up	5

ANALYSIS

1. What is involved in purchasing luxury jewellery? How has the luxury jewellery market changed since Birks's beginnings in 1879?

Describe Your Path to Purchase

A good question to open an MBA or executive class is, “Has anyone recently purchased some luxury jewellery or an engagement ring?” Volunteers are usually eager to share their stories. A natural follow-up question can be to ask students to describe the experience/path to purchase (if few students have purchased such products, ask how jewellery shopping is different than it was, say, 10 years ago). This discussion can generate a lot of excitement in the classroom as students touch on a wide range of topics, including the role of emotions, price comparisons, technology (the Internet, review sites, and social media), salespeople, friends, and brand. Students may describe visiting Tiffany & Company or Birks, but then purchasing elsewhere. If a diamond engagement ring purchase is part of a student’s story, the price will likely become a key part of the narrative.

The purchase of luxury jewellery epitomizes a very high-involvement purchase—one that takes time, carries risk, and requires the user to seek out multiple information sources before purchase (see Wong, Radel, and Ramsaran-Fowdar in the Relevant Readings). The instructor should emphasize the impact of technology on jewellery purchases; today, the Internet is a source of luxury jewellery/stone education, easy cost comparisons, and design inspiration, and it also makes customization much easier.

What Did You Look for in Your Purchase?

The instructor can pose another interesting follow-up question: “When making your purchase, what do you look for?” Here, discussion can get animated around diamond engagement purchasing and the well-known “4 Cs” of diamonds: carat, cut, colour, and clarity. Regardless of the high-end jewellery purchase, discussion will evolve to include style, design, setting of the stone(s), or type of band/material (for example, gold, white gold, or platinum). Students may also discuss different stones (for example, sapphire, ruby, or emerald) or mention the importance of packaging.

When students are pressed, however, it becomes clear that there is an increasing desire for “ethical” jewellery. The instructor can ask students, “What makes ethical jewellery?” It is important to point out that “conflict-free” stones represent only one aspect of ethical jewellery. Other aspects include environmentally friendly mining practices, fair wages, above-board transportation (not smuggling), and safe work environments—and diamonds are not the only culprits. For example, one-quarter of the world’s sapphire supply comes from Madagascar, where there are reports of diggers working in unsafe conditions, child labour, and environmentally unfriendly mining practices. Similarly, gold mining has been linked to conflict in the Democratic Republic of the Congo.¹ Some jewellery enthusiasts may also point out that certain precious stones like grandidierite (US\$20,000 per carat) and serendibite (\$18,000 per carat) are more expensive than traditional diamonds (\$15,000 per carat),² and that both gemstones and precious minerals

¹ Greg K., “Diamonds vs. Sapphires: Which Are More Ethical,” Brilliant Earth, September 16, 2014, accessed December 2, 2017, <https://www.brilliantearth.com/news/diamonds-vs-sapphires-which-are-more-ethical/>; CBS Interactive Inc., “Congo’s Gold,” 60 Minutes, November 29, 2009, accessed December 2, 2017, www.cbsnews.com/videos/congos-gold/; Kira Zalan, Tracing Conflict Gold in the Democratic Republic of the Congo, PRI, June 23, 2017, accessed December 2, 2017, www.pri.org/stories/2017-06-23/tracing-conflict-gold-democratic-republic-congo.

² All currency amounts are in US\$ unless otherwise specified; US\$1.00 = CA\$1.24 on January 6, 2018; Trevor Nace, “12 Most Expensive Gemstones in the World,” *Forbes*, November 2, 2015, accessed December 2, 2017, <https://www.forbes.com/sites/trevornace/2015/11/02/12-most-expensive-gemstones-world/#3f29a63a1538>.

tend to be present in countries with comparatively few or lax regulations. The instructor can note that the desire to purchase ethical jewellery can be at least partially explained by greater awareness of the supply chain due to the Internet, the well-known 2006 film *Blood Diamond*, and the work of third-party organizations like Amnesty International.

Why Not Just Purchase a Synthetic Diamond/Gemstone?

