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# **Transfer of experiential and innovative teaching methods for business education**

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# **W.KRUK**

## Teaching notes

Marlena Dzikowska

Barbara Jankowska

Milena Ratajczak-Mrozek

**Poznań University of Economics**



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

### **Synopsis**

The case study briefly presents one of the main players in the Polish jewellery industry. It is focused on an evaluation of the position of W.KRUK within particular product categories. It requires on the one hand an assessment of the attractiveness of the jewellery industry in Poland and on the other hand the competitive position of the company in the market. The data highlighted in the text of the case study provides an opportunity to use BCG matrix for an analysis and evaluation of the product portfolio. However, this method should also be supported with some additional analyses.

*The students should bring their own laptops to search for certain data on the Internet.*

### **The principal subject areas that the case study explores:**

Strategic management, marketing, product portfolio analysis

### **The target audience:**

Undergraduate (second year or final year); postgraduate

### **The following assumptions have been made about the students' prior knowledge:**

Students should understand various theoretical concepts and methods concerning the business environment (such as PESTEL, scenarios, the five competitive forces model by M. E. Porter) and product portfolio analysis

### **Learning objectives:**

- to select and implement established analytical tools for product portfolio evaluation,
- to analyse the product portfolio categories of W.KRUK so as to assist in the evaluation of product categories for investment or divestment,
- to develop the ability to put forward well-reasoned justifications for the recommendations formulated.

## **The Teaching Process**

The case study offers an opportunity to learn about one of the best Polish companies and to study the intensity of competition in the jewellery industry in Poland – a country which is famous for amber and the jewellery produced with it.

The factors standing behind the present performance of W.KRUK should not be viewed separately from conditions in the whole industry. Only when the students have a picture of the industrial context should they feel competent to formulate statements about the position of the company.

They will have the opportunity to share their personal views on jewellery products and on the specificity of this industry, as everyone has bought these kinds of products, has been given them as a gift, or has simply observed someone buying them.

It is useful to begin the case discussion by getting students:

- to mention any companies operating within the jewellery industry in any country,
- to indicate any components and raw materials crucial for manufacturing jewellery,
- to identify the most important factors shaping the market success of jewellery products (key success factors) in particular countries,
- to indicate whether in the students' opinion the industry is still growing and what the prospects for the future are.

The class session can then move on to discuss the products offered by jewellery companies and to consider whether they can be categorized in any way or if there is any need to categorize them.

## **Assignment questions**

Q1. Are there any indicators to assess the attractiveness of the jewellery market and what are the main factors shaping the attractiveness of the jewellery industry?

Q2. Characterize the factors determining the attractiveness of the jewellery industry bearing in mind the answers to the first question. What is your opinion about the impact of the 2008 economic downturn on the attractiveness of the world and Polish jewellery industry?

Q3. What kind of analytical tools are used for strategic management purposes to help companies evaluate their product portfolios and to guide product investment or divestment decisions?

Q4. What are the product categories of W.KRUK and which of the products should receive priority attention? Why?

## Analysis of assignment questions

**Q1. Are there any indicators to assess the attractiveness of the jewellery market and what are the main factors shaping the attractiveness of the jewellery industry?**

The data presented below refer to the situation no later than 2011. Students can update this data with information available on the Internet. A useful link is: <http://www.euromonitor.com/>

How to prepare an answer to this question?

1. Define the set of factors determining the attractiveness of the jewellery industry. The set of factors should include<sup>1</sup>:

Market size
Projected growth
Profitability
Intensity of competition
Threats / Opportunities
Capital requirements
Social factors (the attitude of people towards buying the industry's products)
Seasonal factors
Degree of risk / uncertainty
Prices of noble metals
Economic factors (the purchasing power of potential customers in Poland and in other countries)

2. Indicate the weight of each of the above mentioned factors with reference to shaping the attractiveness of the jewellery industry. The total sum of all the weights should add up to 1 (1 = 100%).

