

SAMPLE OF STRATEGIC BUSINESS CASE

CANADA: THE DIAMOND OPPORTUNITY

1. At a Glance – Your Competitors are Already Here.
2. Why Canada? Why Now?
3. Where the Money is – Key Luxury DJ Markets.
4. The Thriving Retail Landscape.
5. Your Real Competitors.
6. A Market of Low Hanging Fruit.

AT A GLANCE.....COMPETITORS PROVE THE TIME IS NOW.....

- Most importantly, Saks and Nordstrom have quickly entered key Canadian cities and prestigious malls. The higher end department store is something Canada hasn't enjoyed (beyond Holt Renfrew and Andrew's). Although initial reports suggest their jewellery departments are struggling, Canadians will eventually get used to purchasing fine jewellery in a department store setting.
- Tiffany opened 4,700 square foot store in Vancouver – an addition to its flagship store in Toronto and boutiques in luxury retailer, Holt Renfrew, in markets such as Calgary and Vancouver. Tiffany joins Louis Vuitton, Hermes, Gucci, Coach, Lacoste, and Betsey Johnson at elite Vancouver address. “Vancouver is a world class city which we absolutely wish to be a part of and we're in great company.”
Andrea Hopson, Tiffany VP
- “With the economic boom in BC and a growing assurance that the boom will continue for at least another 4 years... Vancouver customers are very positive and optimistic and confident about the future.....They're buying high ticket items.”
Retail Consultant, Ian Thomas
- Cartier in Toronto doubles Canadian sales from last year to this year – from \$3 million to \$6 million annually. Projects \$7 million in sales next year.
- The Gilding of “Millionaire's Mile” (Bloor Street) in Toronto: “...International luxury brand-giants Cartier, Prada, Gucci, Tiffany & Co., Chanel, and Louis Vuitton have all recently undergone – or are about to embark on – costly renovations to give them greater star power.....There's no doubt that Bloor Street is Canada's Fifth Avenue, the country's Rodeo Drive.... The economy is sound, the stock market is booming, the housing market is seeing tremendous value and so people are feeling good, and when they feel good, they spend.....”
Globe & Mail, Canada's Top National Paper
- “Among the international all-stars is Cartier North America, now relocated to a larger, more spectacular location on Bloor Street.Rents have doubled in four years, causing Bloor Street to rank as the 22nd most expensive retail location in the world...”
Globe and Mail
- Escada invested \$3 million in an overhaul of its Bloor Street boutique. Toronto was one of 10 Escada boutiques chosen from 240 stores around the world for a complete makeover. “Toronto is an international city and it deserves international retailing.”
Escada President, Joe Caporella.
- Canadian icon and high end jewellery chain, Birks Jewellers, enjoys 15% jump in year end sales (fiscal March, ?).

- Van Cleef, H. Stern, David Yurman, and Chopard – just a few renowned red carpet jewellers never before present in Canada – now have “shop in shops” in Birks’ flagship store on “Millionaires’ Mile” and their own boutiques in prestigious malls.

WHY CANADA? WHY NOW?

1. **Sophisticated, stable, and growing market with limitless opportunity.**
 - Sustained economic growth. Real GDP growth year-over-year from 1992 – 2006. Increases ranged from .8 in 1992 to 5.5 in 1999. 2006 GDP growth was 2.8 and 2007 estimated at 2.7.
 - Low inflation (approx. 2.4%); low interest rates (approx. 4.25%); high employment (93.3%).
 - At 6.7%, Canada's unemployment rate in 2006 was lowest rate in 30 years.
 - Strong and growing consumer spending/confidence which has steadily increased for 12 years, according to Conference Board of Canada.
 - Highest and fastest growing standard of living than any G7 country between 1997-2004 according to OECD's Economic Outlook. Country's GDP continues to record 2nd fastest growth rate in the G7 in 2006-2007.
 - Ranked best overall quality of life among G7 and lowest cost of living according to IMD World Competitiveness Yearbook.
 - Canadian dollar outperforming 15 of 16 most active currencies this year according to articles in May, 2007 in both Toronto Star and Globe and Mail. Makes price of imported items more affordable for Canadians.

