



# Polygon

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## OPERATIONS

# Your Store Is Nothing But Numbers!

## Jewelry Retail Stores:

Calculating and tracking the right numbers to  
reach and sustain higher profitability

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## Calculating and tracking the right numbers to reach and sustain higher profitability

Many jewelers run their store by the "seat of their pants" (or skirts) and are always trying to catch up.

There are numbers for successful jewelers and then there's "everyone else." Don't get me wrong, many people are happy to be making about the same or less than their bench jeweler because they are their own boss. Income is not as important as freedom. But freedom comes with a price.

If you can improve your store's numbers then you can more than likely improve your personal numbers (bank account level, debt, retirement amount, etc).

Typically, in a store you combine many numbers to come out with one good number (that's usually the bank account balance). A good example is gross profit margin. Keystone is a 50% margin. Would you be happy having a 55% margin? Maybe if you did, the InStore show might ask you to speak for them. But a 55% margin is nothing if your debt level is so high you can't please all vendors every month.

Go for an 80% margin and maybe you could pay all of your bills, assuming you didn't run off 3/4 of the customers with your sky high pricing. Bigger isn't always better.

### Gross Profit Margin

Keystone means you double your cost and we're only talking about the cost of the product without any added costs. That gives you a profit margin of 50%.



**“In 2012,  
the typical  
jeweler had  
a gross  
profit  
margin of  
42.2%”**



**If you go to a great site for retailer numbers you'll see jewelers last year had a gross profit margin of about 42.2%.**

<http://retailowner.com/Benchmarks/ApparelAccessoriesStores/JewelryStores.aspx>

At 50% you're feeling pretty good, aren't you? Not so fast Charlie. It's not how much you made when you made the sale. It's 3 numbers, and I'll get into that in a moment.

- In 2012 the typical jeweler had a gross profit margin of 42.2%
- Ladies clothing stores had a margin of 48.1%
- Hardware stores had a margin of about 38.1%

In the 70's and 80's margins were over 50%. If you took over your parents' store when they were young, their profit & loss had about 65 to 70%. Gross profit margin! That's how they were able to accumulate so much inventory without going bankrupt. At 42% margin, your parents would have closed up long ago.

### Turn

Turn is how many times a year you sell something. In general we look at how many times we sell the STORE FULL of inventory in one year. If you start a new store January 1st and put in \$100,000 at cost and you **sell at** cost \$100,000 then you sold everything = you have a turn of "1.0".

You don't have to sell every item, you

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can sell half of the stuff twice and thus sell \$100,000 and your turn is still "1.0". You could just as easily look at how many pieces you sold in a year as well.

But sell only \$50,000 and that's half of your inventory and your turn is "0.50". At this rate it would take two years to sell it all. A turn of "1.0" or better pays the bills, less than "1.0" and you'll have debt.

Retailowner.com shows that jewelers last year had a turn of 1.5. That means the store sold in dollars EVERYTHING in 9 months. This increased and probably because of the bead business. To find what your turn is, you divide your cost of goods sold for the past 12 months by your "average" inventory on hand for the past 12 months. A point of sale program does this in 2 clicks. If you sold at cost \$500,000 and your average inventory is \$750,00 then your turn is "0.66". How long is that?

Just divide 365 "days" by your turn of "0.66". You'll get 553 days to sell all inventories. That's over 17 months. Yuk.

Turn puts 2 numbers into play.

- Cost of goods sold
- Inventory level

Lower inventory by scrapping it or sell more items (amount at cost you sell goes up) and your turn increases. You may not have more profits but turn will increase. Lower inventory and turn goes up as well.

Over the years I've seen stores'

reports. What's intriguing is this number:

**65 to 80% of all inventory sold in the last 12 months** was items that had sat in the **showcase for less than 6 months when it sold**. Buy a lot at the Vegas show in May and by mid December 60 to 80% of all of it will have sold. Why? The staff and customers are excited about it. Just like when **you were dating**. The first 6 months was exciting.

But starting in month 7 thru 12 of it sitting in the case, sales of those items drop to about **15% of total sales**. Just like dating for a long time. No longer exciting. Just as well stay home and watch CSI.

Inventory over 1 year old (and it can be 20 years old) only provides 20% of total store sales but can be 50% of all inventory on hand. Turn on old stuff tends to be about "0.18". Which means it typically would take 2027 days to sell! (That's over 5 years)

Can you imagine buying \$25,000 at a show, having to pay for it in 90 days but most of it won't sell for **years?**

A point of sale company told me that typically if a piece of jewelry gets to be 18 months old it has an 80% chance of still being there 5 years later!.

### **GMROI** **Gross Margin Return On Investment**

All retail industries know this number, most jewelers think of it as "someone



**“Piece of jewelry 18 months old has an 80% chance of still being there 5 years later”**



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else needs to know that.”  
GMROI answers the question:

"How much money did I make on **my entire inventory – the items that sold and also the items that did not sell?**"

You have been thinking "how much did I make when I sold this chain".