The value of the world jewellery industry (together with watches) in the year 2008 was estimated to amount to €40 billion. In the year 2010 the value of the jewellery and watch market in Poland was estimated to amount to 1.84 billion zloty - since 2009 the market had increased only by 3.4%. In 2009 this increase amounted to 1.7%. However, it is estimated that

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<sup>1</sup> When working on the case study students may also be asked to include M. Porter's 5 competitive forces model in their analysis. However, the teacher should bear in mind that students will require additional time to find all the necessary information and that the case study provides information regarding the use of additional analyses.

during the year 2006 the value of the market rose by 20%. The recent low speed of growth was caused by factors related to the financial and economic crisis. Therefore, the data on the demand for jewellery and watches may be divided into two groups: stable trends and changes related to the financial and economic crisis. In the year 2006 the largest jewellery sales within the European Union were recorded in Italy, the UK, France, Germany, Spain, Greece and the Netherlands. At that time the average spending on jewellery in Europe amounted to ca. €56 per capita per year, while in Poland this value was slightly above €10. Therefore, the market still has high potential for further growth.

In general, the jewellery industry in Poland is profitable. The amount of the profits depends on the number and location of stores, the costs of running the business, the skills and personal qualities of the staff, as well as the promotional and advertising activities which influence the strength of a brand. The profit margin is negatively influenced by the recent upward trend in the rental prices of commercial premises. During the period 2007 to 2010 rental rates in the best shopping malls have risen by 60% or more. On the one hand this was due to a reduction in the number of newly opened shopping malls in big cities. On the other hand, it was partly due to the rising prices of energy, gas etc.

Other main factors determining the attractiveness of the jewellery industry are the prices of noble metals, the attitude of people towards buying jewellery, the purchasing power of potential customers, the structure of this industry and the barriers to entry.

**Q2. Characterize the factors determining the attractiveness of the jewellery industry having in mind the answers to the first question. What is your opinion about the impact of the 2008 economic downturn on the attractiveness of the world and Polish jewellery industry?**

The data presented below refer to the situation no later than 2011. Students can update this data with information available on the Internet. Useful links include:

<http://www.euromonitor.com/>

<http://www.usagold.com/dailyquotes.html>

<http://www.silverseek.com/>

<http://www.silvermarketnews.com/>

<http://priceofplatinum.org/market-price-of-platinum/>

How to prepare an answer to this question?

1. Find data about fluctuations in the prices of noble metals before and during the economic downturn that started in 2008. Why did the prices of noble metals increase?
2. Find data about the attitude of investors towards investing in noble metals. Are there any differences between the attitudes of Polish investors and those of other countries? Are there any general trends – an increase or decrease in jewellery sales observable worldwide?
3. How did the purchasing power of potential customers change during this time of economic crisis?
4. Indicate the main players in the industry – in the world and in Poland. What is characteristic of these businesses in terms of ownership and size?
5. Is it easy to enter the jewellery industry? What are the barriers to entry? What is the level of competition?
6. Evaluate the above mentioned factors shaping the attractiveness of the jewellery industry and rate each factor. Use a scale from 1 to 6, where 1 means that the industry is very unattractive in reference to a particular factor and 6 means that the industry is very attractive in reference to a particular factor.
7. Compute weighted rating for each factor and compute the total for all the factors.
  - <1;2> - very unattractive
  - <2;3> - unattractive
  - <3;4> - moderately attractive
  - <4;5> - attractive
  - <5;6> - very attractive

*A Table for this analysis is included in Appendix 1.*

In April 2011 the price of silver on the international commodities market was its highest in 30 years and amounted to \$46.6 per ounce, with the price of gold being over \$1,500 per ounce and the price of platinum also having increased to over \$1,800 per ounce. There are no indications that this situation will change quickly. As a result jewellery has become more and more expensive. This includes the Polish market. Due to this significant rise in prices on commodity exchanges, jewellery prices are also rising. Although the increase in jewellery and watch prices was significantly lower than the increase in the prices of noble metals, the demand for gold jewellery has fallen. Of course, one could try forward buying raw materials

during periods when the commodity market prices are lower. Given the persistent upward trend in commodity prices this is not a satisfactory solution in the long run - the prices of jewellery will eventually increase anyway. This inability to protect against price increases in raw materials significantly affects the profitability of jewellery production.

