SWOT ANALYSIS

Tiffany & Co (Tiffany) is a holding company that operates through its subsidiary companies. The company's primary subsidiary, Tiffany and Company, is a jeweler and specialty retailer. The merchandise offerings include jewelry, timepieces, sterling silverware, china, crystal, stationery, fragrances and accessories. Tiffany has adopted multiple direct distribution channels. This strategy has enabled the company to emerge as a prominent player in the jewelry and specialty retailer segment. However, as counterfeit trade increases, the company stands to lose its brand equity. Besides, it may also result in customer dissatisfaction, which will also be detrimental for the company's image.

Strengths	**Weaknesses**
Strong direct selling strategy Broad offerings Strong brand name Strong balance sheet	Lower returns and profit margins Declining cash flows Sluggish performance in the Japanese market
Opportunities	**Threats**
Expansion in retail outlets Increasing online sales Growth in men's toiletries and fragrances market New business venture	Counterfeit goods Increasing rental rates in the US Slowdown in the US economy

Strengths

Strong direct selling strategy

Tiffany has adopted multiple direct distribution channels. The US retail sales include direct sales through Tiffany stores in the US or through business to business direct selling operations in the US. International retail sales include both Tiffany stores and boutiques. The company also sells its products online and is also involved in catalog sales. Tiffany offers retail sale through its online portal tiffany.com. The company offers a selection of more than 3,500 products through this website. The company also operates www.tiffany.com/business portal for international online retail sales.

The company distributes catalogs (including Selection, Collections and the Blue Book) of selected merchandise to its list of customers and to mailing lists borrowed from third parties. The total number of names on US catalog mailing and US internet lists in fiscal 2007 increased to 3.2 million from2.8 million in fiscal 2005. The total US catalog mailings during fiscal 2006 was 21.7 million. The total

US mail, telephone or internet orders received were 0.7 million in fiscal 2006. This cost effective selling strategy of Tiffany has enabled the company to emerge as a prominent player in the jewelry and specialty retailer segment.

Broad offerings

The company offers a broad range of offerings including a selection of jewelry, as well as timepieces, sterling silverware, china, crystal, stationery, fragrances and accessories. The company is not only known for its broad range of diamond offerings, but for other precious and semi precious stones. Tiffany also refreshes its product range at regular intervals. The company's Blue Book for instance, showcases its latest jewelry collections. It is also developing a niche product line of jewelry made from titanium. Tiffany also comes out with periodic collections to stimulate customer interest. The Palsma Picasso collection has, as its central attraction, items with more colored gemstones and gold.

Tiffany launched an array of new products in 2006, including the fine jewelry designs of Frank Gehry. Among the new designs were NOVO, a new cushion-cut solitaire diamond ring, STARS in platinum and diamonds, and new collections of sterling silver charms. The company also added products to its Celebration, Swing and Legacy collections. A broad range of offerings enable Tiffany to meet a wide range of customer needs.

Strong brand name

Tiffany is one of the leading brand names in the fine jewelry market. It is one of the world's premier jewelry designers and retailers. The Tiffany brand is ranked 96th in the top 100 global brands list published by www.stores.org in 2006. BusinessWeek-Interbrand valued Tiffany brand at $3,819 million in 2006. Apart from Tiffany, the company owns trademark registrations for Tiffany & Co, Tiffany Blue Box and the color, Tiffany Blue, for a range of product categories in the US and other countries. The company's leading brand name provides it with an edge over its competitors.

Strong balance sheet

Tiffany has a strong balance sheet. The company’s long term debt excluding current portion stood at $406.4 million at the end of fiscal 2007, as compared to a shareholders’ equity of $1,804.9 million at the end of fiscal 2007. The company’s long term debt to equity ratio was 0.23 in 2006. By contrast, competitor LVMH’s long term debt equity ratio was 0.31 at the end of December 2006.

Strong balance sheet provides Tiffany the flexibility to strengthen its offerings and expand geographic coverage through acquisitions. The company, for instance, invested over $11.7 million acquisitions in the last three years (2005-2007). The company therefore has the balance sheet strength to undertake large organic initiatives.

Weaknesses

Lower returns and profit margins

Tiffany recorded weak returns in fiscal 2007. Its return on assets, return on investments and return on equity for twelve months ending January 2007 were 8.9%, 11.5% and 14.1%, respectively, lower than LVMH, a close competitor of the company. LVMH recorded return on assets, return on investments and return on equity for twelve months ending December 2006 as 20.4%, 15.6% and 20.4%.

