

**JA/J-Biz Town Hall Forum: Madison, WI
Midwest Jewelry Expo.**

Saturday, March 24, 2007, 9:00 am

Introduction: Ed Menk, Vice President, Minnesota/North Dakota Jewelers Association
David Lafleur, Vice President, Jewelers of America
Moderator: Paul Holewa, *InStore* magazine
Panel: Bill Sustachek, CEO and President, Rasmussen Diamonds; Racine, WI
Lee Krombholz, owner, Krombholz Jewelers; Cincinnati, OH
Nick Failla, founder, Premier Consulting Innovations

TRANSCRIPT OF PROCEEDINGS:

Introduction:

MR. MENK: Good morning, everyone.

THE FORUM: Good morning.

MR. MENK: I'm Ed Menk of the Minnesota/North Dakota Jewelers Association. I'm vice president. Thank you for coming this morning, even though it's kind of foggy and stuff outside. So it's probably good to be in here.

We're having a wonderful regional show here this weekend. Today, we're going to have a great show until 6:00. We're going to open up about 10:00, and then we're going to have live music later in the evening from the '50s, '60s, and '70s. We're going to have hors d'oeuvres, cocktails, and maybe network with some exhibitors and other jewelers. I'm kind of excited. We're going to be giving away possibly a 200 -- 2007 Hummer. I didn't say that right -- to someone tonight. We're also going to have a first-of-its-kind exhibit. There's going to be Ron Harder of Gallery of Gems & Minerals. And any of you that pre-registered, please stop down and pick up your \$25 gas card. And with that, I'm going to go ahead and turn this over to David Lafleur from JA to introduce the panelists.

David, do you want to come up here? David's from JA. And what are you, vice president?

MR. LAFLEUR: Yes. Thank you, Ed. And good morning to everyone. Thanks very much for sharing your Saturday morning with us. This is an event that we hope to get a lot of good ideas from you and from our panelists. I just want to say a couple of words before we actually get the thing going. First, I want to say thank you to Mary Kaja and her crew for inviting us to hold the event here and for being so accommodating in setting this all up. I want to thank Ed for being the inspiration for this town hall. This idea actually comes out of a conversation Ed and I had during the Iowa Jewelers Association Convention last September. So thank you, Ed.

And I'd like to recognize John Hayes from Goodman's Jewelers right here in Madison. John sits on the board of directors of the Jewelers of America. He just returned from South Africa where he made a presentation on behalf of JA members to a group called CIBJO, which is more of the international organization of jewelers, on business responsibility issues. So thank you, John.

This town hall is part of a larger initiative that we at Jewelers of America refer to as J-Biz. In the simplest form, J-Biz's mission is to provide more education to more people in the industry in more forms than we've been able to do in the past. We do this working alone, working with our affiliate organizations, and working with the other associations and organizations in the industry. So this town hall forum is a key part of J-Biz because it gives us a direct access to people in the industry, what's on your minds, what you think the key issues are that we need to focus on as we develop educational programs for the future.

I don't want to take up a lot of time talking about J-Biz except to say that if you would like to know more about what's going on, I invite you to visit our website, www.jewelers.org, and check out all of

the J-Biz and other educational-related activities that the JA is up to. You can also visit the newest J-Biz

initiative, that is an online discussion forum, or blog, that covers a lot of the issues that we're going to be talking about here this morning. And we will actually, on that blog, be posting a transcript of this morning's event. So you can literally check that out next week.

One other thing. The name of the forum, the town hall forum, is a bit misleading. This is not a forum to ask questions or find out about what Jewelers of America has been up to or JA Services or those kinds of things. This is really focused on issues that are important to you as independent jewelers. If you have any questions about JA or anything that we've been up to, I'll be here in the back of the room. I'll be happy to talk to you after the event. Come visit us at Booth 301. My colleagues and I will be there throughout the whole show.

Again, this event really brings together some people who are expert in their field, who are like you in the business, and want to share their insights on some key issues. And in putting this together, we have been extraordinarily fortunate to partner with Instore Magazine. Instore has helped us develop the topics, recruit the speakers, and put the programs together. So we've been very fortunate to be working with them. And on that note, I want to introduce our moderator for this incident, Paul Holewa, who is the Senior Editor of Instore Magazine. For those of you who don't know Paul, he began his career at Honeywell several years ago, and then left that to move to Southeast Asia to get into journalism. He began his career in the industry, in the jewelry industry, aside journalism, at Jewel Siam, and then moved on to GemKey where their publication eventually morphed into Instore Magazine. Paul has recently moved back to the Twin Cities, so he's here among us again. And he's been an extraordinary help in putting this stuff together, and I thank him for that. And with that, let's get started.