The increase in prices of noble metals is due to several factors. Gold and other noble metals are used in the jewellery industry, in certain segments of the automotive and electronic industries and, especially recently, also in the financial sector. The increase in commodity prices is due to the high demand from individual investors (especially from India, China and OPEC countries) and institutional ones (especially investment funds). Increased interest in noble metals as an investment is partly a result of the fear of inflation-induced impairment to investments (it is assumed that over the long term an ounce of gold is measured by the so-called constant value of purchasing power parity). On the other hand, this increase is also associated with the fashion for investing in gold (it is anchored in human consciousness as a synonym for wealth). This increase in gold prices on global commodity markets was accompanied by an appreciation of the USD against the Polish zloty. At the same time world gold supply is relatively stable – worldwide only about 2,500 tons of gold are produced each year. Therefore, if demand increases significantly, prices soar. The situation could be changed if technological advancements permitted access to gold deposits in inaccessible locations (due to the high cost of extraction), such as in Africa.

In Poland, the major investors interested in noble metals decide whether to buy the bars or coins offered by financial institutions. Jewellery has ceased to be an object of investment. In the Polish jewellery market people do not buy jewellery products because of the value of the metal from which it is made. On the other hand, as a general trend, more and more people are choosing to purchase jewellery as Valentine's, Woman's Day and Mother's Day gifts. This trend is reflected in the value of sales in February, March and May. Additionally, customers more often decide to buy products from a well-known designer's collection. However, at the moment the purchasing power of many consumers is limited. As a result of the crisis the growth rate of salaries in Poland has significantly decreased and the unemployment rate has risen, while the prices of energy, gas, etc. have been growing.

Across the world the jewellery industry is unique – it is dominated by family companies with their own traditions. It is estimated that more or less two thirds of the jewellery market value is controlled by anonymous, small sized, often family enterprises. The rest of the market

is controlled by companies that possess their own strong brands and sell through a network of outlets. However, part of this market is also controlled by family companies, some of which are publicly listed (i.e. until the beginning of 2011 the Italian luxury brand Bulgari). The structural specificity of the Polish jewellery industry is similar to the characteristics of the industry in other countries. APART, W.KRUK and YES are the biggest jewellery companies (see Appendix 1 of the case study). Recently some new companies have entered the market. A visible position has been established by PANDORA; and in the category of watches, SWISS and TIME-TREND (see Appendix 1 of the case study). Additionally, providers of traditional jewellery (made from noble metals and precious stones) have to compete with those offering costume jewellery. These goods are offered by networks of stores specializing in this particular activity or by individual shops. The value of the jewellery and watch market in Poland has been growing recently for several years in a row. “It seems that the market still has potential for further growth” as was quoted in the case study. Therefore, even though the competition is increasing, there is still enough space in the market for all the main players.

The barriers to entry for the industry are primarily the following: the capital requirements, the limited availability of attractive venues, and the importance of informal business contacts. It is estimated that the opening of a new store that corresponds to the standards of the three main players in the market costs about 400,000 zloty. Moreover, in recent years in Poland the number of newly opened shopping malls in big cities has remained low. It is increasingly difficult to find an attractive location for new outlets. In the most popular shopping malls one has to wait several months, if not several years, to find a good place for a new store. Furthermore, in the face of increasing competition in the industry some bigger companies have decided to increase the entry barriers through the introduction of legal restrictions on the use of certain types of jewellery.

**Q3. What kind of analytical tools are used for strategic management purposes to help companies evaluate their product portfolios and to guide product investment or divestment decisions?**

How to prepare an answer to this question?