2. **One of most established consumer diamond cultures in the world.**
 - Canadians love diamonds.....
 - One of highest diamond ownership rates in world with at least 80% of all women owning at least one piece of DJ.
 - One of highest DER acquisition rates in the world with at least 85% of all brides receiving engagement ring upon betrothal.
 - More than half of Canadian women own 3 DJ pieces or more.
 - Average number of pieces owned is 3.2
 - 15% of women buy/receive at least one piece of DJ each year.
 - More than half of DJ value resides in 50 points plus; ¾ of DJ value derived from medium/high quality stones.
 - Late average marrying age for women (32) means larger disposable income and more opportunity for self purchase.

3. Diverse, wealthy, urban people.

- Canada's 6 largest cities home to 50% of country's population.
- Increasingly urban – 80% of population live in major centres compared to 31% in 1931.
- Increasingly wealthy – disposable income for average household up between 10 – 15% since 1980.
- Growth of luxury – luxury homes up 45%; luxury cars up 25%; super premium beer up 114%.
- World's best educated workforce. Half of Canadians between the age of 25 – 35 have post secondary education, either at university, college or technical school. Canada spends more of its percentage of GDP dollars on education than any other country in the world (according to World Competitiveness Yearbook).
- Increasing female influence and independence. Workplace is almost equally split between males and females. Wage parity finally moving in right direction. Women earn 82 cents for every dollar men earn.

4. Close proximity to powerful U.S. market.

- 17 of Canada's 20 largest cities within 100 km of U.S. border.
- Luxury jewellers like Cartier/Birks report high percentage of U.S. shoppers in Toronto and Vancouver because of attractive exchange rate/tax returns.
- Vancouver enjoys added bonus as cruise ship destination. Most luxury retailers located in prime real estate close to harbour.

* Stats quoted are from a variety of sources including: Statistics Canada; OECD Economic Outlook; Industry Canada; United States Bureau of Economic Analysis and Bureau of Labour Studies; The Fraser Institute; IMD, rank among 60 countries considered in the World Competitiveness Yearbook, 2005; Diamond Trading Company Commissioned Research; Retail Council of Canada; Conference Board of Canada; Bank of Canada; Financial Post; Globe and Mail; and Toronto Star.

WHERE THE MONEY IS – KEY LUXURY/ DJ MARKETS

The Bottom Line: Overperforming DJ markets include:

1. Toronto and SW Ontario (the “Golden Horseshoe”)
2. Vancouver
3. Calgary
4. Edmonton

Where You HAVE to Be:

1. Toronto
2. Vancouver, if possible.

The Support:

Toronto & SW Ontario

- **DJ Value:** 44% of DJ sales by value
- **Economy:** Ontario is country’s industrial and financial heartland, with a large and diversified economy.
- **Key Facts:** Ontario is second fastest growing province and Toronto is the largest Canadian city. Ontario boasts the highest proportion of millionaires in country.
- **High Income Areas:** Toronto, Ottawa-Hull, London, Kitchener, Windsor, Oakville

Vancouver, British Columbia

- **DJ Value:** 13% of DJ sales by value.
- **Economy:** Main industries are forestry, allied manufacturing, energy, and mining. The provincial economy has experienced 4 years of above average economic growth and is expected to benefit further from 2010 Winter Olympics in Whistler, BC – near Vancouver.
- **Key Facts:** Not only does BC enjoy a strong trade relationship with Asia, but it also sees the greatest level of immigration. Vancouver supports one of strongest Asian populations in country and enjoys its unique role as cruise ship port. Although not as affluent generally as Ontario or Alberta, it does have some concentrated areas of higher wealth such as Vancouver.

Calgary and Edmonton, Alberta

- **DJ Value:** 11% of DJ sales by value
- **Economy:** Booming. Very strong economic performance in recent years (due to abundance of natural oil and gas resources), and home to the fastest growing city in the country, Calgary. Unprecedented high for new home building/prices.
- **Key Facts:** Alberta features 4 of Canada’s 10 wealthiest metropolitan areas. 74% of families own their own homes.

