



**Jewelers of America
Town Hall Forum
Atlanta Jewelry Show
Sunday, February 25, 2007**

Addressing Critical Issues Facing Today's Independent Jewelry Retailer

Panelists:

John Singer – Charleston Alexander Diamond Importers
Nick Failla – Premier Consulting Innovations

Moderated By:

Paul Holewa – Instore Magazine

Paul Holewa: Welcomes the Group.

Let me say, this is not an industry forum on Jewelers of America. Also, this is kind of disappointing news for us, Brian Leber with Leber Jeweler, Inc. will not be here today. He is iced in at the Chicago airport. We can't believe it ourselves. We really apologize for that.

With that we'll jump right into today's topic. Again I want to give you an idea of what these discussions are. The goal of the series of round table is to gather content and eventually get all that information online.

I want to take a moment to introduce our panel members. John Singer is a 36-year veteran in the industry. His background includes both the manufacturing and retail end of the fine jewelry industry. He is currently the Senior Buyer with Charleston Alexander Diamond Importers, a retailer with a store in Maryland and one in Virginia. We are very, very pleased to have John here. I think he is going to bring a lot of unique knowledge

Nick Failla is president of Premier Consulting Innovations. PCA is a comprehensive sales development company. Their purpose is to help the store owner run his or her store more efficiently and more profitably. His business, in a nutshell, is to help retailers.

In a moment I will turn it over to John but first I will quickly go over today's format. Today is just a brief presentation, then we will wrap things up with a Q&A.

John Singer:

Thank you. As Paul said I've been around a little while. I was independent, then moved on to the vendor wholesale manufacturing world. Then I decided I wanted to be an independent again. I have opened almost 100 stores around the country. My first point is understand your competitive set of jewelry items. It's going back to the first thing I learned. You need to know what those competitive items are.

By far one of the most important points are one of those buzz words that you hear again and again and are critical to the independent jeweler: get into your competitors stores.

You need to understand your customer's strengths and weaknesses. And make it your own strength. All of these things play into it. Know what qualities your competitors store carries. Are they into (SI2I1)? Now you have ammunition to sell. Watch their sales techniques. What are they saying about your store? I would walk into a competitor with a card from my own store and realize maybe you're a thousand or 1,500 dollars too much. It's very important in order to be able to compete to know your competitors.

Pay attention to their customer service policies. If you go in with a problem how do they respond to that problem?

Hopefully you know what percentage margin you have to make to break even. I hope you know the numbers. Given the numbers, what is it that I'm selling?

But you can't do that unless you start off with a budget. Am I on track? You have to be able to adjust.

In your down-time shop your competitors. It's one of the first things I was taught. Do it in your down time. You need to know your competitors. You need to know everything about that piece before it's ever in the customer's hands. If you don't, you have a big problem. I hear people talking about, "Well gee, that guy in the mall has that piece and it's..." You could probably sell that customer, but it's minute differences in your product that make the difference. It's perceived value at that point. If you do a similar piece and give it a comfort piece shank, you may be able to get 200 more dollars because the piece looks better. My mind immediately is saying \$299.

So that decision comes from understanding your customer and your competition. When I see strategic assortments, for instance stud earring assortments, you really need to know what is crossing your counter.

It is hard to be profitable when you haven't identified your best sellers. Whatever your best sellers are, make sure that you always have that piece in stock to maximize your profit. It's a quick sell. Base your inventories on it.

Let's say these are my 20 new styles, you really need to have these. If they are not your best selling piece, maybe you need to move up a two or three. That's what you need to have in your showcase. Try new things, but try them slowly and cautiously. You are going to try to negotiate the price depending on what it is. So now you have to ask yourself if this assortment worked.

You need to work together with your customer to dictate what items to sell. That if these items don't work are there items in that line that will? Again, be unique. Know your environment and make it your exclusive.

By the way, don't be worried about the mall product. That's helping you sell too. It really gives you the advantage to be the expert.

Don't be too technical. Have the passion for the product you are selling, don't just sell technical information. Bring that passion back to the customer. But you know what? They really didn't care.

Designer lines, yes they advertise. But does it have the perceived value? Not everybody is going to care that it carries a branded name.

I have customers walking in with stacks of printouts from the internet. Now I'm not going to down-sell that other piece if the customer loves that piece, but you are going to lose some of them. But sometimes, if it's an internet situation and for some reason they walked into your store, you are there, they can look at the item, and you have the expertise, it works. But you really have to talk about a lot of things other than price. Again you can talk about how well it's been finished. There is a lot of things you can point out.