1. Let students mention the analytical tools they know or they suppose could be used.
2. Explain that the most popular approach is the use of product portfolio matrices and, among others, the BCG matrix.

3. Let them designate the dimensions of the matrix.
4. Ask them about the product categories presented in the matrix. What are the key characteristics of particular categories?

The simplest and most common matrix used for the analysis of product portfolios is the Boston Consulting Group (BCG) matrix. It gives consideration to the following:

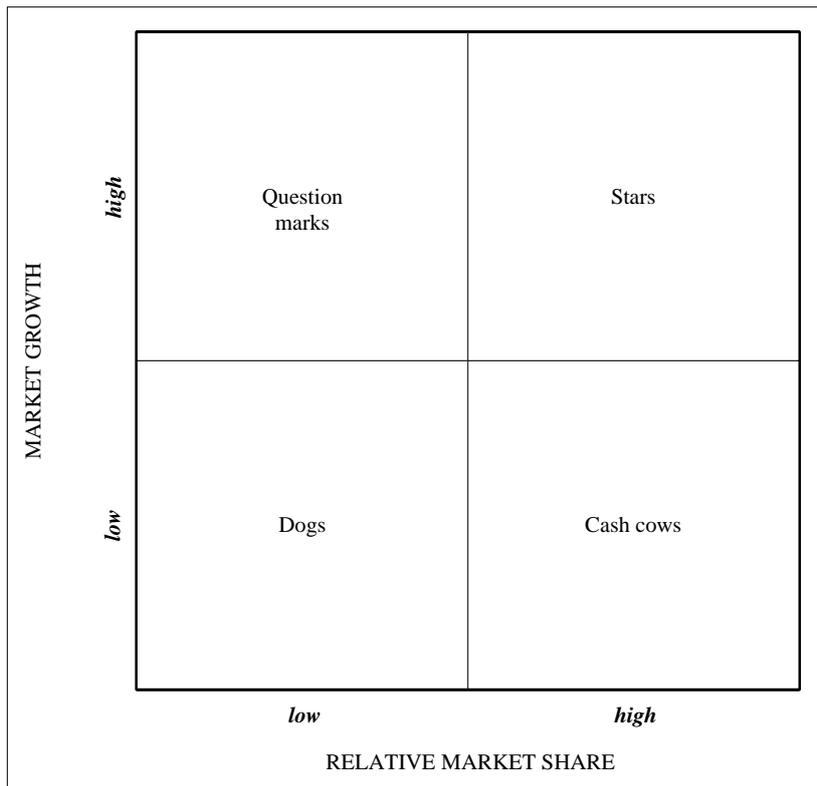
- the balance of the portfolio, e.g. in relation to the market and the needs of the company,
- the attractiveness of the product categories in terms of how strong they are,
- the fit that the business units have with each other in terms of potential synergies.

The matrix uses market-share and market growth criteria for determining the attractiveness and balance of the business/products portfolio. The segments reflecting high market share and high market growth are the most attractive, although the BCG matrix warns that high growth demands heavy investment. There needs to be a balance within the portfolio, so that there are some low-growth product categories that are making a surplus to fund the investment needs of higher-growth product categories.

The growth/share axes of the BCG matrix define four sorts of product categories:

- Star – a product category that has a large market share in a fast growing industry. Stars may generate cash, but because the market is growing rapidly they require investment to maintain their lead. If successful, a star will become a cash cow when its industry matures.
- Cash Cow – a product category that has a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be used to invest in other product categories.
- Question Mark (or Problem Child) – a product category that has a small market share in a high growth market. These product categories require resources to grow market share, but whether they will succeed and become stars is unknown.
- Dog – a product category that has a small market share in a mature industry. A dog may not require substantial cash, but it ties up capital that could better be deployed elsewhere. Unless a dog has some other strategic purpose, it should be liquidated if there is little prospect for it to gain market share.

