



CHAPTER 5: JEWELLERY RETAILING

5.1. KEY FINDINGS

- There are thousands of gold jewellery retailers in South Africa. However, the industry is consolidated with between 80% to 85% of gold jewellery being sold by just 12 large retail chains.
- Gold jewellery retail sales in 2006 amounted to approximately R1.53 billion (Figures 20 and 21).
- In aggregate, approximately 70%²⁵ of gold jewellery sold in South Africa in 2006 was made locally, while 30% was imported.²⁶
- In total, the wholesale and retail sector provided jobs, whether full-time, temporary or part-time, to 4,346 people in 2006, and 4,305 in 2005. In 2006 this accounted for 2.70% of employment in the gold value chain, and in 2005, 2.55%.

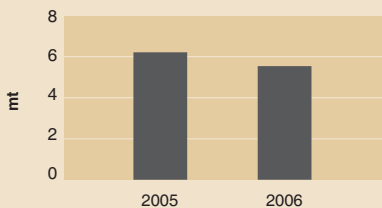


Figure 20: South African gold jewellery retail sales by volume for 2005 and 2006

Source: Interviews with retailers, annual reports, industry estimates, Genesis calculations

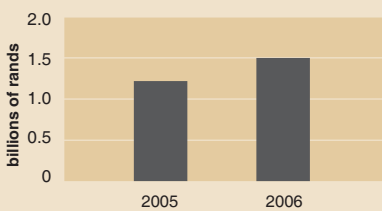


Figure 21: South African gold jewellery retail sales by value for 2005 and 2006

Source: Interviews with retailers, annual reports, industry estimates, Genesis calculations

5.2. KEY CHARACTERISTICS OF THE SECTOR

The gold jewellery retail sector is large and diversified with thousands of retail outlets across the country. These can be split into two categories:

- 12 leading large chain retailers
- a large number of smaller independent retailers

The 12 large chain retailers are Sterns, American Swiss, Game, Dion, Galaxy & Co, Tourvest,²⁷ Browns, Arthur Kaplan Jewellers, Natal Wholesale Jewellers (NWJ), Edgars Consolidated Stores, Truworthe and Foschini, who together account for about 80% to 85% of gold jewellery sold. They also accounted for 1,055 outlets offering gold jewellery in 2006, and 1,011 in 2005. Among the 12, the Foschini Group (including Foschini Stores, American Swiss and Sterns) accounts for 45% of outlets.

²⁵ Direct imports, plus 80% of wholesalers' products, which are also imported.

²⁶ Local manufacturers, plus vertically integrated suppliers, plus 20% of wholesalers' product.

²⁷ The Tourvest group owns five retail brand outlets, namely, Forma Viva, Tanur, Pinns, Murdock and Diamond Works.

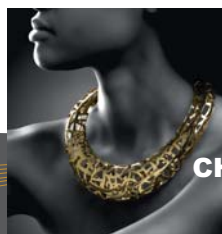


The 12 chain retailers differ considerably in their business models but can be split into the following broad categories:

- **Dedicated jewellery retail chains:** Sterns, American Swiss, Arthur Kaplan Jewellers, Browns, Galaxy & Co, Tourvest and NWJ are dedicated jewellery retail chains i.e. they sell jewellery and watches. Their target market is the **middle to higher income market**, with at least 85% of their customers being local. The exception to this is Tourvest, whose customer base is 85% tourist-based. Galaxy & Co is not only a retailer but also a manufacturer and wholesaler. Likewise, NWJ is a manufacturer that franchises retail outlets throughout the country. The franchises run independently but provide a secured destination for NWJ's manufactured output.
- **Mixed-business retail chains:** Truworths, Foschini and Edgars sell gold jewellery as well as a range of non-jewellery product like clothing, cosmetics and fashion accessories. Jewellery sales account for only a fraction of turnover of these groups. Gold jewellery is sold at jewellery counters in-store, usually staffed by one or two dedicated jewellery sales staff. The target market for these stores is 25 to 35 year olds, primarily women, **in the lower to middle income local market.**
- **Mass discount stores:** Game and Dion are mass retailer stores offering a very broad range of consumer goods at competitive prices. The value of gold jewellery sales accounts for a small portion of total turnover. The companies have jewellery counters in store selling mostly lightweight and mass-produced 9 carat gold jewellery at discounted prices. Their target market is the first time gold buyer from **the lower-income mass market.** (Another discount chain, Makro, also sold gold jewellery until the end of 2004 but has phased out gold jewellery in all stores.)

Independent jewellers: In addition to the 12 big retailers, gold jewellery is sold by independent jewellers. These are small, individually-owned, usually family-run companies or sole-proprietorships catering to the local community, who operate one or two local retail outlets independently of the big retail chains. Independent jewellers usually double-up as a retail store and basic repair workshop, and serve a wide target market from the middle-income consumers off the street to wealthier private clients ordering bespoke pieces.