Presentations:

MR. HOLEWA: Thank you. Now, good morning. Once again, folks, thanks for coming. I think we're all keyed up and ready to go. So everyone's had their coffee, their Mountain Dew, their Pepsi (laughter)? I hope you're all topped off so the fog is outside and not inside in your heads today because we've got a lot of material to cover. Okay. As David said, this is a town hall meeting on topics that are very relevant to you. And today we bring you some key minds that are really addressing these topics very aggressively in their store.

I'll begin by introducing Lee Krombholz, the man in the middle with the black glasses, black hair and glasses. He's going to be talking to us on technology issues. Lee is the owner of a third-generation jewelry store in Cincinnati, Ohio. Like a lot of folks, he was ushered into this business under the wings of his father and his grandfather, you know, learning everything about the trade, you know, from family members in the family store. Lee currently spends a lot of his time designing jewelry using CAD/CAM systems and interacting with clients to create what he calls "heirlooms of the future." It's very nice. Lee has won several major design awards, including awards from the Columbus Jewelry Show and the MJSA Vision Awards, and he's been featured in many trade journals, including our esteemed publication and MJSA Journal and Colored Stone and Solitaire magazines. He currently serves as vice president of the Ohio Jewelers Association.

Nick Failla is also with us today. Nick has previously enjoyed a successful career with Sterling, Inc. for about 12 years. During that time, he developed a real in-depth and very vast knowledge of retail jewelers and daily operations, store management, sales and marketing. He has intimate knowledge of special events and promotional events as well that he's produced for his client. He left that position and joined Downey Designs International, one of America's premier of special event

companies, and there, he was director of sales. Nick has over 18 years of experience in the jewelry business and he is founder of Premier Consulting Innovations.

And last, but not least, Bill Sustachek. He is the CEO and President of Rasmussen Diamonds. Bill has associated with many industry organizations, and he's been in business for 33 years. Bill has a very unique university program at his store for sales training, and it's very new and very exciting for he and his staff. In addition to what one would call maybe an undergraduate program, he's also recently developed what they call a master's program for training.

So these are the experts that will be talking on these topics with us today. And with that, we will jump into today's topics just to, you know, refresh everybody's mind.

First of all, we're going to start with Bill on "Instore Training and Education." Then Lee will jump into "Technology and the Independent Jeweler." And then Nick will discuss "Reaching Out and Changing Markets and Demographics" out there for you folks. And one thing that I wanted to let everybody know, we're going to have a Q and A session for each person later. So if you've got questions as each of the topics kind of tick by, could you just kind of make notations of them to ask them at the Q and A session? Again, there will be a designated Q & A session for each expert. So kind of make some notations in your notebook, you know, training, tech, whatever, however you want to organize your notes so you can kind of keep those questions straight.

And with that, we'll begin with Bill.

MR. SUSTACHEK: Thank you very much. I don't know if any of you have ever seen Shane Decker at a trade show. And we've had Shane Decker in our store seven times. And one of the things that Shane says is that he would have jewelers come up to him and say, "Well, what if I put all of this training, what if I take care of all of this training and I train all of these people and they leave"? And his answer to him them is "What if you don't train them and they stay (laughter)"?

And so I've just got to tell you a little bit about what has happened to me, personally, in the last year. We've had some changes over the years, a lot of changes. There's always change that goes on in our store. And this last year, I knew I needed to do some changing because we just got stuck at one level and our business wasn't going anywhere. So last year, April 1st, my wife, Kathy and I turned over our day-to-day operations of our business to our son-in-law, Joel, who's sitting up here in front (indicating). And when we turned it over to him April 1st, we were 11 percent behind goal for the year. Now, our goal -- we were still ahead of the year before, but we were 11 percent behind our goal. We ended up at the end of the year 23 percent ahead of goal. And Joel has done just a wonderful job of holding people accountable. He's done the things that Kathy and I were not really good at, holding, you know, just cracking the whip and holding people accountable. And he did it in the very, very wonderful way.

But one of the things that happened last year, which is why we were led to go to Rasmussen Diamond University, is we hired a sales associate. And I was very concerned about the fact that

she wasn't getting the right training, she wasn't getting the education. Because our business was built on the knowledge and the education that I have, plus the heart and soul that my wife has, and there was just none of that going on as far as what our business was doing for this particular person. And it had gotten so that she just kind of kept falling behind and falling behind and consequently left us a week before Christmas. Which really wasn't that big of a deal because I've lost people right before Christmas before. As a matter of fact, I fired my entire staff once a year, years ago, on December 1st (laughter).

So I looked at that and I said, "How can we make sure that that doesn't happen again"? So we came up with something that we call "Rasmussen Diamond University." Now, Rasmussen Diamond University is a program that we put together where we wanted to make sure that we had everything for all of our associates step by step, every segment of it. And the interesting thing is the fact that we had all of these things. We had them all written. We just never organized it in a way.