Buy it for \$100 and sell it for \$225 and your profit is

- \$125
- 55% margin

That tells you only a small portion of the money story.

If you buy a dozen chains at a cost of \$100 each you have *invested* \$1200. If you sell that one chain for \$225 did you make any money?

The answer is YES. You made \$125.00

The "GMROI" question is "do you have any money?" The answer is NO! You took in \$225 but owe \$1000.00. You can't pay your vendor.

GMROI = gross profit dollars divided by average inventory.

In this example, we had an inventory level of \$1000 and made \$125 in profit. Divide \$125 by \$1000 and you get \$12 1/2 cents. "For every dollar we have in inventory we make about 12 cents."

You actually look at this by the whole store and then by category. A good jeweler's GMROI is about \$1.10.

Simple, they have too much inventory and most of it is over 1 year old.

By the way, GMROI is more important than that margin you've been chasing. GMROI is made of 3 things in your store, not just one.

**GMROI has in it three numbers:**

1. How much money you made when you sold it (margin)
2. How many times a year you sold it (turn)
3. How much inventory you had on hand when you sold it

Most jewelers think that if you keep any item and sell it for full price you'll be making a profit. In the first year the answer is yes. After year 1 the answer is no. A \$100 cost item that sells for \$225 makes \$125 in profit in the first year. Reorder and sell it again in year 2 and do that again in year 3 and \$100 investment brought in \$375 in profits over 3 years.

But if you keep it for 3 years before selling it, did you make \$125 in profit? NO! You lost \$250 because you missed out on profits in year 2 and 3.

### More Inventory

The correct amount of inventory to have in your store is no more than the gross profit dollars from selling inventory.

If you sell a million dollars and make keystone then your profit is \$500,000. That's the most amount of inventory you should own.



“Get Rid of

Old

Inventory



## Calculating and tracking the right numbers to reach and sustain higher profitability

Divide \$500k in gross profits by  
by \$500k in inventory level and you  
get "1.0" (I call it "\$1.00")

If your profit is \$500,000 and you  
have \$750,000 in inventory your  
GMROI is 66 cents.

What's so bad about 66 cents (less  
than a dollar)?

Below a dollar GMROI and you have  
more debt. Higher accounts  
payables/credit card debt/bank  
loans/money owed to the owner.

**Typically 80% of all old inventory  
over 1 year old is equal to total  
amount of debt in a jewelry store.**  
I see it in QuickBooks all the time.

**Get rid of old inventory and you'll:**

1. Lower your total debt
2. Increase your GMROI
3. Increase your turn
4. Have more exciting and saleable  
items in the case
5. Have more money in the bank

### Closing Ratio & Average Sale In Dollars

Now we're talking about how good  
you are with customers. Closing  
ratios should be looked at by "what  
makes us money in the store" not by  
an overall single number. If you used  
one number you might say: "For  
every 10 people who come into the

store 7 customers buy". That's a 70%  
closing ratio. You're the MASTER!

But that includes repairs and watch  
batteries in with merchandise. So you  
separate the number into 3 groups. I  
tracked separately closing ratio of

- Product Sales
- Jewelry Repairs
- Custom Design

In your store you might track

- Bridal Sales
- Other Jewelry Sales
- Shop Sales

You might also track "Buying Gold"  
so you'd track 4. Don't go overboard,  
3 is what I'd suggest.

### Typical Closing Ratio Numbers?

#### Jewelry Repair:

90% closing ratio is typical across the  
country no matter what you charge  
(really!)

#### Custom Design:

70%-80%

#### Jewelry Product:

"Average" in America for all stores is  
30%. That means if you see 10  
people and give them your best  
presentation of jewelry in the case  
and 3 buy that's a 30% closing ratio.

The sad part is that means **70% of  
the people walk without buying,  
leaving you with all of that unsold  
inventory.**



**“Buying  
gold  
fashion  
jewelry has  
been  
replaced  
with silver  
but bridal is  
still strong”**



## Calculating and tracking the right numbers to reach and sustain higher profitability

Your store might be better than 30% (this includes mall stores and high traffic store.) Don't be flippant by just saying "We sell 80%!". It might be possible that the store owner sells a majority but all of your staff might sell more than you totally and they might be 2 or 3 out of 10.

You have to keep records. Have a 3 column sheet of paper, each column for each type you're tracking. On the left: rows with sales staff names. If they sell something write down the dollar amount. If the customer walks put a slash "/". If you have 3 sales and 7 slashes they waited on 10 people, sold 3 and have a 30% closing ratio.

Now add up the dollar amount of sales and divide by the *number of sales* to get the sales person's "average sale" in dollars.

### You Now Have 2 Numbers to Improve Upon:

#### Closing ratio of products:

Why track it? Because you have so much tied up in inventory. Repairs has a 90% closing ratio, all you can improve is the average dollar sale.