Poll the class: “Would you rather give/receive a mined diamond or a synthetic diamond?” This may lead to discussions on the authenticity of lab-produced stones, which producers will argue are indistinguishable from mined diamonds, lower in price, and devoid of any ethical issues.³ In addition, labs can produce diamonds that are larger and have perfect clarity and colour—qualities that customers pay more for in mined diamonds. Yet the instructor will probably find that most students still prefer the mined diamond. As one student put it, “There is something special about a stone that took thousands of years to form—like love, there is a romantic timelessness and naturalness.” In other words, there is value in nature.

Does Brand Matter?

The discussion of value transitions naturally to a discussion of brand. The instructor can ask students, “Does brand really matter in the purchase of a watch? Luxury bracelet? Sapphire necklace? Diamond engagement ring?” These questions invite a healthy debate. Students generally believe that brand matters more for watches than for fine jewellery; probing why they believe this should yield interesting insights. Some students may argue that the box for a gifted jewellery piece matters almost as much as the jewellery itself. The box contributes to the meaning of the piece. It is important for students to recognize that branding of fine jewellery is especially tricky; unlike watches, jewellery pieces do not display visible brands, and signature pieces may be copied. This point leads nicely into the next question regarding the Birks brand.

2. Describe Birks’s heritage. What is the “DNA” of the Birks brand? What makes it unique?

Birks is uniquely Canadian. The company is deeply rooted in Canadian culture and history. It began operations shortly after Canadian Confederation and grew into a national jewellery retail company (largely via acquisition) as the country developed along the national railroad from east to west. Historically, Birks was widely recognized as a place to purchase well-crafted, meaningful gifts to mark special occasions (for example, engagements, weddings, baptisms, bar mitzvahs, and Christmas), and over time, the brand was ingrained in intergenerational gifting. The values of the Birks brand included craftsmanship, quality, celebration/delight, and Canadiana.

As students consider Birks’s corporate DNA, the question arises: What is Canadiana? Here the discussion should focus on Canadian values and stereotypes, which include nature (vast amounts of land; majestic forests; clean, cold lakes and rivers; pure snow and pristine ice; mighty mountains; abundant resources) and a spirit of welcome or hospitality (politeness, easy-going attitude, courtesy, respect, diversity, tolerance, and environmental and social consciousness).

Students should consider whether these Canadian values and/or a Canadian origin are advantageous for a fine jewellery brand. The class can break into different camps, each arguing its respective position on country-of-origin benefits:

³ “Diamond Education,” Spence Diamonds, accessed January 20, 2018, www.spencediamonds.ca/diamond-education/#artisan-created-diamonds.

- **Canadiana is not advantageous:** Canadian companies are not known for design, like Italian and French firms, nor are they known for precision craftsmanship, like Swiss companies.
- **Country of origin doesn't matter:** Many companies without country-of-origin benefits have succeeded and in some cases surpassed offerings with country-of-origin benefits. For example, while Russia and Poland have country-of-origin advantages in vodka, brands such as Absolute (Sweden), Grey Goose (France), and Kettle One (Netherlands) have thrived; the aerospace brand Embraer (Brazil) has thrived in an emerging economy.
- **Canadiana is advantageous:** Canada is an environmentally friendly, progressive country, and a Canadian product should have ethically produced components.

If time permits, the instructor can play “The Truth” (see the Relevant Videos section). The video looks at what makes Birks unique. The brand stands for the promise of a brighter tomorrow. This brighter tomorrow, in Birks’s view, is one where products are made ethically (with conflict-free stones), the environment is respected (for example, Birks’s beehives), and life is infused with love (for example, respect, tolerance, courtesy, politeness, and decency). The Birks brand truth is synonymous with Canadian values.

When juxtaposed on the product category, then, Birks’s branding makes even more sense. According to Birks, when someone gives a Birks product as a gift, that person is giving the recipient a tangible symbol of hope for a bright future. In this context, Birks’s communications also make sense. The company’s models seem approachable, smiling brightly, and its salespeople greet shoppers with warm, inviting smiles, standing beside them as opposed to across from them.

The question for Birks is, does this add enough value?

