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## W.KRUK

### Case study

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## **Playing games in the jewellery industry – the situation of W.KRUK**

### **Introduction**

It was a sunny Thursday afternoon in June 2011. Three women and one man were sitting together in a conference room with a big logo of W.KRUK above them on the wall opposite the window. They were talking very animatedly about something. It was certainly not a friendly talk about their holiday destinations. The issue must have been much more serious.

The women, Mrs. Kowalska, Mrs. Nowak and Mrs. Sola; who are managers in charge of respectively gold jewellery, silver jewellery and watches (the product categories at W.KRUK, a family brand operating for over 170 years in the jewellery market in Poland); were talking to the Brand Director, Mr. Jankowiak. “I think we need more expertise regarding the attractiveness of our business and the sources of our present competitive advantage”, said Mr. Jankowiak. “I hope the difficult times of ownership changes and the economic downturn are behind us but successful strategic management must be based on proper data and its analysis, as I am sure you realise. Can’t you feel the breath of our competitors down our backs? The recent economic turbulence has certainly affected the luxury market and there is less space for us all”.

### **The company background**

The Kruk family entered the jewellery business in the 19<sup>th</sup> century, and was able to survive the difficult times of German annexation, the dangers of the First and Second World Wars and threats from the communist government. On the threshold of democratic changes in Poland the company, headed by Wojciech Kruk, entered a very dynamic phase of its development. With the help of an American investor the company modernized its production model, widened its operational area, created a chain of its own outlets, also bought Deni Cler (an exclusive Italian fashion brand), and finally, in 2002, became listed on the Warsaw Stock Exchange (WSE). In 2004 W.KRUK became the official representative for the ROLEX brand in Poland. In 2006 the company was awarded the title of “Trustworthy Stock Corporation 2006”, this decision being made by the Polish Institute of Directors.

However, the success of W.KRUK and its brands did not go unnoticed by those who wanted to take advantage of this for their own benefit. In the 2008 the Management Board of the publicly listed company Vistula&Wólczanka decided to take over the enterprise and started to buy its stock. Wojciech Kruk, then President of the Advisory Board, refused to sell his shares, but the Vistula&Wólczanka managers did not want to cancel their investment plans, and so the character of the takeover became hostile. On the strength of the call for investors to sell

their shares the holders of 66% of the company's equity decided to sell their shares to Vistula&Wólczanka. But Wojciech Kruk decided not to give up on the long business tradition of his family. He invested part of the money he received from the deal in buying Vistula&Wólczanka shares. By the end of 2008 he was one of the main shareholders in Vistula&Wólczanka and, what is more, he gained control over the Group. W.KRUK was again related to the Kruk family, but most importantly Vistula&Wólczanka had become the biggest group on the Polish market offering luxury products, with W.KRUK being its leading brand. But past experiences, combined with the implications of the economic downturn, still motivate the whole team to be watchful in order to safeguard the position of the company in the market.

### Creating an advantage

“I am convinced that W.KRUK has got a competitive advantage” emphasized Mrs. Kowalska. “But we also know that hyper-competitive conditions often undermine a previously created advantage and that planning a strategy without proper strategic analysis could be a terrible blunder” added Mrs. Sola. The three managers of the product categories started to analyse the threshold for creating a competitive advantage over their rivals and their performance in terms of revenues within particular categories of products (Table 1).

Table 1: W.KRUK’s actual and predicted net revenues for categories of products in thousands of PLN<sup>1</sup>

Category	2008	2009	2010	2011	2015	2020
Watches	19 389	20 477	22 147	25 483	35 668	57 444
Silver jewellery	36 203	38 598	42 761	43 656	106 402	214 012
Gold jewellery	82 707	82 601	78 904	83 131	100 704	128 526
Total	138 299	141 676	143 811	152 270	242 773	399 982

Source: W.KRUK.

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<sup>1</sup> 1 PLN=0.253 EUR; 1 PLN=0.365 USD

It turned out that the highest revenue during years 2008-2010 was achieved in the category of gold products. However, the significance of silver products had been growing. “Is it possible to predict changes in the market?” asked Mrs. Kowalska. “And may we expect that this is the end of the economic downturn? If yes, our revenues may increase”, she added. “And we cannot ignore the trend for original, unique products which manifests itself in the growing popularity of products in the charms and beads segment. If we take the right actions it may encourage the dominance of silver jewellery in W.KRUK’s portfolio” commented Mrs. Nowak.