The company recorded an operating margin and net profit margin of 15.7% and 9.6%, respectively, in fiscal 2007, lower than LVMH, a close competitor of the company. LVMH recorded operating margin and net profit margin of 19.9% and 14.1%, respectively, for fiscal year ended December 2006.

Lower returns and profit margins reflect the inability of the management to deploy assets in profitable avenues, and this could result in decreasing investor confidence.

Declining cash flows

The cash flow from Tiffany's operations declined in fiscal 2007 to $233.6 million, a decline of 11.1% in comparison to $262.7 million in fiscal 2006. The free cash flows declined by 51.6% to $51.2 million in fiscal 2007 compared to $105.7 million in fiscal 2006. The cash and cash equivalents also declined by 55.2% in fiscal 2007 to $176.5 million from $393.6 million in fiscal 2006.

Such decline in cash flows would strain the company's financial positions. This in turn will limit the company's investment options and dividend payment capabilities. This could impact the company's performance on the stock exchange.

Sluggish performance in the Japanese market

After showing signs of improvement in early 2006, Japanese consumer confidence fell to 1.8 points in June 2006 from a high of 6.1 points in March 2006. Rising wages and falling unemployment made consumers in March purchase more than they ever had in the past decade. However, core consumer prices, which exclude fresh food, increased by 0.6% in May 2006 from the previous year, the fastest pace in eight years. This has discouraged consumer spending, resulting in 0.7% decline in retail sales in Japan, in April 2007. The Japan Chain Stores Association reported that 2006 was the tenth consecutive year of annual sales decreases, with a 2.7% decline in sales on a same-store basis. Moreover, according to IMF's 'World Economic Outlook, April 2007', it is projected that the real GDP for Japan would decline from 2.3 in fiscal 2007 to 1.9 in fiscal 2008.

Low consumer confidence has impacted the company's operations in Japan. Revenues from the Japanese market increased 0.1% in fiscal 2007, to touch $491.3 million. The contribution from this market declined from 22.3% in fiscal 2005 to 18.6% in fiscal 2007. Tiffany also closed seven stores in Japan between the periods 2006-2007. A continued underperformance in Japan would further affect Tiffany's revenue growth.

Opportunities

Expansion in retail outlets

Tiffany expanded its retail stores in fiscal 2006. The company opened five stores in the US including Nashville, Indianapolis, Atlantic City, Tucson and Hawaii. The company also opened three retail outlets in China, four in Japan, one in Korea and on each in Vienna, Austria, Monterrey, Mexico and Vancouver in fiscal 2006. The company operated 167 Tiffany stores and boutiques in fiscal 2006, with 64 in the US and 103 in international markets. The new retail stores accounted for 8% increase in the number of locations.

Tiffany continues to pursue the store expansion strategy in fiscal 2007. Tiffany opened new stores and boutiques at various locations such as Las Vegas, Singapore, Japan, Korea, Mexico City, New Jersey, Belgium, Macau, Honk Kong and Kuala Lumpur between January 2007 and July 2007.

New stores would expand the company's geographic reach, besides improving its market position.

Increasing online sales

Online shopping has steadily grown in popularity in the US, during the second quarter of 2005 e-commerce sales grew 26% as compared to the same period a year ago. US online retail sales are expected to have reached $130 billion in 2006 from $104 billion in 2005. US online retail sales are expected to grow annually by 17% through 2008. The online retail sales in the US are expected to reach $329 billion in 2010. By 2008, online groceries are expected to account for 1% of the estimated total market amounting to an annual growth rate of 42%.

In keeping with this trend, Tiffany offers retail sale through its online portal tiffany.com. The company offers a selection of more than 3,500 products through this website. Transactions made on websites outside the US are reported in the international retail channel of distribution. Business account holders can gift purchases through the company’s website at www.tiffany.com/business. For instance, the company offers Tiffany merchandise in England, Wales, Northern Ireland and Scotland through its UK website at www.tiffany.com/uk. Price allowances are given to eligible business account holders for specific purchases on the Tiffany for Business website. Online sales while offering that extra convenience to customers, also improve a company’s margins by cutting down its operating costs. Tiffany is well poised to benefit from the expected increase in online sales.

Growth in men’s toiletries and fragrances market

Lifestyle trends including a growing willingness by men to spend both time and money on their appearance and increased activity within the men's magazine market, are favoring the men's toiletries and fragrances market. The market has continued to show strong year-on-year growth, which can be attributed to strong new product development and to the fact that companies have improved their understanding of marketing toiletries and skincare products for men. For instance, the sale of men’s toiletries in the US reached $ 2,392.7 million in 2006 and is expected to grow at a CAGR of 3% to touch $ 2691.59 million by 2010. In New Zealand, the world's most dynamic men's grooming markets, sales in men’s grooming products increased by over 100% between 2001 and 2005, and Australia wasn't far behind, with 77% sales growth in the same period.