Figure 1: BCG Matrix



**Q4. What are the product categories of W.KRUK and which of the products should receive priority attention? Why?**

How to prepare an answer to this question?

1. Discuss with the students the step-by-step procedures one should follow to construct a BCG matrix to visualize the portfolio of W.KRUK. The procedure is described below.
2. Ask students to construct the BCG matrix for W.KRUK by using the step-by-step procedure. Students should use the versions of Table A and Figure A that are included in Appendix 1 of the teaching notes.
3. Encourage students to identify those product categories in which the company should invest, and those from which it should divest itself. Ask them to explain their decisions.
4. Let the students express their opinions about the difficulties and obstacles they encountered while constructing the BCG matrix. Is it really an easy method? What are the advantages and disadvantages of BCG matrices generally and what was greatest difficulty in preparing the matrix for W.KRUK?

### **The step-by-step procedure to construct a BCG matrix**

Step 1: Indicate the year for which you are constructing the BCG matrix.

Step 2: Quantify the low and high growth of the market. When starting to prepare the analysis for the year 2011, look at Table 2 in the case study and take the data for the year 2010 and 2011.

Calculate the growth rate for particular product categories as well as the total for the whole market and for W.KRUK. The total growth rate for the whole market constitutes the borderline between low and high growth. A product category with a growth rate above this value is characterized as high growth, and a product category with a growth rate below this value is described as having a low growth rate.

Step 3: Indicate the results of the calculations on Figure A, “BCG Matrix for W.KRUK”; as well as in Table A, “The growth rate of the market” column (calculations for the whole market) and “W.KRUK's sales growth rate” column (calculations for W.KRUK).

Step 4: Calculate the market share of W.KRUK within particular product categories. Remember the appropriate point in time. To complete this task use the data from Table 1 and Table 2 in the case study. Indicate the results in Table A, “W.KRUK's market share” column.

Step 5: Define how APART is the strategic rival of W.KRUK in the watches segment and YES in the gold and silver jewellery.<sup>2</sup>

Step 6: Calculate or find in the text the data about the market share of the strategic rival – put the data in Table A, “Market share of the strategic rival” column.

Step 7: Calculate W.KRUK's **relative** market share – you have to divide the market share of W.KRUK by the market share of the strategic rival.

Step 8: Put the results in Table A, “W.KRUK's relative market share” column.

Step 9: Indicate the coordinates describing the position of particular categories of products in the BCG matrix of Figure A.

Step 10: Draw circles centred according to the coordinates mentioned in Step 9. The area of each circle should depict the share of a particular product category in the whole sales of the company from “W.KRUK's share of sales” column.