So those are I guess probably the key things.

Again, shop your competition. When I'm doing secret competitive shopping, I'm looking at their sales people because I'm going to take that back to my sales people. I had a store calling me, it was like, "We're losing business" and I'm saying, "Are you sure it's the same piece?" I said, "Have you been into that store?" So I go get the manager and I walk him right into the store.

You need to be excited about the pieces you are selling. We're selling memories here, not shoes.

We had an item in our store and the price went up like crazy. What did we do? We raised the price and sold the pieces. Keep items at the current price points. There is no reason to give it away. Your expertise is invaluable. Be competitive.

Nick Failla:

We're going to talk about advertising and marketing and finding ways for retailers to reposition; how to approach that today. More attention needs to be paid to all parts of the equation. We like to do what we do well.

The shopping sequence has changed. We now have big conglomerates like The Home Shopping Network. We shouldn't fear it we should just understand it.

Challenge number one: The internet is stealing my customers. Are we allowing them to? Before they show you that list of diamonds, before they even shake your hand, they know there is a cheaper place to buy a diamond. So why should they buy from you?

The first thing to understand is that we sell a form of communication, not a commodity. You have an added value that you should have every right to have pride to sell. You take the time to explain to them what you sell.

With some of the guys you have to help them out. You've got to give us guys some information. "I saw the pendant presented to me. It's the latest thing out." What a wonderful campaign, but you have to explain it to him so that when he gives it as a gift, he can explain it. The information you give him is far more valuable than words on a screen. He wants to tell somebody something.

If it's a woman on a self purchase, you've got to tell them why your product does that. Don't assume they know. The best example is one of the first questions that the woman is asked afterwards is, "Where did you get it? Where did he get it?"

If the item was purchased off the internet most of the time they will not share that fact with whom they give the gift. That's a powerful statement. So if I purchase from your store yes, maybe I paid a little bit more for it but I'm going to say where I bought it. So yes, the internet is stealing my customers but only because we allow it.

Now, the challenge number two, markets and demographics are changing. We used to go to the Yellow Pages. Now, Yellow Pages are very static. The new introduction in the shopping sequence is the internet search. That's where they are looking to arm themselves with information about your product, what it does. But it's a search for information, so while you don't have to be part of E-commerce, it arms you and drives them into your store. 40% of luxury purchases last year started with an internet search.

When that guy comes back with his internet list instead of defending your price, congratulate them, it's about the last thing they would expect.

Let's discuss internet searches and search words. When we're looking for something we type in a word for that product. If you are not on that first page you are not in the game. If you hope to find a customer that is interested in your product and if you want them to pass by your bait, you've got to use the right words. When you are doing a search marketing campaign all the fish are hungry.

Do a word search and if you see thousands of hits for a product you might want to test it. Give your customers what they are asking for. We can buy off the internet and it's up to us to spell out that it's the romance portion. Then they make the purchase.

You have to be credible, not necessarily the best price. If you're the best price you are doing something wrong. The object is still to make money. It's okay to make money. They just want something for that money, so don't overwhelm them with the knowledge. Understand that they appreciate that and they'll experience that if you handle it properly. Those are your two strengths.

Our third challenge is finding ways for retailers to compete.

Product, plus personnel plus promotion. So lets say we're fortunate enough to have the hottest selling item right now, but if the word hasn't gotten out... now lets say John teams up with a terrific marketing person and the product is terrific. We've got to train our people and hold our people accountable and find creative ways to sell. If a husband can explain that purchase to his wife, we're going to get brownie points. "You've got to see John because I tell you what...that's where we make differences." Find out, is it our personnel? Is it the promotion of our product? Get some help in that regard.

Q&A

Q: How do you effectively shop the real competitor and who is the real competitor?

John: Everyone is a competitor whether is a large or small store. Everyone brings something to the table to learn how to better your business. And how do you shop the store? You really need a total overview. If you can walk the case lines, see what product is there. Try to determine price points and qualities, maybe lines that store carries. If the store isn't busy, engage the sales person. More important is how that

sales individual sells the store. The philosophy, the services, and the overall expertise of the individuals in that store.

Q: What were some of the reasons the customer decided to buy from you?