No aggregated data exists for independent jewellers, though this review estimates, based on a wide range of industry views, that independents account for no more than 17% of gold jewellery sales. Yet independent jewellers are important players in the retail sector and probably account for close to 700 retail outlets nationwide, employing about 2,100 people.



5.3. SIZE OF THE RETAIL MARKET

There is no accurate official data available on sales in the gold jewellery retail sector. Statistics South Africa last collected data on local jewellery retail sales in 2003. In that year, sales of all jewellery (which included silverware, watches and precious stones) were reported as R2.39bn, equivalent to 1% of total retail sales of the country. However, this was the last occasion on which the data was collected, and without it, it is difficult to assess jewellery retail sales accurately.

In place of official figures, this review sought to gather sales and retail information directly from retail interviewees, which proved a difficult exercise. Many retailers were reluctant to offer information on sales and mark-ups even under the promise of strict confidentiality, and three of the major 12 retailers declined to take part in the study at all. Annual reports tend to show aggregate jewellery and watch sales figures, not itemised jewellery sales in isolation, making it difficult to determine the value of gold sales alone.

Based, therefore, on a research approach which mixed the last official data available with data gathered in face-to-face interviews with willing retailers, supplemented with the estimates of industry players and experts and extrapolations from annual reports, the review estimates that gold retail sales in the country in 2006 amounted to approximately R1.53 billion. This is broken down between types of retail groups in Table 18.



Group	Total gold jewellery sales 2006 (R '000)	% of total gold jewellery sales
Dedicated jewellery retail chains	1,000,823	65.49%
Mixed-business retail chains	160,934	10.53%
Mass discount stores	99,000	6.48%
Dedicated tourist retailers	14,000	0.92%
Independent jewellers	253,400	16.58%*
Totals	1,528,158	100%

Table 18: Estimated total jewellery sales in South Africa by retail group for 2006

Source: 2003 DTI data, interviews with retailers, annual reports, industry estimates

* It is difficult to assess the sales of independent jewellers as the group is numerous and diverse and there is no official data available. Some industry estimates put % of gold jewellery sales for independent jewellers higher than 16.58% and closer to 20%.



5.4. JEWELLERY WHOLESALERS

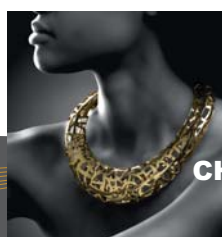
Wholesalers are differentiated from retailers in that they tend to buy bulk quantities of product at discounted prices, and sell to retailers rather than directly to consumers.

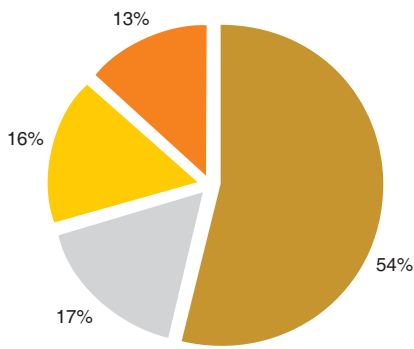
The jewellery wholesale market has diminished in the last five years but still remains an important source of gold jewellery in South Africa. There are approximately 12 major wholesalers. They purchase finished jewellery products from both abroad and local manufacturers and then sell on to local retailers. Wholesalers generally do not export goods and almost all purchases are intended for sale in the local market.

Based on interviews with a sample of wholesalers, supplemented by industry views, the review estimates that wholesalers import about 80% of their merchandise and source about 20% from local manufacturers. They tend to source goods from abroad that are handmade at competitive prices as well as fresher designs than cannot be provided by local manufacturers. Mechanised goods that require less labour input from local manufacturers are more likely to be sourced locally.

Wholesalers import goods from Thailand, Turkey, India, China (especially labour intensive product) and Italy (especially design-intensive product).

In 2006, the top 12 retailers in South Africa sourced about 16% of gold jewellery purchases from wholesalers, and in 2005, 14%.





- Local manufacturers
- Direct imports
- From local wholesaler
- From vertically integrated supplier

Figure 22:: Sources of gold jewellery per supplier source (average taken across 9 of the 12 largest suppliers) for 2006

5.5. SOURCES OF GOLD

Retailers report that gold jewellery is sourced from a mix of four sources, namely:

- local manufacturers
- direct imports
- local wholesalers (who source partly from local manufacturers and partly from direct imports)
- vertically integrated in-house suppliers

Data gathered from most of the 12 large retailers and a sample of independents on patterns of sourcing indicate that in 2006 approximately 54% of gold jewellery product sold in South Africa was sourced from local manufacturers, while 17% came from direct imports. Of the balance, 16% came from local wholesalers, and 13% came from a vertically integrated supplier (Figure 22).

Of the product supplied by local wholesalers, 20% was brought from local manufacturers and 80% was imported.

