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JEWELRY STORE INSIDER

## What's The Difference

Between stores that have a good  
bit of money and less debt

&

those that have little money and a  
lot of debt?

*David Geller- Jeweler Profit*

Successful jewelry stores often share many common best practices.

## INTRODUCTION

Working as a consultant in the jewelry industry for the last 15 years, I visit stores in person and connect all the time with businesses online. I have the opportunity to view their inner workings, business details, financials, etc. and I can tell you that successful stores share some common best practices.

Notice the title of this article: I said "have money," not "make money." What's the difference? Plenty. Most jewelers make money, although many have very little of it in their chequing accounts. Many years ago, I read a statistic that stated that well over 55% of companies who declared bankruptcy had a profitable profit and loss statement.

Here's my list of what I've seen in the trenches, not in order of importance.

Raising your prices for custom work may seem counter-intuitive, but it works.

## 1. THEY CHARGE AT LEAST DOUBLE THEIR SHOP ACTUAL COSTS FOR REPAIR AND CUSTOM WORK

You might think you're charging correctly, but most stores I talk to don't charge enough for their labor (repairs & custom work).

You typically price by guilt rather than what you must charge to make a good shop profit. "The customers won't pay," is what many retail jewelers think. Not true. Across the country, prices for sizing a 14kt yellow gold, simple 1 ct round diamond engagement ring smaller range from \$18 to over \$100 (you read that right). Almost all of them enjoy a 90% closing ratio; the \$18 jeweler AND the \$100 jeweler.

If you're not making enough money from the shop the only REAL solution is to charge more than you are now. But you're scared. Think back to what you charged in 1995, 2000, 2005, 2010, 2013. You raised your prices. What happened when you did? NOTHING, they paid. If they squawked, that didn't matter, as long as they paid and came back. Hey, things go up in price and people still buy.

Repairs and custom work do not have TURN, so increasing the number of jobs coming in if a jeweler already has a full box doesn't increase profits. Be more efficient? A laser machine will definitely do that, but for the most part a jeweler's efficiency can be increased about 15%. But if you're short on profits by 50%, that won't help much.

**To increase shop profits you have to charge more than you are now and people WILL PAY. Raise your prices, learn to present the sale better and you'll make more money while retaining a better than 75% closing ratio.**

Jewelers who raise their prices still have a 90% closing ratio-but just higher profits.

A best-selling item this year may be out of style next year – turn your inventory.

## 2. THEY HANDLE INVENTORY THE WAY THE VERY LARGE SUCCESSFUL RETAILERS HANDLE IT, AS IF IT WERE A BLOCK OF MELTING ICE

Before refrigerators became common, blocks of ice were delivered to homes. In the morning, a block of ice might have sold for \$1. But as the horse drawn carriage drove through town, the ice started to melt and got smaller. By 3pm, the block was half the size; who'd pay full price for half a block? Being that the block sat in a metal box, the driver still had the same amount of water as he did when he left the warehouse at 5am. But as the ice gets older and melts, it has less value.

Most jewelers think ONLY margin – “How much can I sell this for above my cost?” That's a good start, but that's all it is. Have you noticed how retailers in other industries, like clothing, sell at their regular prices when new items arrive and after 60 days or more they start doing deep discounts to reduce stock? They understand turn. Clothing has a turn of "4" times a year because there are 4 seasons.

Why don't the clothing retailers just seal the old shirts, slacks, shorts and swimwear in zip lock bags and bring them out next season? If it cost them \$5 for shorts that sell for \$10, can't they sell them for \$10 next summer? Maybe, but here's what they look at:

- There might be a new style or "in" look next year. Who'll buy this then?
- Unlike jewelers, clothing retailers have to pay their bills in 30 days. Getting rid of old items helps to pay the bills for the next shipment.
- You can't keep swimsuits on the rack with leather warm coats. No room. Of course jewelers can pack showcases with more jewelry, just add another ring tray!

Stock your store with price-point ranges that have sold well in the past.

## 2. THEY HANDLE INVENTORY THE WAY THE VERY LARGE SUCCESSFUL RETAILERS HANDLE IT, AS IF IT WERE A BLOCK OF MELTING ICE (Cont.)

Merchandise has an obligation to give your store the profits you expected every year it sits in the store, not just the year it sells.

If an item costs \$100 and gives you a profit of \$100 (keystone), then it should do it every year it sits in the case. If it's been there 3 years it should give you \$300 when it sells, not just \$100. That's what successful retailers understand: turn can be more important than profits.