THE THRIVING RETAIL LANDSCAPE

- Approximately 3,000 retail doors coast-to-coast
- Chains represent 35% of sales; Independents represent 65% of sales. (Chains defined as 6 or more stores).
- Little DJ growth by value in “other” sector (ie. department stores, internet, etc.)

DJ CHAINS – HIGH END

- **Birks Jewellers**, Canada’s only true high end chain established in 1879. 39 doors well distributed across the country, but strong focus on key diamond markets.
- **Saks**, New and unproven entity when it comes to fine jewellery.
- **Nordstrom**, Also new and unproven entity when it comes to fine jewellery.

CHAINS – MID MARKET

1. **Peoples Jewellers**, “The Diamond Store” and their slightly higher end sister company, **Mappins**. 192 doors in total. Operating in Canada for more than 80 years. Peoples is probably most recognized DJ name in country. Owner is now U.S. based Zales.
2. **Charm Diamond Centres**. 60+ doors in Canada and operating since 1972. Family owned eastern Canadian business that has gradually moved from east to west. Now represented in 7 provinces, but still strongest in the east and doesn’t have great distribution in key diamond markets such as Toronto, Calgary, and Vancouver.
3. **Ben Moss Jewellers**. 56 doors in Canada and operating since 1910. Also a family owned business that started in Winnipeg, Manitoba. Early growth focused on western Canada, and company now has distribution in 7 provinces. Current weakness is lack of presence in key Toronto market.

INDEPENDENTS

- **Two Buying Groups – Canadian Jewellers Group and DiGem** -- represent almost 200 independents – most of them in rural locations.
- **Other Independents** range from rural “mom and pop” shops to very high end independents in key diamond markets. Examples of high end, well-known retailers:

Toronto:

- Richard Booth Fine Jewellery
- Fortunes Fine Jewellery
- Royal de Versailles
- Myles Mindham Fine Jewellers
- Mark Lash Jewellers
- Shelly Purdy
- Linda Penwarden
- And many others....

Balance of Ontario:

- Nash Jewellers, London
- Knarr Jewellers, Guelph
- Grant Overrgard Fine Jewellers, Kitchener
- Ancaster Jewellers, Ancaster
- Davidson’s Glebe Jewellers, Ottawa
- Jubilee Jewellers, Ottawa
- Barry’s in Hamilton and Oakville

Calgary:

- Brinkhaus Jewellers
- Calgary Jewellers
- Swedish Jewellers

Vancouver:

- Brinkhaus Jewellers
- Paul Mara Jewellers
- Lugaro Jewellers
- Monte Cristo Jewellers
- Palladio Jewellers

YOUR REAL COMPETITORS IN LUXURY DJ

1. CARTIER, Toronto; Vancouver

- In Canada for 9 years.
- Boutiques in Toronto (Cartier owned) and Vancouver (franchise).
- Toronto boutique does approximately \$6 million per year.
- Vancouver boutique does approximately \$4 million per year.
- Toronto boutique has doubled revenues in 3 years.
- Toronto boutique moving to much larger, grander space on “Millionaire’s Mile” (Bloor Street) styled by renowned Paris-based designer Bruno Moinard.
- Very active with “socialites” and celebs – sponsors Fashion Cares, Film Festival, “Bloor Street Dines”, etc.

2. TIFFANY, Toronto; Vancouver

- In Canada for 15 years.
- Boutique in Toronto does approximately \$14 million per year.
- Just opened new 4,700 square foot boutique in Vancouver – wealth of publicity heralds opening. Celebrated Canadian-born architect Frank Gehry collaborated on design of boutique.
- Has mini-boutiques in high end retailer, Holt Renfrew, in Calgary and Vancouver.