3. How optimistic are you about Birks’s future?

Students tend to be optimistic about the company’s future. This is a high-margin business with a strong CEO and a plan that seems to be scalable. In addition, the company has revamped with the millennial shopper in mind (for example, an approachable store redesign and beehives on the rooftop). However, while the company has returned to profitability and is defying market trends with same-store sales growth, it is constrained by its high debt load and commensurate interest payments (see Exhibit 2). In addition, the company is still facing strong headwinds from millennial lifestyle changes (for example, valuing experiences rather than possessions).

4. How should Birks grow its business?

The case provides a range of options for Birks to grow its business. (see Exhibit TN-1 for a board plan outlining discussion of the various options.) It is important for the instructor to stress that options requiring less capital expenditure are more feasible. These include expanding the online offering, introducing well-suited and tightly managed brand extensions, and expanding distribution in highly targeted locations. Since Birks products appeal to international audiences, creative options could include developing outlets in the international terminals of Canadian airports or boutiques in five-star hotels. At the same time, Birks cannot focus too much on Canadian growth because this ignores the brand’s global potential—something that Bédos wants to emphasize.

U.S. Expansion

The United States is the world's largest market for jewellery, and any attempt to build a global brand must include gaining a foothold there. Yet the country is also a highly competitive market, and outside of its Mayors banner, Birks is a new, unproven offering. One option for Birks would be to further develop its presence in Mayors stores (or even expand Mayors). Under this option, it would have full control over product presentation, salespeople, and point of purchase. Another option would be to find strategic channel partners to distribute Birks-branded products. Under this scenario, Birks would have to ensure that brand touchpoints (for example, salespeople, points of purchase, and brand communications) stand out in multi-brand stores.

International Expansion

Birks's options for international expansion include Europe, Japan, China, and Brazil; any credible high-end brand needs to have a presence in these countries. Selling in each of these places would require a great deal of market research and strategic planning, and hence a commitment of time and money from Birks. Entering an international market requires much more than knowing the market trends; it requires an understanding of the market's cultures and how business is done there, especially when dealing with differing languages, values, and norms.

Online Expansion

The online luxury jewellery market is growing, but jewellers are still slow to move online. One explanation for the market reticence is that the luxury experience cannot be replicated online (see "Luxury Brand Marketing—the Experience Is Everything!" in the Relevant Readings section). In addition, online shopping makes it easier for shoppers to compare prices, which is something luxury brands want to avoid. However, there is evidence that the Internet can be used to build a luxury brand's online presence.

WHAT HAPPENED

In August 2017, Birks announced that it had entered into an agreement to sell Mayors to a British company, Aurum Holdings Ltd. (Aurum), for \$105 million. As part of the deal, Aurum will continue to sell Birks fine jewellery in Mayors in the United States for a minimum of five years. In addition, Birks fine jewellery collections will be distributed in the United Kingdom (also for a minimum of five years) through the Aurum-owned companies Mappin & Webb and Goldsmiths, as well as on Aurum's e-commerce sites. This deal reduces Birks's debt burden, gives the company a presence in London, and helps the company learn e-commerce.

In November 2017, Prince Henry of Wales, better known as Prince Harry, announced his engagement to American actress Meghan Markle. Markle wore Plaisirs de Birks earrings at the official engagement announcement, driving unprecedented traffic to Birks's online platforms (see Exhibit TN-2). The earrings sold out within hours of the photo being published. On Christmas Day 2017, Markle wore Birks's Snowflake earrings. Again Birks's online traffic soared, and the Snowflake diamond earrings sold out within hours.

EXHIBIT TN-1: BOARD PLAN FOR DISCUSSING BIRKS'S EXPANSION

Online			
	Possible Approach	Pros	Cons
Expand e-commerce /online offering	<ul style="list-style-type: none"> Develop in-house expertise or partner with a retailer specializing in online merchandising. 	<ul style="list-style-type: none"> While still small, the luxury e-commerce market is growing (see "Is Luxury e-Commerce Nearing Its Tipping Point?") This is where the consumers are. It is a requirement to influence purchase and be competitive. In Canada, Birks has high brand awareness, but only 29 stores serving 35 million people. E-commerce can make Birks products available to customers who are not in close proximity to a Birks store. Birks is a vertically integrated retailer. Developing an in-house e-commerce solution is modernization of its existing business. 	<ul style="list-style-type: none"> Online merchandising tends to encourage price competition, which can erode margins. Jewellery needs to be tried on and may require lots of exchanges. The category has not performed well online (e.g., Tiffany's experience). It may be difficult to create the Birks experience online.