So I had Joel help me with putting this together. We came up with vision mission values. Now, we wrote our vision mission values probably eight years ago, and it basically has not changed. Any of you who have never put together vision mission values, I think it is very, very important to do in your business to find out who you really are and what you really stand for, what your vision for your business is, what the missions are that you will use to accomplish that vision, and then the guiding principles of the value of your business. The ones that are nonnegotiable. We all know that there are things in our business that when somebody comes to us and they have a particular idea and they might negotiate certain things, as far as our associates, we will listen to what they have to say. There are certain things in our business that are nonnegotiable, and those are the values of the guiding principles.

And I can't stress this enough, how important that is, because several years ago, I stepped -- when I wrote the vision mission values, I no longer became the boss. The vision mission values became the boss. Because if anybody was doing something that was not according to the vision mission values, it wasn't me that was speaking to them, because they all signed a document saying that they understand the vision mission values, they understand what they mean and the consequences of them, and that they are nonnegotiable and that they would follow them. So if somebody does stray from that a little bit, we know that we can actually say something to them and they have no place to go because they are nonnegotiable.

So when we put the university together, there was a book that I read, I want to say, about four years ago. It's called "E-Myth Revisited." And if any of you have not read the book, it is, I think, the best book for small independent businesses, not just jewelry business, that I've ever read. Now, just to clarify things, E-Myth was written before E-Commerce was out there, and the "E" stands for entrepreneurial. And I'll explain slightly what the book is because it is very, very important.

In the United States today, approximately 75 percent of all small businesses fail within the first year. Those that make it after the first year, 75 percent of them will fail within the next two years, which makes approximately 90 percent of small businesses fail within the first three years of opening their

doors. Those that do make it probably never get out of adolescence. They may never even get out of infancy. Very few of them will ever get to a mature business. Now, you contrast -- and this is what it says in this book -- they contrast that with franchise prototypes. Now, what is a franchise prototype? Well, you look at anything in the United States. You go to any mall. It could be Victoria's Secret. It could be the Gap. It could be McDonald's. It could be T.G.I. Friday's. They all are franchise prototypes. They all are exactly the same in every place that you go. As a matter of fact, you can be transported into a mall any place in the United States and not know where you were. And by walking around in the mall, you still wouldn't know where you were because every one of the stores are still the same. I take that back. If you were in Vegas, you probably would know (laughter). They kind of go over the top. But you would not know because everything is always done the same. Now, that is probably the reason the franchise prototypes succeeded 80 percent.

Well, why did they succeed so well? The reason is because they do everything by systems. They have a system for everything. Well, when Kathy and I read the book the "E-Myth Revisited", we joined the mastery program afterwards. And the mastery program taught us how to take every part of our business and write a system for all of those things. Well, after we did this, we had all these systems, but nothing ever happened with them. I had them on the computer. I even had hard copy files in a file cabinet, and nothing ever happened with it. Well, when we put the Rasmussen Diamond University together, it was really cool because it pulled this file from here, this one from here, and this one from here, and we just put it into a folder and said, "Here's what it is", and we were able to start training on it. As a matter of fact, we wrote Rasmussen Diamond University in two weeks. And as I'm looking through the entire -- I should say we put it together in two weeks. Because all of this stuff was written before. But there's some wonderful, wonderful structure that we put in there, and a lot of it came from the work that we did in "The E-Myth Revisited".

One of the things that we have in there is -- we actually have our university broken into five sections. One of them is Company Culture. The second one is -- I should have written these down because I know them by heart, but all of a sudden I just drew a blank. Okay. The second one is "Gemological Training and Product Knowledge. The third one is "Security." The fourth one is "Sales Training and Professionalism", and the fifth one is "Systems, Policies, and Operations." And each one of these has several segments.

Now, in the first page of Rasmussen Diamonds University, of each of those sections, we actually have all the things that we want to train on. We will have things like -- in the company culture -- we will have vision mission values. We will have the handbook. This is something that Kathy and I wrote probably about 15 or 20 years ago and that we rewrite every year. It's a handbook about the things that we do in our store, the policies. There might be only small changes. There was a time when we felt that it was important to have a dress code in our store, for instance. Today, we have a much looser format in the dress code that we have in the store.

And a lot of it, we don't even need to because of our vision mission values. And we have a segment of everything that we want. That way, if there's something that we would like to train on in

the university, we can go to that page and say "Well, where does it fit under one of those five categories", and then just add that on as a segment of what we want to train. Even if we don't have the documentation for the work that we need to do or that we can put it in there. And then when it comes down to who, what, and when that we're going to train this, we can put somebody in charge of making sure they come up with that particular documentation, and then the persons that they're going to teach it to, and the time it's going to be -- the time that they're actually going to train we have in there.