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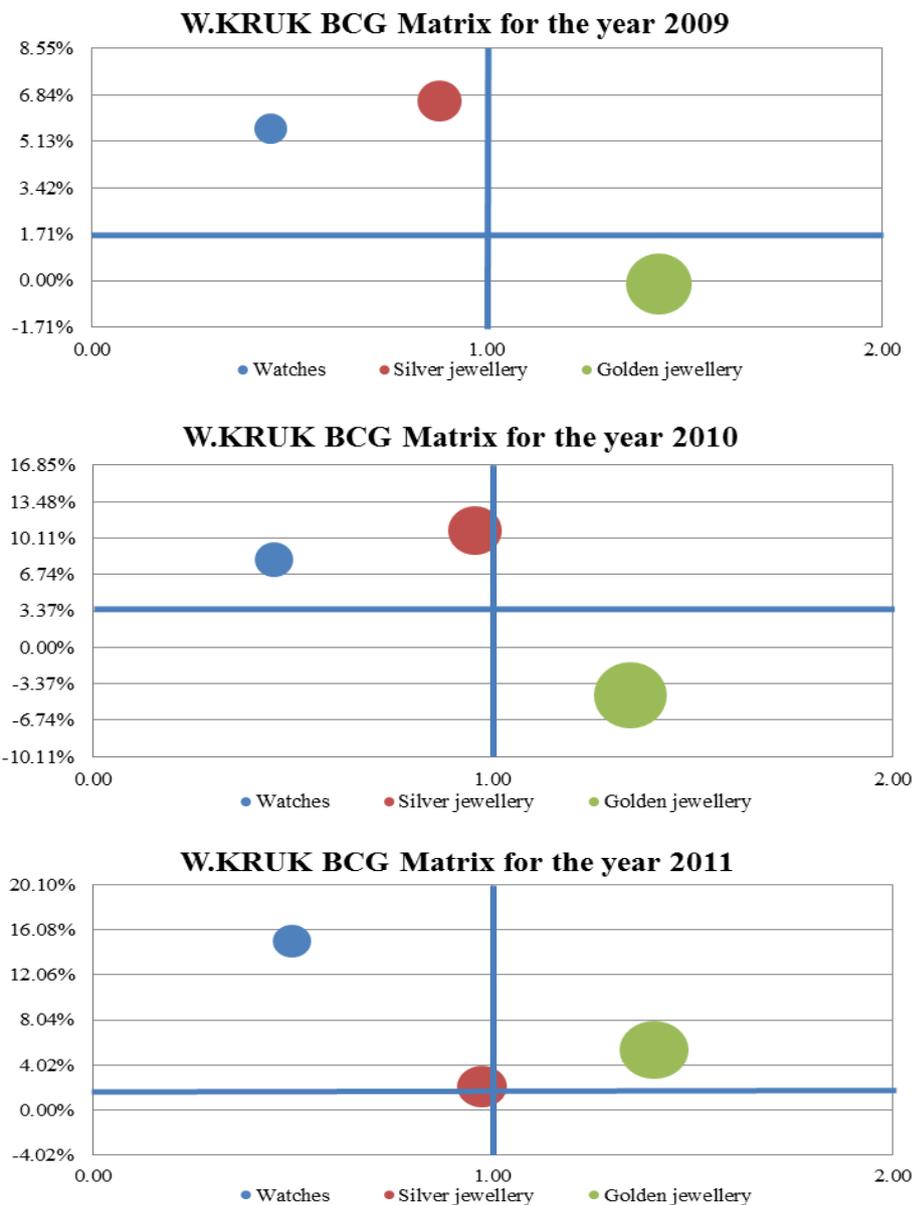
<sup>2</sup> APART is the strategic rival of W.KRUK in terms of design, prices and brand image. However, in terms of market share and scale of operations in gold and silver products W.KRUK can also be compared to YES.

## Which product categories to invest in and which to divest from?

Table A1: Evaluating the product portfolio of W.KRUK – BCG matrix data for the years 2009-2011

W.KRUK 2009 - BCG matrix data						
Product categories	The growth rate of the market	W.KRUK's sales growth rate	W.KRUK's market share	Market share of the strategic rival	W.KRUK's relative market share	W.KRUK's share of sales
Watches	5.61%	<b>5.61%</b>	5.00%	11.00%	<b>0.45</b>	<b>14.45%</b>
Silver jewellery	0.60%	<b>6.62%</b>	7.04%	8.00%	<b>0.88</b>	<b>27.24%</b>
Gold jewellery	0.60%	<b>-0.13%</b>	10.05%	7.00%	<b>1.44</b>	<b>58.30%</b>
Total	<b>1.71%</b>	2.44%	7.96%			100.00%
W.KRUK 2010 - BCG matrix data						
Product categories	The growth rate of the market	W.KRUK's sales growth rate	W.KRUK's market share	Market share of the strategic rival	W.KRUK's relative market share	W.KRUK's share of sales
Watches	8.16%	<b>8.16%</b>	5.00%	11.00%	<b>0.45</b>	<b>15.40%</b>
Silver jewellery	1.94%	<b>10.79%</b>	7.65%	8.00%	<b>0.96</b>	<b>29.73%</b>
Gold jewellery	1.94%	<b>-4.48%</b>	9.41%	7.00%	<b>1.34</b>	<b>54.87%</b>
Total	<b>3.37%</b>	1.51%	7.82%			100.00%
W.KRUK 2011 - BCG matrix data						
Product categories	The growth rate of the market	W.KRUK's sales growth rate	W.KRUK's market share	Market share of the strategic rival	W.KRUK's relative market share	W.KRUK's share of sales
Watches	5.03%	<b>15.06%</b>	5.48%	11.00%	<b>0.50</b>	<b>16.74%</b>
Silver jewellery	0.41%	<b>2.09%</b>	7.78%	8.00%	<b>0.97</b>	<b>28.67%</b>
Gold jewellery	1.00%	<b>5.36%</b>	9.82%	7.00%	<b>1.40</b>	<b>54.59%</b>
Total	<b>1.79%</b>	5.88%	8.13%			100.00%