EXHIBIT 1 (CONTINUED)

Canada			
	Possible Approach	Pros	Cons
Penetrate Canada via Birks stores	<ul style="list-style-type: none"> Remodel existing stores not yet completed. Open up smaller city markets with stores that use the new Birks format/concept. 	<ul style="list-style-type: none"> The company has an existing and loyal customer base. Under Bédos, Birks has already rolled out a winning store format in Canada, but there is still scope for growth. Birks needs to shore up the home market in Canada after years of struggle. Most jewellery is still sold in physical stores. Birks enjoys an existing high brand equity (awareness and image) in Canada. Extensions can be introduced in the existing Birks stores. 	<ul style="list-style-type: none"> Bédos believes Birks can be a global brand, and too much emphasis in Canada keeps Birks regional. Canadian retailers are facing online competitors and need to do something. Birks's high debt load makes it difficult to finance new expansion.
Penetrate Canada via multi-brand stores	<ul style="list-style-type: none"> Re-enter smaller markets via multi-brand stores carrying the Birks line. Introduce Birks offerings at tourist hotspots (airports and five-star hotels). 	<ul style="list-style-type: none"> There is a potential for fast expansion. Birks has a strong brand within the Canadian luxury industry. Some multi-brand stores may look for Canadian products to sell to international tourists/shoppers. This strategy helps solidify the Canadian market. It helps create international awareness to a well targeted group (airports). It is less expensive than opening up retail operations. Bédos has been a brand builder for the firm. If Birks jewellery lines sell well, there are opportunities for extension distribution. 	<ul style="list-style-type: none"> Bédos believes Birks can be a global brand, but this strategy keeps Birks regional. Birks has little experience in dealing in third-party multi-brand environments. Controlling the brand image/display via third-party retailers may be challenging.
Grow in Canada via extensions and licensing	<ul style="list-style-type: none"> Expand the brand via category extensions/licensing. 	<ul style="list-style-type: none"> Many other brands have found success with this approach (e.g., Tiffany launched fragrances). Birks has strong brand equity in Canada, and this approach can evolve the brand into a lifestyle brand. Younger, harder-to-reach consumers may be more open to experiential products like wine; such products could serve as an entry point to developing a relationship with the brand. The company is potentially well suited for an e-commerce offering. Licensing the name to hotels could be an inexpensive way to build the brand/introduce new points of purchase. 	<ul style="list-style-type: none"> Birks's expertise is limited outside of jewellery. (This could be offset by buying talent or licensing.) Birks has moved away from licensing and has even removed some categories. The new stores have been designed for jewellery—not for extensions like fragrances and wine. Licensing may lead to loss of control of the brand, something Bédos has worked hard to rebuild.

EXHIBIT 1 (CONTINUED)