We have hired three new people in the last four months. And we will be able to take them through this training step by step. I would be with them the first day teaching them about company culture and vision mission values, the handbook, and what we call "essence analysis" of our store. This is something else that E-Myth helped us do.

The essence analysis is the non-measurable things of your store. We can all look at spreadsheets. We can all look at profit and loss Statements. We can all look at all the numbers. And those are very measurable to them step by step. But the essence analysis is "How are we doing as far as training in systems"? "How are we doing as far as teamwork and employee morale"? I mean, they're just different things. I mean, how do you actually measure that? The interesting thing is that we wrote some things that were a plus ten and a minus ten. Plus ten, plus five, is zero, minus five, minus ten, what they would look like.

And when we first wrote each of these things, let's say, for instance, a systemization of training, I basically took the entire industry and put it together as an example of what I was going to do. And when we were carrying ourselves to the entire industry, we were at a plus ten on everything. I said, "Well, that really can't be it. That can't be where we need to be." So we changed it a little bit so that we could actually be at zero on this. And the next time that we do this analysis, which we try to do quarterly, will come up as maybe a plus four this time or a plus seven next time, or whatever. And it's good to judge those things. It's a very, very good program.

The other things that we've done, and we put this together. We came up with a logo for Rasmussen Diamonds University, which we unveiled to our staff yesterday, and they thought that, Oh, this was really cool that we could actually have it put on jackets or on golf shirts or so on like that. So they're real excited about it.

We also have a graduation ceremony because we just had the very first person that graduated from Rasmussen Diamond University, and she's really, really excited. She said that this probably means more to her than any of the other education that she's ever gotten. She used to work at one of -- or actually two of the different stores in the mall, and both of them were Sterling companies. And when she came to work for us, Joel gave her a test, and he told her right up front when he gave her the test, "This is not to embarrass you. This is to find out where your level of education is so that I can train you from this particular point." And she didn't know anything on the test. I mean, there was maybe one or two questions that she got out of 30 questions, and she was the number one salesperson at the mall store, by the way. So that gives you a perspective. But the point is that had

we brought her in and not tested her to find out where her level of education was, then we probably would not be able to train from that particular point. So it worked out very, very well for us.

MR. HOLEWA: Thank you.

MR. SUSTACHEK: You're welcome.

MR. HOLEWA: Okay. I guess the next topic, we'll get into technology. And Lee, could you take that over for us?

MR. KROMBHOLZ: Sure. When I was asked to be involved in this, they said "You're going to be the technology expert", and I sort of, to myself, chuckled because I realized, truly, in technology, the theme has changed. And we heard a little bit about that from Bill. And if I were to speak in any level, one of the first things I'd tell you is that there really truly are no technology experts. Because it's changing at such a great rate that you can only grasp, you know, a current moment and continue to learn.

And that's sort of my thing in life is basically to continue to learn. So I'm one of those people. I guess you can call me a geek. I like technology. I like programs, things to learn, and basically then taking those tools and using them in our retail jewelry store.

Listening to Bill's description of his university, it just is unbelievable to think of the operation that he has, the staff, and the level of professionalism that he creates at his store. I actually really want to come visit and see that. I've actually heard Bill speak years ago in Austin, which I was overwhelmed by him then. And just hearing him again, it's just really amazing.

So anyway, I'm really here basically to try to answer questions or see what is of interest, because I'm a learner, truly, I want to learn as much maybe from questions as you will learn from me. But the three areas basically that I see as areas that you can bring technology into your business, including, number one, the business management, which the critical challenge that I use is what I call "stress of cash flow."

Most people that are small independent jewelers or even mid-size independent jewelers or large independent jewelers, one of major things that I can continue to hear is the stress of cash flow. So using technology at our store, mostly through business management programs, we've been able to really work around avoiding stress of cash flow or at least knowing when the cash flow stress might occur. Just to sort of outline the basic process for us, we use ARMS, which is a business management program that I believe is the best. Although, I only use one, so, of course, I'd consider that.

But basically, their system is based around determining what inventory of your store are fast sellers. A fast seller can be any -- you can determine that yourself. In our store, it ranges from six months old to a year old. And anything that sells within that six months to a year period, as we've

determined, is flagged or considered to be a fast seller that we automatically reorder. And then inventory that doesn't meet that fast seller category, when it sells, we don't reorder.

So we develop a system where the things that sell automatically or sell within that fast seller period, we reorder. The things that we don't, fall into a category that we then have money to spend, or what we call an "open to buy" in any particular category. And so that is the basis of what we call or what we have as our open buy system. Using that basic system, we are able to control our inventory at a level that is appropriate or determined by us. So we've actually -- are there any vendors in the room, any manufacturers?