Figure A1: BCG Matrices for W.KRUK for the years 2009-2011



The analysis for the years 2009-2011 reveals that the situation concerning W.KRUK's product portfolio has been changing relatively rapidly. It turns out that W.KRUK enjoys the strongest position in gold jewellery. During the years 2009-2010 the growth rate in the sale of gold products was low but at the same time the company's relative market share in this product category was high (cash cow). However, in the year 2011 the growth rate of gold jewellery increased (star). This situation seems to have been caused by two trends:

1. An increase in gold jewellery prices by W.KRUK.
2. An increase in the volume of products sold.

The increase in volume was a result of the increase in purchasing power of customers and the growing popularity of buying jewellery as gifts.

During the whole period analysed watches were classified as a question mark. The share of sales in this product category is still at a relatively low level but has been slowly increasing. The position of watches has to be monitored as it might require investment in marketing and promotion, especially since the entrance of new players on the market (SWISS and TIME-TREND).

During the years 2009-2011 the growth rate of W.KRUK silver jewellery has been decreasing while at the same time its relative market share has been growing. If this trend continues, silver products will become W.KRUK's cash cow. Such a situation would be a positive change as silver products, due to their relatively low prices, are affordable to a greater number of customers and their sales are not so negatively related to economic downturns as gold products are. However, to surpass the market share of the strategic rival W.KRUK might have to invest in this product category (regarding product variety, design, promotion and advertising).

### **Advantages and disadvantages of BCG matrices**

The BCG matrix has several advantages. It provides a good method for visualizing the different needs and potentials of all the product categories within a corporate portfolio. It warns of the financial demands of high-growth product categories. It reminds managers that cows can eventually lose their lucrative position and it provides hints about appropriate directions for investment. At the same time we must be aware of some disadvantages. It is difficult to decide what 'high' and 'low' growth means. Managers are keen to define their product categories as occupying a high share by defining their markets very narrowly. The treatment of dogs and cash cows may lead to self-fulfilling prophecies and cause motivational problems for the managers in charge of such categories.

