Stuller Advantage

July 13th I was invited to speak along with 4 or 5 other jewelry professionals to an elite group of jewelers at the Stuller facility in Lafayette, AL.

The conference was all about the changing jewelry industry. Matt Stuller spoke about how he got started selling findings out of the trunk of his car and how the company has evolved. He mentioned that his business can mirror the industry but now a days he can also “mold the industry”.

As they say, Stuller invited what they consider the cream of the industry’s leaders as far as retailers and people to speak at this conference. There were about 50 stores invited, having with associates about 150 total employees attending. Moderators and speakers were invited to speak or lead a discussion. I’d like tell you who spoke and the bits of gold that I gleamed from them, passing it along to you.

Matt Stuller: Founder of Stuller, now has 1500 employees.

David Geller with Matt Stuller on the last day of the Owner’s Conference

Matt spoke about the industry as a whole. Mentioning that not too long ago DeBeers used to control 80% of the diamond market and therefore would put marketing dollars in the marketplace helping the retailers sell more diamonds. Today DeBeers only controls 30-40% of the market. With such a small amount of control versus benefit today, they are backing away from advertising to the consumer, there's no longer any financial benefit for them to help YOU in marketing and advertising.

This means jewelers are on their own.

DPS (Diamond Promotional Service) has found through consumer surveys that the average consumer is uncomfortable going into a jewelry store! The consumer perceives the jeweler as overpriced and hard pressure.

Matt says "Be a part of change, not a victim of it."

At the very end of the conference Stuller showcases a brand new Cad/Cam product that's been made simpler for the sales staff to sue in front of the customer. Called **Stuller Studio**, the staff designs everything in front of the customer, after approval the staff member clicks "send to Stuller". About 5 days later your ring arrives in the store. See more about it at:

http://www.stuller.com/cadcamservices/

KEN GLASSMAN: Jewelry and industry analyst.

This guy was video taped earlier for the weekend as he was unable to attend. But a really fascinating guy.

Originally from Wall Street, Ken knows the retail jewelry consumer. He looks at the glass half full rather than half empty. Your numbers may be different, but as an industry as a whole jewelry sales are 90-95% of the previous year. It in and of itself is not so bad, but individually, lower and middle end jewelers had it better than high end jewelers.

High end Jeweler Tiffany's had a 60% decrease in sales last year.

Ken says the worst is now behind us. (David note: The weekend was in July, as of September 1st this proving to be true.)

Thoughts from Ken's (balding) head, this recession is a time to re-evaluate your store. Ken suggests:

1. A recession offers opportunities.

2. Review and realign your cost structure. This is the time to become lean. If you'll stay lean when times are better and keep it lean, you be very cash rich.

3. Review your people. He mentioned use the recession as the culprit for laying off unproductive people. If Mabel won't toe the line, time to let Mabel find a job

she'll like and do well in.

4. Have good sales people. Time to train and make them better. If not, now's the time to grab many of the good sales people who have lost their jobs from other jewelers who closed down or gotten smaller.

5. Time to find great real estate. Maybe this is the time to buy and build your own building or revamp a building that's out there. My personal past experience has show that a self standing building itself is worth the same as having 4 additional billboards on the street. So don't "poo- poo" additional costs of a mortgage, it has a cost canceling feature in this way.

6. Review vendor relationships. This is the time make your store more valuable to your vendors and visa versus. Try buying from fewer vendors and have more business from that vendor. The benefits are there.

Bridal is the great opportunity of the next 20 years! (More on this further into this article)

1. Bridal can easily be 40% of stores total sales.

2. It's a key growth area.

3. By 2016 there will be 3 million weddings a year and the numbers of wedding don't decline in a recession.

4. Don't overlook bridal as a cash area.

The self purchasing female is an important part of sales. They are looking for fashion and you should consider it most important.

Reaching the consumer:
1. You can't reach each generation of consumers in the same way.
2. Younger consumers are not into instant gratification. They'll wait to get what they want.