Tiffany’s product line up includes branded fragrances for men such as Tiffany for Men and Tiffany for Men Sport. Tiffany is also taking initiatives to open boutiques exclusively for men. For instance, in March 2007, Tiffany announced plans to open a new boutique for men 'Tiffany & Co. The Men's Store', in Japan, which would showcase men's jewelry and accessories. The company intends to introduce new merchandise specifically designed for men at this boutique, including a new collection featuring the exclusive Tiffany Lucida diamond set in white gold. The men’s collection would also include Tiffany diamonds set in platinum and 18K gold; designs from Paloma Picasso, Elsa Peretti, Jean Schlumberger and Frank Gehry; watches and accessories.

The positive market outlook in men’s toiletries is expected to boost the company's revenues from its men’s fragrance and accessories business.

New business venture

In December 2006, Luxottica Group and Tiffany signed a ten year eyewear license agreement for the design, manufacturing and worldwide distribution of exclusive ophthalmic and sun collections under the TIFFANY & CO. brand name. The agreement marks Tiffany's entry into the eyewear market, with the launch of its first luxury brand collection scheduled for early 2008.

This new business venture will not only diversify its product offerings but it will also complement its product line enabling its customers to choose from a wide product basket.

Threats

Counterfeit goods

The abundance of counterfeit goods and accessories is adversely affecting the sales of branded accessories. In February 2007, more than 9,614 incidents of counterfeiting and piracy activities worldwide were recorded by Gieschen Consultancy, an organization that tracks counterfeit activity across the globe. In total, authorities seized more than 1.9 billion counterfeit items valued at more than $7.6 trillion. Counterfeiting is more prevalent in fashion accessories such as watches, shoes, and hand bags and these goods are increasingly finding place in various retail shops. For instance, in the French market, demand for counterfeit products nearly doubled from 2005 to 2006.

In addition, increasing internet retailing could be an extra challenge for Tiffany in the fight against counterfeit goods. For instance, in September 2006, LVMH filed a lawsuit against online retailer eBay in a Paris court for marketing counterfeit goods on the website. LVMH is claiming E20million while Dior Couture wants a further E17million in damages for counterfeits sold between 2001 and

2005. The group's research discovered that 90% of items sold under its labels on the eBay site are counterfeit products.

Tiffany also initiated a civil proceeding against eBay in the Federal District Court for the Southern District of New York, alleging direct and contributory trademark infringement, unfair competition, false advertising and trademark dilution. It was discovered that 73% of the Tiffany jewelry sold on the auction site were counterfeit. Tiffany sought damages and injunctive relief stemming from eBay's alleged assistance and contribution to the offering for sale, advertising and promotion of counterfeit Tiffany jewelry and merchandise. Again, in March 2006, counterfeit Tiffany goods such as silver rings, necklaces, bracelets and other jewelry sold on eBay were seized by the UK authority.

As counterfeit trade increases, the company stands to lose its brand equity. Besides, it may also result in customer dissatisfaction, which will also be detrimental for the company's image.

Increasing rental rates in the US

Retail rents have been on an upturn in the US since 2004. Rents have increased by more than 5% since 2004 and by another 5%-6% in 2006. With markets tightening further in 2007, landlords in many US markets are expected to gain greater lease rent negotiating power. Approximately 20 central business district (CBD) markets are expected to raise rents by at least 5% in 2007.

In fiscal 2006, Tiffany operated 64 stores in the US, of these 63 stores are on lease. In addition, the company is actively expanding its store presence in the US and has entered into new lease agreements for all the new stores opened in the US. Increasing rents could cause the operating expenses of the company to rise due to increasing rental expenses. Rising operating expenses would pull down the Tiffany operating margins.

Slowdown in the US economy

According to OPEC economic outlook 2007, the US real GDP growth could fall from an estimated 3.4% in 2006 to 2.4% in 2007. A slowdown in the US economy would depress the purchasing power of the retail customers, which in turn will depress revenue growth and reduce margins of Tiffany.

The US economy is likely to slowdown in the short to medium term owing to rising inflation and interest rates. The US has seen 17 successive interest rate hikes over the past few years leading to the current high of 5.25%. Rising interest rates are already beginning to depress consumer spending, as the percentage of disposable income that US households pay out to service mortgage and consumer debt is increasing. This reduction in consumer spending does not augur well for retail chains like Tiffany. Slowdown in the US, the key market for Tiffany, will put pressure on the revenues of the company.