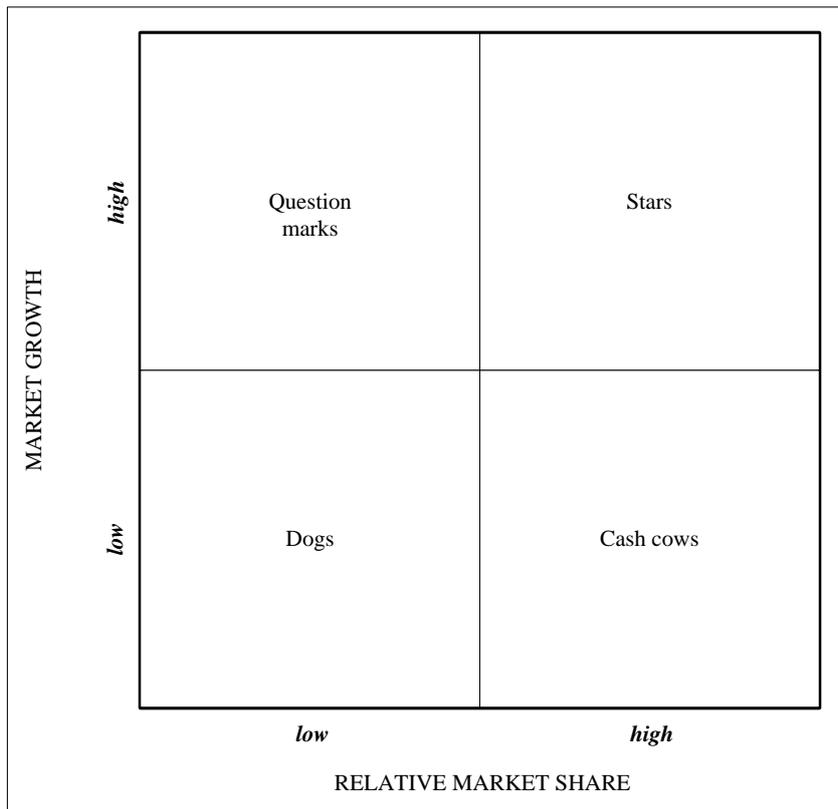
In case of the analysis prepared for W.KRUK and the Polish jewellery industry the biggest problem is the availability of comparable data. Different companies categorize their products in a different way. Each enterprise uses its own system of collecting data and they are presented using divergent approaches. To assess the position of W.KRUK in terms of the strengths and weaknesses of its product portfolio one has to use very broad product categories. This conclusion provides a suggestion for companies operating in the Polish jewellery industry – if they want to better monitor the results of their product portfolio strategies and get more precise feedback about their competitive advantage or gaps in terms of their products, they should collect more disaggregated data about themselves and monitor their rivals' products in a more detailed way.

**Appendix 1.**

**Table A: Evaluating the product portfolio of W.KRUK – BCG matrix data**

<b>W.KRUK 2009 - BCG matrix data</b>						
Product categories	The growth rate of the market	W.KRUK's sales growth rate	W.KRUK's market share	Market share of the strategic rival	W.KRUK's relative market share	W.KRUK's share of sales
Watches						
Silver jewellery						
Golden jewellery						
Total						
<b>W.KRUK 2010 - BCG matrix data</b>						
Product categories	The growth rate of the market	W.KRUK's sales growth rate	W.KRUK's market share	Market share of the strategic rival	W.KRUK's relative market share	W.KRUK's share of sales
Watches						
Silver jewellery						
Golden jewellery						
Total						
<b>W.KRUK 2011 - BCG matrix data</b>						
Product categories	The growth rate of the market	W.KRUK's sales growth rate	W.KRUK's market share	Market share of the strategic rival	W.KRUK's relative market share	W.KRUK's share of sales
Watches						
Silver jewellery						
Golden jewellery						
Total						

**Figure A: BCG Matrix for W.KRUK**



**Table B: Evaluating Jewellery industry attractiveness**

Factors	Weight (total=1)	Rating (scale 1-6)	Weighted rating
Market size			0
Projected growth			0
Profitability			0
Intensity of competition			0
Threats / Opportunities			0
Capital requirements			0
Social factors (the attitude of people towards buying the industry's products)			0
Seasonal factors			0
Degree of risk / uncertainty			0
Prices of noble metals			0
Economic factors (the purchasing power of potential customers in Poland and in other countries)			0
<b>TOTAL:</b>			<b>0</b>

- <1;2) - very unattractive
- <2;3) - unattractive
- <3;4) - moderately attractive
- <4;5) - attractive
- <5;6> - very attractive

**References:**

1. Lynch R., Corporate strategy, Financial Times/Prentice Hall, 2006
2. Wheelen T. L., Hunger J. D., Strategic Management and Business Policy: Achieving Sustainability, 12<sup>th</sup> ed., Prentice Hall, 2010
3. Johnson G., Scholes K., Whittington R., Exploring Corporate Strategy, Prentice Hall (UK) 2011