The New Normal

Inventory:
1. Typically in a jewelry store 74% of all sales in a store are products that have been purchased by the store's buyer in the last 6 months old. 6 months or less of inventory attributed to 74% of total store sales!

2. In total 95% of all store sales come from inventory that is LESS than 18 months old.

3. Setup a “sell by date” to unload inventory so you can keep on top of this critical business cost.

4. Memo is a thing of the past. Why? It steals sales of your owned inventory. Better to sell your stock, you get to keep 100% of the money whereas memo inventory you have to immediately pay for the cost.

5. Bankers will soon require your store to have a turn of “1” or better. Better get to this before you are forced to.

6. Insurance companies will start to devalue jewelry over a year old.

7. After the recession is over, jewelers who remain will have a field day with market expansion and fewer jewelers as competitors.

The Shopper:

1. The typical jewelry shopper visits a jewelry store 2-4 times a year.

2. When a consumer visits a store like Wal-Mart or a grocery store so many more times a year, if they have one bad experience, its one out of 52 visits (like a grocery store). If a customer shops at a jeweler and has a bad experience it may be the only time they will visit, they’ll go someplace else.

3. You must get it right the first time or they won’t come back. (This goes back to training.)

DAVID PETERS: Jewelers of America

1. There are way too many jewelers in the marketplace today.

2. Customers have too many choices.

3. Jewelers get a “poor” grade in using technology.

4. Jewelers typically have a poorly trained staff.

5. Customers typically know more about product knowledge than the sales staff.

6. Profit margins are now lower than they ever have been in our industry.

7. You should ask yourself “Am I a jewelry store or am I a museum?”

8. (David Note: You actually don’t own a jewelry store, you own a bank. You use the sale of jewelry rather than selling “interest” to make your money. Being you’re a

bank, each dollar (each piece of jewelry) has to be making for you and it has only 1 year to do that).

The Customer:

1. Customers enjoy shopping less and less today and spend less time shopping.

2. Customers have lots of choices and options in the marketplace.

3. They are distrustful of the prices and information they get from the store.

4. They insist on instant response of their question. They may not demand getting the product right now but they are unhappy if they can't information instantly. In your store and on your website, if it takes too much time, the consumer will leave your store or click away and go to another site.

5. Customers are now quicker to complain and slower to forgive.

6. Consumers enjoy/love technology and the internet. It makes their lives easier.

7. Customers care about social, environmental and ethical issues and will punish or reward you as an ethical retailer.

Consumer Shopping Habits

1. Only 53% of consumers have shopped in a traditional mall in 2007. Down 76% from 1998.

2. In 2008, 89% of households with over 70K in income went to a Wal-Mart, K-Mart or Target in a 3 month period of time.

3. In 2008 Wal-Mart **owned** the top 10 categories of product sales. In this list of top ten that Wal- Mart owns:

   A. Dog food
   B. Diapers
   C. Diamond engagement rings.

Surprised? Don't be. Wal-Mart just put high end jewelry in their store that they placed in a Chicago suburb. 3 and 5 carat diamonds, very good quality. In a Wal-Mart store? Yes.

More tidbits of knowledge from David Peters:

1. High income households are more likely to buy on the internet. (Another reason why *have to have a website).*

2. The total amount of time consumers spend in a typical brick and mortar store is **down 80%**.
3. Over 80% of the jewelry purchases in the U.S.A. over $2000.00 were "touched" by the internet. This means even if they *bought* the item in a retail store, it was first researched on the web.
4. The consumer typically now *starts* their search on the internet rather than going into a jewelry store.

Merchandising in the Digital Age:

Re-merchandising requires a jeweler:

1. **Physical Merchandising**: Having the merchandise displayed in a manner to cause excitement in viewing the product. You don't know how many store I've been to that lighting is terrible, the glass is scratched, displayed are ugly and product is old and outdated. Other than that, great! ☺

2. **Virtual:** A jeweler today has to be on the web. Has to! This is the first place consumer's check.

3. **Ethical Merchandising:** The younger consumers of today are very interested in non-conflict products. They appreciate that we make our products from re-cycled gold rather than tearing up acres and acres of land for an ounce of gold.