John: I personally believe that it was the presentation from the sales person. It was the passion and the energy, and the stone that we had was well priced or we wouldn't have gotten that sale. Another instance from the internet, a customer came in to buy a mounting. They bought the stone somewhere else. You are entitled to charge a premium for the service of setting that diamond. And we have a set amount that we would charge. It was like, "Yes Mr. Smith we'll set your diamond for you but we are taking a chance of chipping or breaking and because of that it's going to be X amount of money". At the end of the day in this particular case we had a stone again that was a little more money. But when everything was factored in it turned out to be a prettier stone. It was priced a couple of hundred dollars more and he's like, "Gee, I'd rather get it from you and walk out with your mounts". My store has a very, very large website but the customers come in with printouts from the website but only a very, very small amount of the time they'll actually make a purchase, whether it's a diamond or a piece of jewelry. They'll say, "I was on your site" and we're lucky because I against the biggest internet supplier out there, we come up usually within the first three hits.

Q: John, I've been in business for 26 years in the same location. So every competitor knows exactly who I am, what I look like. I don't find it easy. I find it hard to walk into another store and I've hired secret shoppers. Do you personally have a problem walking into a competitor, and not coming across like I'm shopping here?

John: It's a very delicate situation. Especially in a smaller community where you are well known. Ultimately for me I've got secret shoppers. I would have a really good customer or a friend that could go in and pretend to be whatever. And you can arm them with your list of things you would like to know. But I think a great customer of yours, going into a competitor (and you can enlist someone you can trust that you have a good relationship with) they're going to bring back to you what you really want to know because they're your customer for a reason. I have walked into stores where they knew me. Actually it was a store in Atlanta that I was in four or five times that I never understood how anybody could buy there because it was the most combative of situations. It all boiled down to discount and price, and 'What do you mean you're not going to buy from me today?', and 'What do you mean you're going to think about it?' And I'm like, 'nobody is going to buy here with that kind of intimidation. But they recognized me and I still went back.

Nick: One of the things I think we think is that we have to be stealth. So do the opposite, go out and walk in with a cup of coffee for the owner and just be real forth right. But during that time you are going to overhear what the employees are doing. You're going to be able to see it with your own eyes. Just be real straight forward about it. Walk right up, shake their hand. I know you've been doing a terrific job, I wanted to visit your store and I brought you a cup of coffee. There is nothing wrong with that.

Q: Nick in a situation like that, what is overstaying your welcome?

Nick: I would never walk into a store where they know you and take up their time. Don't do something that you wouldn't want done to you. But if you know when the store is going to be slow, that's when I recommend going. Be straightforward, be honest.

Q: Follow up question about when they bring it to you for setting, they buy it over the internet and they bring it to you for setting. I'm sure you are aware that there is no insurance for chipping and you're going to sell them a mounting; for that's a lot of risk for very little profit. How do you resolve that?

John: Depending on the stone, just as you said, "I'm going to charge you whatever, if it's \$100 or whatever to handle this, but I cannot be liable.

Q: Vendor, retailer relationships, you touched on the subject of shrinking margin issues for the vendor. I think in developing any relationship it's always good to empathize with the other person's position. So what are the shrinking margin issues for vendors and how can retailers be sensitive or empathize with those particular problems?

John: One of the things is for a vendor to come out with new styles two or three times a year. They're investing an awful lot of money into it. They're making samples. They're making maybe ten lines depending on the number of sales people they have. It's a major, major expense. Then you as a retailer (and we all have to put us on point because none of us are going to go 100% when it comes to buying) are very cautious with what you put in your showcase. Because after all, you know your market better than they do. So if you are making a choice of ten pieces, hopefully you are not taking a chance with those ten pieces later. You really do have to assume responsibility for your buying decisions and then they will work with you to the degree that they can. In my situation even with multiple stores we test and when we test the product and we start out with X number of stores and then watch it before we ever take a step farther so that neither side really got hurt in the end. One other thing as far as a sales rep- you are out there spending money and driving around, coming to visit you in your store. And many times the owner of the store will walk away and go do something else and come back two hours later and you could have made three more sales calls that day and you've wasted your time because now he's come back and you're not in the mood and say, "Gee, I'll have to see you the next time". So that's another part of the shrinking margin.

Q: These diamonds, some of the junk that's coming out, that should be called industrial diamonds. That's fallen apart and people are getting gypped and mistreated. They think it's your fault. How can the industry or why doesn't the industry police this? Or stop them from coming into this country?

John: I have to agree with you but I'm not sure. I have to agree with you by the way.

Q: Come up with a grade that would say - this is industrial.