(No response from the forum.)

MR. KROMBHOLZ: That's good (laughter). You know, because what we've been able to do is to dramatically reduce our inventory. I'm a third-generation jeweler. I remember hearing my grandfather and my father both tell me that they've been told all their life that basically what they were doing in a retail jewelry store is basically building up an equity of your inventory. So you think, you know, that you collect inventory over your lifetime, and at the end of your lifetime or at the end of your career, you sell your inventory and you retire. Well, that's a myth, and it was created by vendors. It was, you know, manufacturers were telling, you know, retail jewelers that the more you buy that, you know, at the end of your career, you sell it, and that's it, folks. It's an extremely hard thing to do to sell your inventory at the end of your career unless basically all you have are diamonds.

So anyway, I've worked hard to reduce our inventory to keep it under control and to create a system, as Bill would talk about, and basically creating an open to buy that at any point in time, we know exactly how much we could spend in any particular area.

So the second category is basically "Communications and Marketing." The challenge that I directed is basically communicating and marketing to the modern customer. To be honest with you, this is a subject that anybody or anybody in this field -- and Nick is probably an expert. He is the communications marketing person on the panel that you could probably speak to for a million years. But this is an amazing, changing thing that takes a full-time understanding and thought. The three areas that I sort of wanted to address that I think are different from Nick's is basically the conversation about e-mail being the new phone. How many people use e-mail?

(Hands raised from the forum.)

MR. KROMBHOLZ: How many people have their e-mail address on their business card?

(Hands raised from the forum.)

MR. KROMBHOLZ: And of those people that have e-mail on their business card, how many people respond to your e-mails on a sort of hourly basis?

(Hands raised from the forum.)

MR. KROMBHOLZ: Why I say that is, if your phone rings, you answer it; is that correct? People are beginning to use e-mail as a phone conversation. And when they contact you in your store, they're expecting a response. And many people are sort of under the understanding that e-mail is one of those things you do at the end of the day before you go home. It's just kind of another thing you take care of. You go through your e-mail real quick to see if there's anything you need to respond to and off you go. I believe that if you put your e-mail on your business card and you're working with customers and you're putting yourself out there, many young people, many old people, many people, really are starting to use e-mail instead of a phone, and they really do expect response fairly quick.

So this whole conversation about e-mail being the new phone basically is a courtesy sort of thing, an understanding, that you have to -- if you don't want to deal with e-mail on a regular basis, take it off your business card and just have your phone number, because I think it's that important.

Well, just one other thing we do in our store is e-mail newsletters. We actually did do a traditional newsletter, and it worked fine. We sort of collected the e-mail addresses of people probably about three or four years ago and have developed a database of pretty many e-mail addresses for our customers, and now we only do an e-mail newsletter. And really, one of the major advantages, first, there is no expense to it. So beyond creating the content for it, you know, delivering it to the customers, there is no charge.

But the second more important thing is having a link to more information. Technology, one of the main advantages of technology is basically being a source for greater information than you can communicate in any other way. By having a store website, for us, is a form of greater information. So in any of our advertisements, really our key challenge is basically to get them to come to our website. Because from our website, they can see pictures of our inventory, beautiful pictures of our inventory, and they can find out a lot more information about us than they can possibly ever do seeing a billboard, reading a print ad. So for us, that's our major goal is basically to get them to our website. But marketing to targeted customers is different for every target customer, but I'll just use one example. How many people are interested in having more engagement ring customers?

(Hands raised from the forum.)

MR. KROMBHOLZ: Not everyone. That's interesting. Diamonds are considered by most people to be sort of the most important profit center of your store. And often, in most retail jewelry stores, about 50 percent of their business comes from engagement rings. So for us, engagement rings is an important target market. It's also one of the most difficult target markets to reach. What's most important is basically to understand that target market. So to think in terms of what is it? Where are the people that are going to be buying engagement rings? What are they doing and what are the ways of reaching them? And actually, there's some interesting information out there in the

world by looking at other businesses that need to market to a demographic you're looking to market to. And in engagement rings, one of the parallel demographics is actually the movie industry. And there's some great articles and very interesting articles about how challenging it is for movie companies to market to their core customers. Because they're not reading the newspaper. They're not reading very many magazines. They're spending a lot of time sort of in gaining sorts of things. I mean, there's a lot of things involved in this.

But anyway, that's my sort of challenge to everyone is basically to think in terms of what it is that the person, the target, that you're trying to achieve is doing, and then thinking about how to market to that person. And for us, it's really driven a lot around technology.