4. **Unstable Resources:** We'll have to deal with this now and years to come. Remember in 2008 when Platinum went to $2000 an ounce? No electricity in the Platinum mines.

5. **Unstable Prices:** Did I mention Platinum in 2008? How about gold going up $400 an ounce in just a few short years. Remember $5 gas?

Marketing in the Digital Age:
Ways to increase sales today:

1. **Direct Mail**: Even with the web, direct mail still works. With spam filters today, maybe about 30% of your email blasts are even seen.

2. **Telephone Calls**: This has proven highly successful for store to keep in contact with customers and to drive traffic back into stores. I personally know of one jeweler who in 2009 only had a 2% drop in business because of constant telephone contact. It works.

3. **Print for local businesses:** The newspaper isn't dead yet, especially if you have an older clientele.

Traditional marketing needs to be replaced, digital fills the void.
In 2008 over 52% of consumers said they preferred to be marketed in a digital format. In this way you can easily customize the message to match the receiver.

Store Operations:

1. Its time to review *space productivity*. More than ever, every square foot has to deliver dollars.

2. You should look at the financial benefits of owning versus leasing. I personally have spent time in many jewelry stores and have found those that owned their building seem to be better off, especially at the end of their career. Having a free standing building has more presence and visibility. One jeweler told me that customers believe he was more stable because of owning the building.

3. Its also time to review Personnel Productivity. Look at the hours they work, total compensation costs. To see how productive sales staff are, divide their W-2 by their annual sales (including repairs) to see what percentage they cost of every sale. For most stores it should be between 8-13%. If closer to 8% they are very **efficient** and closer to 13% they are becoming **inefficient**.

4. Look at how you can cut your employee payroll administrative costs. Many people instead of doing payroll themselves use a company like **ADP** (www.adp.com). They will do all payroll, pay your taxes and offer some great savings on benefit packages. I personally was using www.paychecks.com and when I changed banks to Bank of America I found payroll was just as easy as Paychex and it automatically imported all transactions into QuickBooks and saved me 70% over what I was spending with Paychex.

Review Non Merchandise Vendors:

Time to cut costs and you'd be amazed if you investigate your monthly bills you can save or eliminate a lot.

KATE PETERSON:

1. Successful stores have active client development. Client books or computer programs that keeps the staff abreast of customer's occasions; birthdays; anniversaries and when to contact the customer next. Relationship marketing.

2. In selling Kate suggest that you tie the value to the customer's personal need and interest.

3. **Value** is no longer tied to what they spend, it's now tied to what they get for what the spend. Use this in your presentations.

Kate let us know that first time being married bridal customers are now about 29 years old for the groom and 27 for the bride. Not too many years ago the bride was about 21 and groom was 25. This means being the older couple has more money accumulated and higher earning power so they can spend more.

In addition an engagement ring is **now** the 3rd or 4th jewelry purchase by this point in their lives.

Important: Surveys show what is now important to the bridal couple:

1. 42.53% of the couples said *Design or Style* was important.
2. 20.65% said ability to customize and personalize the ring was important.
3. Price is not # 1 or #2.

Kate suggested jewelers should try to:

1. Increase sales
2. Reduce debt.
3. Increase cash flow.

(Sounds good to me)

She also suggested that stores should look at spending about 16% of your gross profits to Sales Staff Wages.

Dan Askew

Always have a "Plan B" on rent. Plan one year out on lease expiration and have another location as an option available.

In having a **sale**, make it a fast one, not too long of a time frame, it adds too much to the marketing expense.

Don't be afraid to give deep discounts to unload slow non moving inventory.

Typically 80% of your store's gross profits come from less than 20 of your vendor list.

Goal Setting:

Don't write down more than 3 goals to work on at one time.

Goals should be **S.M.A.R.T goals:**

Specific
Measurable
Actionable

Reasonable
Timely

Develop a Strategy Plan that you'll follow after a period of time.