John: I think that's an issue we can't really address here as much as I detest that. Obviously, there is a customer for everything, unfortunately. I did this, this Christmas: the store that I'm in is basically a bridal situation. We never really address jewels per say. And Journey, which is a wonderful campaign, yet if you go onto my website you won't see a piece of jewelry under \$2,000 because I don't want to go below it. With Journey, how can I compete given my price points because they have this Path Pendant and its \$99? So I thought, I'm going to give it a try and I put it on our website. I took the circles, I took the Path, I took all of the Journey styles and I said, okay, I'm going to do it in 18 carat white gold. I'm going to put a nice chain on it and I'm going to do price points from \$399 not \$99-199 but I started at \$399 and went to \$3,500. And, with no history in our company because we're used to selling loose stones and mountings, we sold 137 (competing against the frozen spit.) Because the people were willing to spend another \$200 and have a nice presentable piece of jewelry.

Q: How do you deal with a customer that comes in with a diamond they purchased on the internet and they say, 'did I get a good deal?'

John: We charge for an appraisal. You say you should be able to get that affirmation from them if you are comfortable with making that purchase. I can show you a range of diamonds and then I can tell you the price and you can be the judge, otherwise I have to charge you for an appraisal.

Q: Then a lot of people say, "What do you think/ give me a ball park", they try to work you.

John: And they do, they absolutely do. But we stand firm and say, "You are asking for expertise for which we charge.

Nick: The other question you could ask, are you proud to give it to her and will she be proud wearing it? You are suddenly reminding them of maybe why they should have chosen you and at least next time they will remember that they should have chosen you because there is more to buying a diamond than just the cut, clarity, and color.

Q: Nick, one comment on the internet search: I have tried to find local internet geeks, I have not been able to find a person to do that.

John: I don't mean to laugh; it's been a frustrating industry.

Q: Somebody that can actually get you set up? I can't find anyone.

Nick: We can help guide you. Some of these technologies are not as difficult as they appear once you dive into them. If you want to talk about that some time I'd be happy to. Especially the internet search word type campaigns. They are very manageable. They are extremely effective. And the pain you just described is shared by many, many people-vendor or retailer both. I think part of the explosion of the need for the internet is now identifying a good service provider and it's a challenge.

Q: Lets say he has to go outside his little city or town or even state, what are some resources online that he may go to, in addition to your company? What are the ways to get around the problem?

Nick: Do the research. Go look at what work they've done before. Some of it will be hard to evaluate. It's easy to see how well a company has created a website. You can go on, you go through the navigation. You can see the appearance, but when you are talking about a search word campaign you can make those geographics specific. So if you are not in the same market you are trying to evaluate how well they created that ad word campaign in a different market. You can't, because it won't pull up because it's geographic specific. Maybe what you could do is call another friend in another market place once you've identified the service provider and ask them to look it up for you. Are their clients coming up first? Is the ad good? There are a lot of reports that come along with search word marketing. Ask to see. Ask for their input on how they would evaluate that.

Q: Nick, in your presentation you used the buzz phrase, 'you are selling a form of communication.' Is that in essence creating and forming a relationship with a customer? Is that what you mean by that?

Nick: What I mean by that is every item of jewelry that you sell carries a message. Even a pair of earrings, you have to understand that they could buy a great costume piece from any of the department stores that nobody could ever tell wasn't solid 14 or 18 karat gold when they were wearing it. What they're waiting for when they buy it from you is to walk into the office or party and somebody says, "Boy those are lovely," and they're going to say, "Yes, I got it at X jewelry store.". What they are really saying is, 'I'm proud; I'm good enough for this, any of those things.' So why it's so important to understand that we sell communication is everything we do in our stores, training, decoration, store experience, marketing, advertising, builds the message that each item of jewelry that we sell carries a story and we should always concentrate on building the strength of the message our jewelry carries.

John: When you look at the majors advertising, the tag lines whether it be Zales or Kay's or whatever, listen to that tag line. "Every kiss begins with Kay's". It's everything but selling the item.

Nick: And you can tell that that's the case because somebody comes in and asks for your box. What they are really asking for is the strength of the message that that box carries. Don't ever give away your box. They couldn't give you the courtesy of buying your item of jewelry, they don't get the box.

Q: One of the things that you spoke about Nick, was Yellow Pages. We all know that the computer is very integrated into our home setting, be it entertainment, or working at home, would you encourage jewelers to drop or maybe modify their Yellow Page advertising? Going from a box to maybe a bold line? What are your suggestions?