And then the last part of that is telling the point of a different story effectively. My grandfather, back probably in the 1950s, had sort of developed a company name. And in the company name, he created a mission statement that I sort of overlooked. It was Herb Kromholz Jewelers, Designers of Fine Jewelry. You know, what's weird about that is that we took that out of our logo and we became Kromholz Jewelers, and we sort of forgot about it in a way. And probably about three years ago, I realized that one of my core missions as a person is to design jewelry and to design jewelry with customers.

And I looked back on some of our old stuff and I saw "Designers of Fine Jewelry." He said it so succinctly, you know, so many years ago. So we've put that back into our corporate -- our name, and in relative terms, that's sort of our mission is to design fine jewelry. And that says a lot, you know. First, it talks about designing, and secondly, it talks about fine jewelry, and those are the two things that we're interested in doing. So that has become sort of the core of everything that we want to talk about in the essence of what makes us different. Basically, designing fine jewelry. In our marketplace, there are not a lot of people who design fine jewelry. So that's basically what we develop a lot around.

And the third area -- and, again, I'm obviously leaving a lot of open space because, again, I would love to have questions surrounding these conversations. The third area is talking about satisfying special order manufacturing. The reason I word it that way is, for me, I'm a tech geek and I know it. What I'm very careful about is making sure that I don't over-technology my customers. So when I'm working with a customer, the key for me is basically making sure that I'm working towards a satisfied customer. And if it involves technology, great. If it doesn't, that's okay. I might use technology, but I'm not going to tell them a lot about how I'm doing what I'm doing.

So again, my whole basis of custom designed jewelry is based around customer satisfaction. And we've developed a process that we use that checks in with the customer on an on-going basis with using technology. I use CAD/CAM Design. I use CAD, which the program I use is called "Matrix." Using Matrix, I can develop a virtual piece of jewelry that I can make a photograph or a rendering of and I can e-mail that to a customer or have the customer come in and I can show them what their jewelry is basically going to look like before it's created. Actually, before really much is done at all. From that point in time, we have a conversation about that, and if there are changes that need to be

made, we make them. And then from that point, we produce a model of that, a wax model. Obviously, everybody in the jewelry world understands that it's the process of making jewelry. We actually have in-house CAM mill. It's Computer -- actually, I don't even know --

MR. HOLEWA: Is it --

MR. KROMBHOLZ: Well, CAM -- it's Computer Automated Machinery, I think, is what CAM stands for. And I use a mill. And we actually mill the wax in-house. If I chose, I could actually produce -- after I produced the CAM design, I could produce the wax model between an hour and three hours. So I could actually have a wax to show a customer fairly quickly. Although, I'm careful again not to take away the mystique of custom designing jewelry. So if the customer is not technology oriented, I don't go into how we make the wax. I just explain that that's the next step to the process, to produce the wax. Even though it takes us an hour or three hours to produce, I might wait two, three, four days or a week to produce the wax. Because obviously in the old days when we carved them by hand, it did take a week or longer.

So I produce the wax model, call the customer back in, show them the wax model, again, looking for satisfaction there. At that point in time, again, talk about scale, you know, try it on, does it look right? From that point being cast and set. And I think through this process, we have satisfied customers. The last part that I highlight is great photos. Again, being a geek, I'm all about, you know, wherever I can enter technology, and obviously photography is a good technology area. So I'm a photo geek as well. And basically, I look at my photography as a virtual inventory. And it's, again, a great way to be able to produce the inventory you carry in your store if you can have get photographs of jewelry that you can work with customers with, and that's basically what I've done is create a great inventory of great photographs. But the quality is terribly important, and, again, is something that involves a pretty good learning curve. So it's something, if you choose, to take the time and really learn it. So that's my general thing, and I'll just pass it on to Nick. Should I just pass the microphone?

MR. HOLEWA: Sure. Thank you. I appreciate that very much. And again, Nick will be talking about "Changing Markets and Demographics."

MR. FAILLA: Good morning. I would say we probably have one thing in common, all of us. We want more profits and less stress. Agreed? That's a pretty easy one. Bill and Dave have already given us ways to do that, and we are going to talk about adding on to that with "Reaching out to Changing Markets and Demographics." The critical challenges I'm going to address, "Is the Internet stealing my customers"? No, they're not. I promise. Then "Advertising and Marketing when the Markets and Demographics are Changing" and then "Finding Ways for Retailers to Reposition Themselves in the Marketplace."

Well, what if I told you that every decision that you made in the store affected all three of those things, and if you had three simple guiding principles, it would make your life a whole lot easier and less stress? Fortunately, there's a lot of really intelligent retailers out there, and we've pared down

some of that information into three guiding principles that every decision you make within the store could be made more profitably and with less stress if you infer these principles.

One, is understanding what we sell. The second is understanding the shopping sequence has changed, and the third is the retail equation. So because we have limited time today, I'm going to talk fast, offer that any of the three of us can answer any questions more specifically for you; and third, we're going to address some of these things by example. But really, all three principles could be applied to each example.