Poor planning is the cause of 78% of all business failures

A strategy plan should answer these questions:

1. Where are we right now? (debt, profits, market share, inventory levels)
2. What do we have to work with? (People, money, advertising media)
3. Where do you want to be? (Sales, profit numbers, inventory levels, training and education for the staff).
4. How are we going to get there? (Advertising venues, sales training, new product lines, sales to get rid of old inventory, procedures to increase customer traffic, sales closing ratios).

Steps to achieving above:

1. Set Goals
2. Prioritize your goals, items needed to achieve first.
3. How to achieve these goals and strategies we need to implement to achieve the goals.
4. An action plan by date to get them in motion.
5. A monitoring plan with meetings and dates for implementation.

Identify your goals: S.W.O.T.
Strengths
Weaknesses
Opportunities
Threats

If you know all four, they are listed, and then you can achieve your goals.

Growing Market Share:
Your number 1 thing to do is to grow market share. In today's market you'll have to try and steal market share from your competitors.

Using the US Census (www.census.gov) you'd search for jewelers in your area. The NAICS Code for jewelers is 44831.

So you find the (as example) that the store in your area do $25 million in sales. If you're store does 1 million then you have $24 million you can steal. That's unattainable but if you wanted to get just 10% OF THE MARKET, WHICH IS $2.5 MILLION, THAT YOU COULD AIM FOR.

Ways to accomplish this new goals of attaining 10% of market share:

A. Strategy:

1. a. Emphasize your competitive advantage to the consumer. Maybe advertising:
    - i. Jeweler on premises
    - ii. We do cad/Cam custom Designs

B. Action:

1. Install cad/cam program by August 1^{st}.
2. Start Sales training on selling custom, starting on September 1^{st}.
3. P.R. Campaign started on October 1^{st}.
4. Marketing on October 1^{st}.
5. Customer Design part of October 15^{th}.

B. Strategy

1. Increase Bridal Sales
    - i. Get prototype rings. "Non gold metal set with high quality CZ's."
    - ii. Blue Nile sold 50,000 engagement rings in 2008.
    - iii. That may seem like a lot but about 2 million people got married so there's plenty of brick and mortar sales to be had.
    - iv. Average store should be selling about 100 engagement rings a year.

2. Action Plan:
    - i. Look at Marketing Mix 9types of customers) by August 1^{st}.
    - ii. Start Sales training on bridal September 1^{st}.
    - iii. Start P.R. campaign October 1^{st}.
    - iv. Start Marketing campaign October 1^{st}.
    - v. Public Speaking October 1^{st}.

C. Strategy

1. Focus on Customer Milestones
    - i. Out of a database of 15,000 names on your database, $1/3^{rd}$ have to be married. That's 5,000 names.
    - ii. 1000 of the 5000 will have a milestone anniversary this year. i.e: A year ending in '5". Five year anniversary; Ten Year anniversary, etc.
    - iii. Average dollars spent on a milestone anniversary is $2000.00!

iv. Numbers in a typical jewelry store could easily be 2 million dollars.

2. Start permission based marketing campaign.
   i. Ask customers for their email address and anniversary and birthdates.
   ii. Start sending out email blasts on these occasions with a link to your website.

D. Strategy

1. Increase new customers by 25%
   i. Viral Marketing.
   ii. When designing a new ring for a customer in your store, take pictures of the process.
   iii. Email the couple as it goes along with a description of what's happening and pictures with a link to share with their friends. Family and friends will see your work in progress as well.

DAVID GELLER

Yep, that guy spoke too! Guess what he spoke about? Making money from the shop!

Marketing The Shop:

1. When making a design for the customer, take a picture of it for your picture book that can be seen by customers on the front counter.

2. But in addition, buy blank business cards at an office supply store (Avery makes them) and download for free (www.avery.com) a template for a business card. Make your own but instead of your logo, input the customer's design you made. Print 24 and give them to the customer when they pick up their piece

   Then when you deliver the design and she loves it, tell her "We live by referrals, we'd like to give you some of our cards to give out to your friends."

   With her ring design on your card, you **know** she'll be handing them out!

3. Send a thank you card to every customer, including lonely old battery customers as well.

4. Save all job envelopes for a week that have been delivered and then call the customer to make sure "everything is OK". No one does that, you'll be the talk of her office and parties.