If you buy an item in January for \$100 and sell it at Christmas for \$200, you've made \$100 in profit; you're happy. But would you be happy selling it for \$160 instead of \$200 and make only \$60 profit? I would, if we sold it first in June and made \$60, reorder it in July and sold it for \$160 at Christmas. Now in a year we made \$120 in profits rather than \$100. A turn of 2, less profit and more total profits, which is all that really matters.

This is the reason retailers discount towards the end of the season. You may not think diamond jewelry goes out of style, but it does go out of money. Want to have money when it comes to inventory? Follow successful jewelers.

Stock the store by price point ranges that have sold in the past. Yes, experiment with some higher priced items, but don't go overboard. If it sells within 6 months of its arrival, reorder and continue to do so until it doesn't sell within 6 months.

Sell for "Top Dollar" for 9 months. Discount a small amount if need be. After 9 months, get worried, discount 25% to help move it out of the store. 12-15 months, be proactive about either returning to vendor for exchanging for other items or give the staff big bucks to move it for you.

Don't have it in the store if its 18 months or older. If it stays, it has an 80% chance it will still be there 5 years later.

Merchandise has an obligation to give your store the profits you expected every year it sits in the store, not just the year it sells.

In an average year, 60–80% of sales are of inventory less than 6 months old.

## 2. THEY HANDLE INVENTORY THE WAY THE VERY LARGE SUCCESSFUL RETAILERS HANDLE IT, AS IF IT WERE A BLOCK OF MELTING ICE (Cont.)

Find the dollar amount of inventory **over 1 year old** with your POS program, leaving out memos and consignments. It adds up quickly. Now multiply that number by 80% and then go into your QuickBooks or accounting software and look at your accounts payables and credit card debt. You'll see that about 80% of old inventory equals the store debt. **Eliminate old inventory and you will lower your debt dramatically, giving you more cash and availability to now stock items that will move!**

After seeing the books of hundreds of jewelers, the numbers are almost the same. Whether you're proactive about inventory or not, if you have a GMROI report in your POS program you can see these numbers for yourself.

- In one full year, easily 60-80% of all sales made are those from inventory that is less than 6 months old when it sold. But the amount of inventory on hand is less than 40% because reorders/turn in the first 6 months of being in the case.
- Items that sell between 6 and 12 months after reception, comprise less than 10 % of total sales. Look at the drop! Why? No one likes it anymore. Sales staff yawn when they see it now, customers aren't interested and it just sits there not selling.
- Sales of items that are 1 year old or older can be 20% of total sales, but to sell that 20%, the inventory represents an astonishing 57% of total inventory.

A GMROI report shows sales by price point, category and age. Clearly the golden age of inventory is within the first 6 months you acquire it. After 6 months it becomes the red-headed stepchild. After 12 months, it's like a 40-year old who never leaves home, just draining mommy and daddy's chequing account.

Train your staff to turn shoppers into buyers and increase the average dollar sale.

## 2. THEY HANDLE INVENTORY THE WAY THE VERY LARGE SUCCESSFUL RETAILERS HANDLE IT, AS IF IT WERE A BLOCK OF MELTING ICE (Cont.)

**Inventory is like a block of ice at 5am - worth its weight in gold (or ice).**

After 6 months, it's like ice at noon. At 9 months, it's 3pm and you need to start worrying and get rid of it at almost any price as no one is willing to pay a premium for water and you won't have enough scheckles to buy new ice and feed the family the next day.

## 3. THEY HAVE ONGOING SALES TRAINING ON A REGULAR BASIS TO TAKE "JUST OK" STAFF AND MAKE THEM ALL STARS

Training the staff makes them stars and great at their game. What is your job description of a sales person?

- Make sales
- Give good customers service
- Bring in business

Sounds good, but I learned from Harry Friedman what a sales' person job description should be:

**Turn shoppers into buyers while increasing the store's average dollar sale and your own closing ratio.**

This only happens with weekly or bi-weekly sales meetings, personal coaching and training.

Make sure your store opening hours are convenient for your customers.

#### 4. THERE IS A HOST OF OTHER THINGS SUCCESSFUL RETAILER JEWELERS DO, TOO MANY TO MENTION. BUT JUST A TASTE OF SOME:

- Spend a budgeted amount on consistent ongoing advertising; 6-10% of sales. Their advertising is "good". It's not boring.
- Host several events a year, knowing collectively this enhances store sales.
- Send thank you notes to customers.
- Have the staff personally contact customers all year long by notes or phone.
- Pay the sales staff a commission/bonus system that makes a difference in their paycheck.
- Renovate the store from time to time so it doesn't get stale.
- Hire support staff to allow the owner to do what they do best.
- Take regular vacations.
- Have hours open that make it convenient for the customers.
- ...And a host of 100 other things!