So you're telling me the Internet's stealing your customers, and we're pretty convinced of that. However, I would challenge you to say "Why are we allowing the Internet to steal our customers"? The big reason for that is we've forgotten what we sell. We're barraged with so many questions every day, so many decisions we have to make, we've lost sight of what we sell. We're convinced we sell a commodity. We've come to market today. We're going to do our very best to find the best quality, the best price, the best terms, and all of those things, that your customer doesn't really care about. You need to. That's a responsible business practice. But the primary goal of your customer, when they come in, is not to buy a commodity. They want to buy a form of communication. That's the first principle. If you take anything else away today, remember that.

The color of your carpet, the design of the CAD/CAM piece, how well you train your people has to revolve around the pure fact that a man entered your store to get it right. That's all he wants to do. He wants you to help him be a hero. All he wants to say is "I love you, I'm sorry, thank you" any number of things. And typically what we do is we say, We say we have the best selection, the best prices, and the best product in town, and we've already told him something that he expected from you to begin with. And we've lost sight that if he truly wanted to buy from the Internet, why did he darken your door in the first place? By virtue of him walking in your door, he says "You know what, something's missing. Something's not right here. I see I can buy this piece of jewelry on the Internet. I'm told I can get it cheaper. But I'm still willing to give you a shot for what I perceive to pay more for, but you've got to tell me what it is."

And what that is is the assurance that you're going to make him a hero at home, okay? It's going to be something that she can brag about. A quick example is, and I have asked this in big rooms before, and I said "What if I came home and, say, her and I have been engaged or she wants to get engaged, she wants to get married"? I don't know. All the time you spend. So we've got to go to Sam's Club for some bottled water. So I run out to Sam's club and I walk out and there's the engagement rings. I come home and I say, "You know, Honey, you're right, we ought to get married, here you go", and I plop that ring down and there's the Sam's Club symbol. Well, I usually get glares and laughs and everything else like I'm just the biggest jerk in the world for coming home with a Sam's Club diamond. Well, then I say "I spent \$1,000 less on that ring, you know, and I did great and now we get to go to Hawaii now instead of Kansas for our honeymoon." Well, she's still not happy with me. I guess I just don't understand this whole engagement thing. But then I say I go to someplace like any of your fine jewelers and I say "You know, Honey, I'm really sorry I couldn't meet with you today for lunch. I kind of took the day off and I snuck out to this jewelry store and

well, I had this ring designed for you." And I get down on my hands and knees and I present it and say "I hope you love this ring as much as I love you." She opens it up and she sees this great logo. What's important about that logo is what that logo says to her. That's a representation of all those decisions you made daily in your store. It's the pride that comes with it. It's the assurance that I got it right. Because I didn't buy her an engagement ring. I bought her a very expensive committed message that says, "You know what, Honey, I really love you. You are the most awesome woman I've ever met in my entire life." That's what your jewelry has to do.

A perfect example is we came out with Journey this year, right? Journey's a fantastic product. It's an absolute no-brainer to sell. But we started talking about SI, H-color, and everything else around the manufacturing of that pendant. And what we should be doing is, "Lee, are you paying attention to me here? Now, you better write this down. Each time when you give this to her, let her have a representation of what that diamond is for in your life because this is what this Journey's about." And if Lee's still not listening, "No, Lee, if I'm going to sell you this expensive piece of jewelry, then you're going to get this right and you're going to be a hero when you get home. Now, you put this in a card for her."

That's what they want from us. They can buy SI/H off the Internet. And if they walk into our store and we tell them "We're not giving you anything different", they will. But if we take them by the hand and remember what we sell, they'll buy from us. Okay? But that takes training. It takes developing a program. It takes building unique merchandise from a CAD/CAM. So the first solution to a lot of our troubles is remembering what we sell. What's important to the customer?

So moving down to example two, the shopping sequence. Now, before, somebody would tell us about something really great out there, a new product or service, and we'd run off to a magazine, the yellow pages, the newspaper. We'd wait for Sunday to get here because we know there'll be an article on it or all those coupons and ads. Not anymore, guys. We Google it. Google is going to be in the dictionary at some point as a verb, okay? That's how we find out information.