5. One jeweler has a Wall of Fame. Its just 2 small 6 foot pieces of wooden trim nailed to the wall. All of his pictures of his designs are printed on 8½x11 paper ad he slides the newest on the end and takes off the oldest one at the left end. Always new designs for people to see.

6. Some people do the same thing as #6 with electronic picture frames.

7. On your website add "look what we made this week."

8. Advertise "Redesign your old jewelry into something new and exciting".

9. Your sales staff should have a dress code and the jeweler should have one as well. We used kaki pants, logo shirt we furnished and no tennis shoes for a cleaner look for shop personnel.

The Five Reasons for Financial Distress in a Jewelry Store:

1. You don't make enough money from the shop.
   a. That's an easy fix, raise your prices or use the Geller book.
   b. This works because repairs are not price sensitive, they are trust sensitive.
   c. You can only increase jeweler's production only so much.
   d. Majority of the profits or losses from the shop rests on the sales staff shoulders. What they charge for a repair.
   e. No matter what you charge, you'll still retain a 905 closing ratio on repairs.

2. You have more inventory than you can sell in 1 calendar year.
   a. Number 1 reason for financial distress.
   b. A jewelry store that **has money** has a turn of about "1".
   c. A turn of one means that your entire inventory in *dollars* sells in one year.
   d. If you have $400,000 in inventory, then you'll sell $400,000 (of cost) of inventory in one year. Another way of looking at it is your cost of goods will be $400,000 for one year.
   e. Gross Margin Return on Investment **(GMROI) measures how well you sell ALL inventory**. The amount of inventory you should have is approximately equal to your gross profit dollars for the past 12 months from inventory you own. Memo sales and shop sales are excluded.

3. You have the wrong price points in the cases.
   a. You buy higher end because they are pretty.

b. Customers buy lower prices as they are affordable.
c. This tends to be the things you owe money for in January.
d. **You must have a good point of sale program to handle inventory and it must provide a GMROI report and one by price point!**

4. You don't have enough traffic coming into the store.
   a. Marketing & Advertising issue.
   b. Slow times aren't the time to drop advertising.
   c. Stores still doing well advertise.
   d. Add rent & advertising together, should be equal to about 13% of total sales.

5. When they do come in, the sales staff let's most of them walk without buying.
   a. This is a training issue.
   b. Most stores don't have sales meetings.
   c. Have an hour long sales meeting every other week. Divide the hour into 4 15 minute segments.
   d. 15 minutes each on:
      Repairs, using the Geller Book
      Product Knowledge, have a sales staff person teach about a favorite product or store,
      Salesmanship. Use Harry Friedman's book "No Thanks, I'm Just Looking". (www.thefriedmangroup.com
      Store news, upcoming events. No complaining.
   e. If 10 people come in and 3 buy, your closing ratio is 33%.
   f. If you could sell 4 rather than 3 out of 10, sales would go up 33%.
   g. Sell 5 rather than 4, sales go up 25%.

6. Inventory is old in a jewelry store after 1 year.
   a. Clothing store figure inventory is old after 4 months (1 season). Our season is 12 months.
   b. Typically 76% of all store sales from product comes from product that is less than 6 months old on your shelves. This inventory is easily less than 20% of total inventory.

7. Inventory that is with you at 18 months has a 75% chance it will be in the store 5 years later!

8. To unload old inventory: discount it, double sales commissions, return to vendor for credit, redesign it, and scrap it for cash.

9. A $100 cost item that sells for $250 should give the store $150 in profit each and every year. A 3 year old item should have given to us in 3 years $450 in profits ($150 + $150 + $150). If a 3 year old item hasn't sold, you'd have to

sell it in year 3 for $550 to be profitable ($100 cost plus 3 years of profits of $450 means a selling price of $550.)