Nick: First off it depends on your marketplace. It is a very high-tech ability to have the internet accessible. The odds are it's time to really scale back your Yellow Pages. But before you do anything you need to test it and evaluate it. There are two ways to do that. One thing retailers can do in regards to any of their marketing is really do a thorough job of asking every customer even the customers, current or old, ask them what drove them into your store today. What reminded them about you today? You are going to find fewer and fewer saying, "The Yellow Pages". The other thing you can do with the Yellow Pages, is have them give you a separate line number so that they can tell you how many times people actually responded to your ad. You are probably going to find in almost all of your marketplaces the response to your Yellow Page is falling down. But you should evaluate it. Probably yes, but make sure by checking.

Q: Is the Yellow Pages promotional outlet easy to modify or change or does it drop?

Nick: Well with Yellow Pages you are usually on a six month or a year contract. So once you commit to them you are committing for six months to a year. So that process can be a little bit slow.

Q: I put an ad in the Yellow Pages under engraving and I think I was the only one in there. And I get one or two calls a month on engraving. So, I kind of got an idea of what results I was getting from the Yellow Pages, but I wasn't under jewelry, it was under jewelry engraving.

Nick: He brings up a terrific point. There is a thing in advertising called white space. All of you should look for the white space in your market place. In his case it's engraving. Now that same principle though can be applied to the internet portion of it. Whether it be ad words, in his case I would definitely apply engraving to ad words. You can even take the search marketing to the next step which is a landing page. Okay, so say they go to engraving so they pull it up on the internet. And they see your little ad and they click on that. Instead of going to your home page, you want them to go to what's called a landing page. And that landing page is going to say, "Oh, my gosh, you're just crazy if you don't come to me for engraving we can do a fabulous job". The internet is based on being quick, accessible and easy. Don't make them navigate through your whole page to find it. If they look up engraving, give them engraving.

Q: Where does this landing page come from? Is it from the jeweler, is it another home page? Is it something on a search engine like Google?

Nick: Great question. There is actually two ways to go about it. One is created by your site developer. You tell them specifically what you want to do and accomplish. And when you are working with a site developer remember it's almost like different kinds of jewelers. There are some jewelers that do a terrific job on the mechanics in this industry. They can fix, repair, size, but there are designers too that can actually create beautiful artistic pieces of jewelry. Same in that web building arena. You want someone who can not only build it functionally; you want someone who makes it

attractive, okay? So one way is you can build a landing page through your own store. Now some of the vendors out there, manufacturers are providing pages. There are some diamond manufacturers, for example, who will allow their diamond inventory to appear as your own. This is done through what's called an "I Frame." They'll take that inventory and your web developer can make a quick adjustment, you'd have basically a blank page on your website that would create a frame around this diamond search engine. It will appear just like yours, when in reality it's being driven by the manufacturer.

Q: Could you elaborate on internet purchases? Elaborate a little on the 40% figure and maybe actually quote the source?

Nick: I apologize I don't have that data with this presentation. I could get it for anybody that wants to know.

John: I don't know Nick's source but I would bet at least from our experience, 80% of the people that walk into the store have been on the internet. I mentioned that the Journey jewelry we added to the website, out of 137 pieces I don't think we shipped more than five or six. The customer mostly came to the store. So the internet in my opinion is really giving us a chance to close the sell.

Nick: The figure I gave you was last year's issuance. I would agree with John, I think it's going to be much greater. With the internet we have to remember this. You're cannibalizing not only maybe the independent stores, but you're taking away from mall shopping, the big box stores. The figures you see increase are from the other venues as well. Also, making jewelry more accessible is going to increase the overall market too.

Q: Just in summary both of you think that 40% bigger is pretty conservative?

Nick: Yes.

Q: Luxury goods, does that include Louis Vuitton?

Nick: The figure I had been given towards the end of last year was based on luxury items, not just jewelry.

Q: So it's everything, furs, perfume, handbags, shoes?

Nick: Runs the gambit. It's how we shop.

Closing Remarks:

Okay, I think that's it, folks. We'd like to thank you for coming in and sharing your time with us. More importantly we'd like to thank our panelists for sharing their value time and insights. Before you head out, I have some reminders. One, today's content

will be available online through the JA website on Wednesday, March 7th, so make a note of that in case you want to refresh your memory.

Again this is one of four town hall forums. The next will be Midwest Jewelry Expo in Madison, Wisconsin March 25. Following that it will be the JCK show in Las Vegas May 31. And the final one will be at the JA New York International jewelry show in July 29. And that will pretty much round up the town hall forums for JA. And at the end of 2007, all content will be online on the JBIZ website for everyone to access and add to in online discussion format.

For you folks a bit more net savvy a blog or web log. Please drop business cards off at the table outside so that we may follow up with you on various issues.