In other words, in aggregate, 70% of gold jewellery sold by the major chains in South Africa in 2006 was made locally, while 30% was imported. This breakdown is depicted in Figure 23.

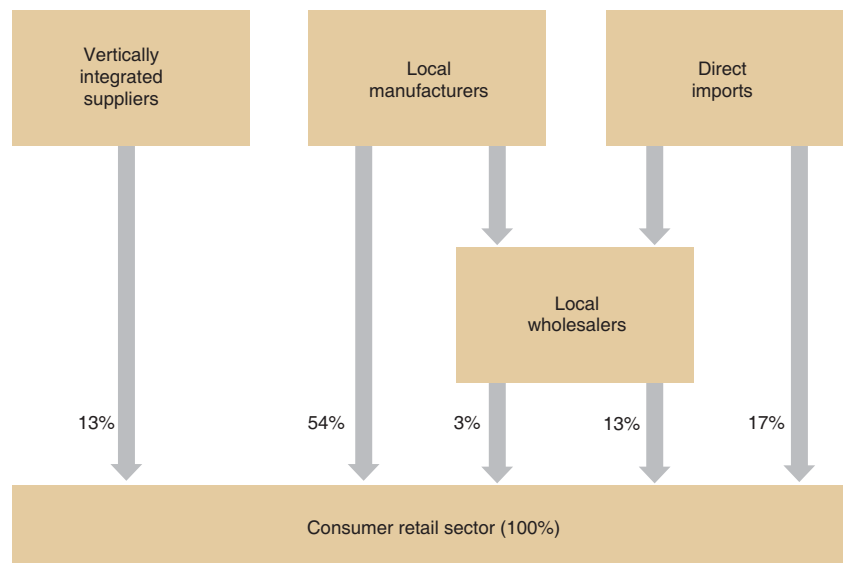


Figure 23: View of imported vs locally supplied gold jewellery for 2006

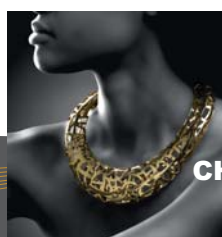
Source: Interviews, Genesis calculations



Interestingly, this is not the view commonly held by local manufacturers who are convinced that higher levels of gold jewellery are imported. This is also not the picture emerging from the data provided by the 12 largest retailers, who tend to import as the exception rather than the rule. Retailers reported that they choose to import where they require:

- hand-worked products including a high labour input, which are generally cheaper than South African equivalents
- products with high quality design and finish, like complex multi-stoned products
- products that display a noticeable point of difference, that is, products that look different to the “run-of-the-mill” output of local manufacturers; and also possibly
- in peak periods when local industry cannot supply needed volumes.

The major import markets were reported as China, Turkey, Italy, and Thailand.



5.6. MARK-UPS

In addition to mark-ups on gold added by the refiners and manufacturers, retailers apply a mark-up to the final product. It is difficult to generalise about mark-ups in the retail sector as significant variations between retail categories occur depending on the type of retailer and the product in question, and also whether the product is a standard, core product or part of a specialised range or promotional range. However, the following broad statements can be made about mark-ups:

- The largest mark-ups in the gold value chain occur in the retail sector.
- The mark-ups applied by the tourist retail market are the highest: gross mark-ups can exceed 350% if high quality stones, especially diamonds, are included with the gold. Indicative net average margin over cost is 90%.
- The mark-ups applied by the dedicated local jewellery and mixed-business retail chains are also high, ranging from 300% to 320% (gross mark-up on the cost price of the product). An average net weighted mark-up for the sector would be about 70% over cost.
- Discount stores achieve lower indicative net mark-ups of about 40% (Table 19).



Group	Indicative gross retail mark-up over cost	Indicative net margin over cost
Dedicated tourist retailers	300% to 350%	90%
Dedicated jewellery retail chains	300% to 320%	70%
Mixed-business retail chains	300% to 320%	70%
Mass discount stores	50% to 150%	40%

Table 19: Indicative mark-ups in gold retail business for 2006

Source: Interviews with retailers, industry estimates

A quick comparison between mark-ups achieved by the manufacturers and the retailers reveal a large differential in the retailers' favour. This does not necessarily imply that the retailers' profits are proportionately higher. For retailers applying a 300% mark-up, the net profit margin achieved for very basic 9 carat product is around 70%.



5.7. EMPLOYMENT

In total, the wholesale and retail jewellery sector provided jobs to 4,346 people in 2006, and 4,305 people in 2005. In 2006 this accounted for 2.6% of employment in the gold value chain, and 2.55% in 2005.

However, numbers employed in the gold retail sector are fluid because of the seasonal nature of demand for jewellery. During busy periods like Valentine's Day and Christmas retail stores take on casual and temporary staff, and it is therefore possible that this figure is an underestimate.

Interviews indicated that about 70% of staff work in sales, 15% in administration, 5% in buying, 5% in management and 5% in other roles.