Other Shop Information:

1. 60-70% of ALL store traffic is because of service, whether the customer pays for the service or not.
2. Average repair price in the USA for a repair is $35 to $65. Stores that use the Geller book have an average sale of $85 to $125, without custom design.
3. Custom Design: Jewelers report closing ratio for custom design at about 65-85%. Below is average sale amounts and percent of stores who get these average amounts:

	Dollars	% of all sales
a.	$700-$1000	35%
b.	$2000-$3000	30%
c.	$1000-$2000	24%
d.	Over $3000	11%

This shows that with a closing ration of 65-85% of the time, your average sale 65% f the time will be between $700 to $3000. There's a lot of money in custom design.

Jewelry Store Management:

1. Most store owners think they need more sales people when in fact they could use more administrative people.
2. If the store owner makes the majority of the sales, a "personal assistant" would be money well spent.
3. What's the difference between a store manager and an operations manager?
4. Many store owners have people they call "store manager" but in fact they have an operations manager.
5. A "Sales Manager" is someone who trains the staff to sell more.
6. An "Operations Manger" is someone with keys, opens and closes and makes important decisions.
7. The definition of the sales person is someone who turns "shoppers into buyers".

Prototype Bridal Sales:

Many jewelers are finding to keep $250,000 of actual bridal in the case and actual sell little from it is becoming a drain. Today "Prototype" are springing up everywhere.

Stuller, W.R. Cobb and unique Settings of New York have excellent quality mountings made from silver/gold and other metals for weight and set with high quality CZ's.

These are the exact rings you'd get in gold, made from the same molds. Unique Settings has been advertising 250 rings for about $6000 rather than $250,000. After you sell the ring, they make it and send it to you with any special alterations requested by the customer.

There is a jewelry chain in Canada that is doing terrific with this concept, as are other American Jewelers.

Visit their website:

http://www.spencediamonds.com/us/

You'll see that they opening advertise prototypes. Spence Diamonds have 7 stores in Canada, 2 in Texas and 2 in Chicago. The wonderful part is being they are "not real', the rings are **set out on top of the showcases!** Women can have the time of their life trying on engagement rings.

Our industry is one of the few retail stores where **you must have permission to touch our products**, even a $25 silver chain. Everything is locked up.

A female can touch a $200 pair of shoes, put her arm into a $10,000 fur coat or sit in a $65,000 Jaguar automobile without permission, but not us. This is exactly how this product should be displayed. Closing ratio and the fun factor will sky rocket!

The Last Seminar of the day:

I believe this was Trace Shelton of InStore and InDesign Magazine.

1. Luxury market probably won't recover until 2012.

2. To give you an idea of the scope of the recession, in the spring of 2008, the New York Yankees dropped season ticket prices by half.

3. DeBeers says they saw a 9% drop in diamond sales in 2009 and the drop in 2008 was 25%.

4. You should advertise the tangible aspect of the product and the craftsmanship today.

5. Was suggested if you sell Pandora or other competitor's bracelets to have a "Best Pandora Bracelet" contest. Take pictures of each bracelet and email to the customer so she can email it to her family and friends to see what she has. Causes great amount of enthusiasm and "I want one too!"

6. Generation “X” and Generation “Y” will be looking for “meaning” in what they purchase. If they don’t see a sense of meaning and connection, they’ll shop someplace else.

7. Look for affordable fashion in your store.

8. Have more events in your store.

9. Market and work to the top 20% of your customers.

10. The “typical” truck show is not as exciting anymore. A vendor there with their line. Needs to be a theme.

11. Events need to be new, exciting and even take them out and away from the store.

12. Themed events are great. Some ideas:
    Pirates Night “Show your Butty”
    Gold Buying Events

So as you can tell, there’s lot of challenges but lots of opportunities for you. But it’s not going to be “your father’s old jewelry store”.

These were the notes and highlights I wrote down. Hopefully I didn’t leave out other important information.

David Geller

Presenters:

Matt Stuller
Ken Glassman
David Peters
Kate Peterson
Dan Kirsch
Carl Mario
David Geller
Whitney Sielass
Jeff High
Greg Stopka
Dan Skew
Huw Daniel
Hedda Schupak
Cheryl Kremkow
Rob Bates
Trace Shelton