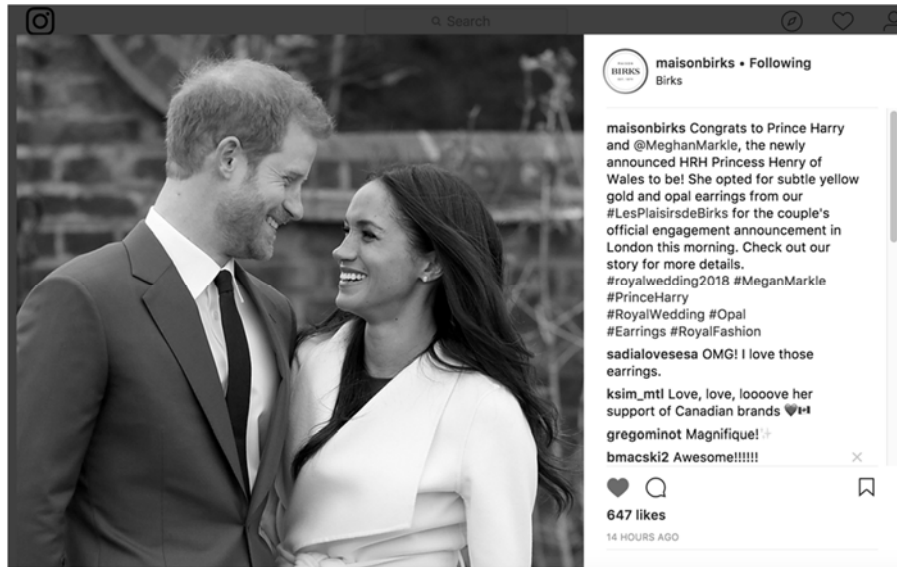
United States			
	Possible Approach	Pros	Cons
Penetrate the United States via Mayors	<ul style="list-style-type: none"> Penetrate using existing Birks-branded products; potentially expand the Birks product offering. 	<ul style="list-style-type: none"> Any globally successful brand needs a foothold in the United States, and Mayors is a natural starting point for Birks. Birks maintains control of the brand image and point of purchase. 	<ul style="list-style-type: none"> Mayors is succeeding, but how much more growth is possible?
Enter the United States via multi-brand stores	<ul style="list-style-type: none"> Expand distribution of existing Birks-branded products. 	<ul style="list-style-type: none"> The United States is a large market; this approach may be the fastest way to scale nationally. Most globally successful brands have a strong foothold in the United States. If Birks first tries this approach in Florida and/or Georgia, the brand can leverage existing awareness in these states. Birks branding may be appreciated in progressive states and states bordering Canada. 	<ul style="list-style-type: none"> It is expensive to develop a national brand in the most competitive market. This strategy gives less control of the brand image/point-of-purchase. Birks will need to educate third-party sellers who may not have an affinity for Canadiana.

EXHIBIT 1 (CONTINUED)

International			
	Possible Approach	Pros	Cons
Europe	<ul style="list-style-type: none"> Develop a presence in a strategic European city (or cities), namely, Paris or London. 	<ul style="list-style-type: none"> International fine jewellery brands tend to be present in key European markets (e.g., Paris, London, Milan). Bédos understands French markets as the former chief executive officer of Boucheron. Birks's Italian owner, Borgosesia Group, may be able to help with expansion in Europe. A strong flagship presence may introduce online opportunities. 	<ul style="list-style-type: none"> This strategy is very expensive to develop (e.g., real estate, labour, brand), and Birks has a high debt load. The channel and competition are less understood.
Japan	<ul style="list-style-type: none"> Develop a presence in a strategic Japanese city (or cities). 	<ul style="list-style-type: none"> Japanese consumers may appreciate the "nature" of the Canadian brand and the Birks shopping experience. There is some awareness of Birks among Japanese tourists who have visited Canada. 	<ul style="list-style-type: none"> Language issues. Cultural issues. Time-zone issues. Largely unknown channel.
China	<ul style="list-style-type: none"> Develop a presence in a strategic Chinese city (or cities). 	<ul style="list-style-type: none"> This is a fast-growing market. There is some awareness of the Birks brand among Chinese tourists who have visited Canada. 	<ul style="list-style-type: none"> Language issues. Cultural issues. Time-zone issues. Largely unknown channel.
Brazil	<ul style="list-style-type: none"> Develop a presence in a strategic Brazilian city (or cities). 	<ul style="list-style-type: none"> Brazilians are known for high-end international shopping, especially in Florida, where Birks already has a base. Canada's natural environment (e.g., snow and ice) may seem exotic to Brazilian shoppers. 	<ul style="list-style-type: none"> Language issues. Cultural issues. Largely unknown channel.

Source: Created by the case authors based on company documents.

EXHIBIT TN-2: ROYAL ENGAGEMENT ANNOUNCEMENT PHOTO FEATURING BIRKS EARRINGS



Source: Birks (@maisonbirks), "Congrats to Prince Harry and @MeghanMarkle, the newly announced HRH Princess Henry of Wales to be," Instagram photo, November 27, 2017, <https://www.instagram.com/p/BcAMVPOFaLG/?hl=en&taken-by=maisonbirks>.

EXHIBIT TN-3: ROYAL CHRISTMAS PHOTO



Source: Birks (@maisonbirks), "Merry Christmas to all!," Instagram photo, December 25, 2017, <https://www.instagram.com/p/BdIOqVLkgR/?hl=en&taken-by=maisonbirks>.