3. BIRKS JEWELLERS, all key diamond markets

- Only Canadian high-end chain with 39 doors.
- 5 flagship stores in Toronto, Vancouver, Calgary, Edmonton, and Montreal.
- Revenue from Birks’ locations vary widely – from approximately \$3 million per store to \$10 million.
- Just opened Van Cleef and H. Stern in-store boutiques in Toronto and Vancouver locations. Both jewellers never had presence in Canada before.
- Purchased U.S. chain, Mayors, in 2002 and enjoyed 15% increase in sales last year.
- Roberto Coin, Kwiat, Vera Wang and Ladyheart brands available exclusively at Birks in Canada.
- Only high end competitor found in malls.
- Sponsoring 2010 Winter Olympics in Vancouver.
- Just unveiled new collection of handbags and accessories made in Italy.
- Observation – Birks very much wants to be its own “brand”, but continues to bring in other internationally renowned designers that seem to “dilute” Birks brand.

4. ROYAL DE VERSAILLES, Toronto

- Only 1 location in Canada, on “Millionaire’s Mile”, but one of most exclusive jewellers in Canada.
- Rough estimates put them at approximately \$20 million per year.
- Most extensive line of fine watches in Canada.
- Most extensive collection of very large, high end diamonds in Canada – many of them fancy coloured.
- Generates greatest volume of Rolex sales in country.
- One of few high end jewellers who offer private salons for wealthy clientele.
- Slightly mysterious company – owned/affiliated with Burnac Corp., a large conglomerate with interests in commercial and residential real estate.
- Reputation for greatly discounting product – particularly watches.

5. BRINKHAUS JEWELLERS, Calgary and Vancouver

- Family business since 1936 – old world commitment to goldsmithing, watch making and gemology.
- Prestigious locations in Calgary and Vancouver.
- Only jeweller in western Canada to represent fine brands such as Patek Philippe, Rolex, Cartier, IWC, Chopard, Baume & Mercier, Ebel, Omega, Piaget, Corum, Zodiac, Concord and Audemars Piguet.
- Also only jeweller in western Canada to be authorized by these brands to act as service centre.
- Norbert Brinkhaus extremely active in DJ industry – both internationally and through industry associations in Canada (both CJA and JVC).
- Jeweller has also won many international and national design awards from De Beers/DTC.
- Reputation for establishing long term relationships with repeat customers.

6. POTENTIALLY SAKS AND NORDSTROMS, Across Country

- As of yet, unproven. Currently hearing from consumers – difficult for them to comprehend buying a fine diamond in a department store that also sells nightgowns and coffee makers. But by no means, should they be discounted.

MARKET OF LOW-HANGING FRUIT

- 1) Canadian economy has never been better – with no end to boom in sight.
- 2) Canadians love diamonds. We have an entrenched diamond culture, and we have the stats to prove it.
- 3) Canada is an easy market to segment – the “diamond” opportunities are easy to leverage and target.
- 4) Your competitors know all of the above. They’re already here and they’re expanding.

THE NICHE FOR DE BEERS DIAMOND JEWELLERS

- **The equity in the De Beers name.** That alone is probably their strongest Unique Selling Point. Consumers have always mistakenly assumed that De Beers owned a chain of diamond boutiques and were disappointed to learn otherwise. The De Beers name is trusted, revered, and they are perceived as the “ultimate diamond experts” as well as the ultimate in luxury goods. They are steeped in 100 years of tradition and diamond knowledge.
- **They play on the myth and magic of diamonds** (gift of the earth, mystical power of diamonds) far more than any other jeweller we know. Although beauty is also paramount, they focus on everything from the healing power of diamonds to the “protection” diamonds can offer – a very appealing concept to some people. And certainly not an idea that Canadian jewellers have tried.
- **They seem to offer far more “themed collections”** than most jewellers in Canada who do a fairly poor job of grouping/theming their pieces.
- **They are the only retailer I know to include rough diamonds in their designs.** This is a very interesting/unique USP – particularly as people are becoming more “organic” in their thinking and look to see beauty from a number of perspectives.
- **They focus more on romance and radiance instead of the 4Cs.**
- **They offer a De Beers Mark of Authenticity** – a mark that would be more respected than most other diamond inscriptions. Why? Because in addition to guaranteeing that the diamond is a natural one, the mark also promises a wealth of other things – no child labour/treatments/conflict diamonds, etc.
- **They offer a Diamond Beauty Scan – a machine that illustrates the ideal cut and sparkle of the stone.** Very few jewellers in Canada have similar technology to demonstrate how perfectly their diamonds are cut.