### **Market players in the jewellery industry**

The factors underpinning the present performance of W.KRUK should not be viewed separately from conditions in the whole industry. The three managers knew this and decided to look deeper into the data describing the situation as well as various changes in the jewellery market. Only when they had a full picture of the industrial context would they feel competent to formulate statements about the position of their company.

The value of the global jewellery industry (together with watches) in 2008 was estimated to be about €40 billion. However, the global jewellery industry is very specific - it is dominated by family companies with their own traditions. For example, it is estimated that more or less two thirds of the jewellery market is controlled by anonymous, relatively small, often family enterprises. The rest of the market is taken up by companies that possess their own strong brands and sell their goods through a chain of outlets. However, even within this part of the market family companies operate, some of which are publicly listed (e.g. until October 2011 the Italian luxury brand owner Bulgari). In such cases the main owners are often the faces of the company.

Does the Polish jewellery market differ from the world market? Size is of course the main difference, but the structural specificity of the industry is the same (Table 2). APART, W.KRUK and YES are the biggest jewellery companies in Poland (see Appendix 1). Recently some other competitors have entered the market. A prominent position has been established by PANDORA, and in the category of watches SWISS and TIME-TREND (see Appendix 1). Additionally, providers of traditional jewellery (made of noble metals and precious stones) have to compete with those offering costume jewellery. These goods are offered by chains of stores specializing in this particular activity or individual shops.

Table 2: The size of the jewellery market in Poland - actual and predicted net revenues in categories of products in thousands PLN

Category	2008	2009	2010	2011	2015	2020
Watches	387 780	409 540	442 940	465 234	609264	777593
Silver jewellery	544 888	548 184	558 824	561 106	920 809	2 167 310
Gold jewellery	817 332	822 276	838 236	846 660	920 809	1 444 874
Total	1 750 000	1 780 000	1 840 000	1 873 000	2 450 882	4 389 777

Source: own study.

The value of the jewellery and watch markets in Poland has been growing recently for several years in a row. “It seems that the market still has the potential for further growth” stated Mrs. Sola. “However, we know that there are months in each year when we sell much less. And what about the effects of the economic downturn? And how will the noble metal prices (silver, gold and platinum) change on international stock exchanges?” added Mrs. Nowak sceptically. The managers knew that as a result of environmental changes jewellery was becoming more and more expensive. Unfortunately, though, the margin did not go to the seller. They knew this too well. So, how secure was their position in the market and how should they secure it for the future?

## **Appendix 1 – Direct competitors of W.KRUK**

### **APART**

APART is a family company run by two brothers - Piotr and Adam Raczyński. The roots of the company go back to the 70's of the 20<sup>th</sup> century. At the beginning of 2011 APART was the largest company operating in the Polish jewellery market. The company has an aggressive competitive strategy. It is estimated that between years 2008-2011 APART's share of the gold jewellery market in Poland amounted to 13%, with its share of the silver jewellery market in Poland being 16% and its share in the watch market being 11%.

### **YES**

YES is also a family run business. The owners of the company are Magda and Michał Kwiatkiewicz (husband and wife) and Krzysztof Madelski (Magda's brother). The history of the company goes back to the 80's of the 20<sup>th</sup> century, but their first jewellery outlet was opened in the year 1993. Since then YES has been developing quickly. The main difference between the two other main players and YES is that the latter's chain of outlets work on the basis of franchising. In YES outlets, PANDORA products are also sold. It is estimated that in 2008 YES's share of the gold jewellery market in Poland amounted to 7%, with its share of the silver jewellery market in Poland being 8%. YES does not have watches in its portfolio.

### **PANDORA**

Founded in 1982 with its headquarters in Copenhagen, Denmark, PANDORA employs over 5,000 people worldwide, of whom 3,600 are located in Gemopolis, Thailand, where the company manufactures its jewellery. PANDORA is publicly listed on the NASDAQ OMX Copenhagen stock exchange in Denmark. It operates and manages a vertically integrated business model from in-house design and manufacturing to global marketing and direct distribution in most markets. The products are sold in more than 55 countries. The PANDORA brand is sold directly or through third-party distributors to over 10,000 points of sale worldwide. In Poland PANDORA products are sold in branded concept stores, as well as in outlets operated by other brands – for example YES. Altogether the company has 163 points of sale in Poland.

### **SWISS and TIME-TREND**

It is estimated that in 2008 the SWISS share of the watch market in Poland amounted to 4.5%. On the other hand Time-Trend has 51 shops located in the biggest shopping centres in Poland.