If you sell 3 customers out of 10 and can get it to 4 out of 10 that's a 33% increase in sales without any additional advertising expense!

If you can go from 4 out of 10 to 5 out of 10 that would be a 25% increase in sales

If a product sale is 1 million dollars, increasing closing ratios will increase sales to:

3 to 4: \$1,300,000.00

or

4 to 5: \$1,250,000.00

#### Average Sale:

Buying gold fashion jewelry has been replaced with silver but bridal is still strong. Typical "average" product sale is \$250 to \$550. A strong bridal store could be \$800. Remember this is averaging bridal along with earrings and bracelets. You'd want to take "beads" out of the number, it will skew it badly.

If you're "average sale" is \$300 and could get it to up here's how much total store sales would increase:

\$300 to \$350: 16.6% increase in sales

\$300 to \$400: 33.3% increase in sales

\$300 to \$450: 50% increase in sales

### Combining an Increase in Average Sale with Closing Ratios

If you tried to sell more of the people who walked into your store a higher priced item or tried for an add-on to increase your average "ticket" here's how sales would increase on a million dollars of product sales:



“Closing  
ratio of  
custom  
jobs:

Between 70  
to 85%”



## Calculating and tracking the right numbers to reach and sustain higher profitability

Let's assume your average sale is \$300 and you have a 30% closing ratio:

For Every 10 People You See Going to:	Will Result In
Average sale of \$350 and a 40% closing ratio:	35.7% increase in sales
Average sale of \$375 and a 45% closing ratio	46.6% increase in sales
Average sale of \$375 and a 50% closing ratio:	52.2% increase in sales
Average sale of \$400 and a 40% closing ratio:	44% increase in sales
Average sale of \$425 and a 45% closing ratio	53% increase in sales
Average sale of \$500 and a 50% closing ratio:	64% increase in sales

On repair sales with a high closing ratio you work on "average sale". This also will improve store profits - immediately! You already sell almost everyone - what you're missing is:

- **Proper pricing** - You're too low already
- **Missed services** - Rhodium plating; check & tightening, prong work, etc.

So in repairs: work on the average sale of an envelope. Typical in America average repair sales are between \$65 and \$125. Stores using my price book have an average sale at or above \$125 with a 90% closing ratio.

Custom Design is a hybrid between a repair/labor sale and product sale.

### Typical custom numbers in America

#### Closing ratio of custom jobs:

Between 70 to 85%

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### Average dollar sale:

- 8.5% of custom sales are \$700 or less
- 22.5% are \$701 to \$1000
- 39.4% are \$1001 to \$2000
- 20.20% are \$2001 to \$3000
- 8.5% are over \$3001

Over 75% of all custom sales are \$700 to \$3000. What an opportunity!

Work on your average sale in custom and your closing ratio too as custom can be pricey.

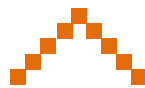
### Advertising & Rent

Advertising seems to be a place where stores hold back. But those with a higher and stronger advertising budget have increased sales.

"Average" store in America spends 5-6% of total sales on advertising. Stores with increasing sales spend 8-10%.

Rent can be a small amount and can skyrocket if you're in a mall. "Typical" rent is 3-5% of sales. If you're in a mall you'd expect the mall to bring in herds of customers for you so you'd expect mall rent to be much higher and advertising to be smaller.

Here's another "typical" and "average" number. There's no "absolute". If you add **your** rent and advertising dollars together a good number is about 13% of total store sales goes to this combined number. So finagle the two together however you like to get 13%:



**"A jewelry store owner should be paid on the average 10% of total store sales"**



- Rent 3% + advertising of 10%
- Rent 4% + advertising of 9%
- Rent 5% + advertising of 8%
- Rent 6% + advertising of 7%

All equals 13%.

### Store Owner's Average Paycheck

This is harder to compute as an average number but I have one.

**"A jewelry store owner should be paid on the average 10% of total store sales"**

Of course the old adage "more or less" comes to mind. Do a million a year? Then you should be paid \$100,000. If the store is doing \$350,000 a year, it's hard to live on 10% (\$35,000 a year) so if the store owner is paying herself \$50,000 that's 14%. It is what it is.

**If you're not being paid 10% or more its purely because of ALL of the above numbers.**

### Happy Quotient

I know, all of these numbers can be daunting and you have to tackle what makes you feel good inside and how this affects your personal/family life. Maybe you're happy with less income to have more free time. Maybe your spouses' income supplements your income from the store. You're happy.

I've seen store owners who track sales which increases sales and the sales person's ability to work on their own without supervision.

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They also manage inventory levels. More money coming in, staff acts more like adults than children who need constant supervising which means the owner actually can **leave their store in capable hands and go golfing or take days off!**

So...on a scale of 1 to 10, how happy are you?



“So...on a scale of 1 to 10, how happy are you?”



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