A couple of years ago, it was 40 percent of luxury purchases that were researched on the Internet before they were bought. It doesn't mean they were bought on the Internet. They were researched. The figures I just saw last week varied between 60 and 80 percent. Now, that doesn't mean you have to run out and become an instant e-tailor and build this mammoth site and spend a gazillion dollars. What it does mean is you need your full yellow page ad on the Internet now in the form of a splash page or something. And the biggest thing about that page should be what is going to be different about you. They've already looked for you. They already know you're a fine jeweler. They expect you to have selection. They expect you to repair jewelry, all those things that you want to tell them. What they don't expect to hear is, "We're a hardware store for women." That came from one of you guys. And it's great, because you know what happens as we start giggling and laughing, "Well, what do you mean? What I mean is we sell wonderful tools to women to make them feel great, okay?" Not my idea, but there are wonderful and creative things out there. We have to wow them in that first line and say "We're different." We make men heroes and woman cry, okay? That's what your splash page has to say, to make them pick up the phone or e-mail you, which is

really -- Lee couldn't have hit it more head on with that, is the way we communicate. If we're going to continue to try to communicate in a way that they don't hear us, shame on us. Okay?

Now, the shopping sequence, you've got the product, we hear about it, we see it advertised. Maybe it's a business card, radio, billboard, whatever, that's where that web address becomes so important. Because at the very least, if I heard your radio commercial, saw your TV ad, I would remember I liked you, there was something about you I wanted to see more of, I'll find you on the Internet. Now, I make the decision of where I'm going to buy. I go on that Internet. And there's three things that make us buy; value, trust, and convenience. Who thinks the Internet is less expensive on items?

(Several hands raised by the forum.)

MR. FAILLA: Okay. That's a prevalent feeling -- or a predominant feeling. It's not on everything. The Internet's no different a tool than a brick and mortar store. If you can offer somebody more convenience if they can shop in their pajamas, a lot of times they're willing to pay more. And we've got one back there (laughter). So while we're fearful of price and the Internet beating our prices, that's not always the thing.

Now, understanding convenience. If I need a gift today or I'm someone who really wants to touch, feel, you know, look at this thing more closely, the Internet's not very convenient. Value? What's value? If I give her the ring and -- do you know what the number one answer is that is -- sorry, I'm putting the cart before the horse. If a woman received a ring, her engagement ring, off the Internet and Mom or a girlfriend asked her where she got it, do you know what the number one answer is? She'd lie. That's the number one answer we get. That's a pretty powerful statement. They're so uncomfortable with that that they would rather lie than say that my fiance bought it off the Internet.

So now, value. Value's not a dollar amount. Value is in the pride of what we do. If I give her a custom piece that came from a fine jeweler that will treat her like a queen when she walks through the door, pretty good value for me. I want to ensure that that happens. So once we choose the venue we're going to buy from, either the Internet or the brick and the mortar, we make our purchasing decision and that part doesn't change.

But how you get to your customer, that's changed dramatically. The third thing is finding ways for retailers to reposition themselves and attract new customers. The one way to make sure you stay balanced on that is the retail equation, product plus personnel plus promotion, equals profit. Sometimes we have a great promotion going on, but the customer gets to our store and we haven't equipped their sales people on how to sell that item. I shopped before Christmas majors, independents, in malls, and outside of malls. Every time I asked to see a Journey pendant, I was told it was one of those diamond necklaces with three or four diamonds.

Why did we waste our money? That was a huge opportunity for us. When that customer came in, we should have been explaining what Journey meant, what Journey was going to do for that

customer. So we came up with a great product, we did a great promotion, the problem that came with personnel. Well, what if we put them through a university like Bill does and we really hired these guys and we give them all the tools in the world, and then we develop a great promotional campaign, yet we don't give them a product? We fail. So keeping in mind that your energies, your efforts, your monies, has to balance between the product, the personnel, and the promotion that helps you make those daily decisions. You know, am I going to add this new product line? It's going to cost me \$5,000. Well, would I be better served investing that \$5,000 of promotion in my personnel? It's at least a question you have to ask yourself before you can make that decision.

So if you want better cash flow, less stress, simply every time you go to make these decisions, ask yourself "How does it affect what I sell, being a form of communication? How does it affect the retail equation? Am I out of balance in any portion of that? And then third, am I communicating with my customer base, knowing what the present shopping sequence is? Am I current in my efforts?" And that's it in a kind of condensed version.

MR. HOLEWA: Okay. Thanks very much,

Nick, and everybody else.

(Applause from the forum.)

MR. HOLEWA: Now, everybody, now about the town hall portion, the town hall, the Q & A section, we're ready to make this more of a town hall interaction. We're ready to go back to Bill's first slide just to give everyone kind of some quick bullet points to refer to. Does anybody have any questions for Bill or Joel regarding training or the training program that they've implemented?

(One hand raised from the forum.)

FORUM MEMBER: How long does it typically take you to train a new staff member?

MR. SUSTACHEK: I believe the question was: How long does it typically take us to train a new staff member? I believe we have it set up at four weeks. Is that correct, Joel, four weeks?

MR. HASSLER: Yes.

MR. SUSTACHEK: And we have a little flexibility there because, you know, if somebody gets sick and, you know, can't do it or -- and the person, when we train them, is a new hire. We're actually training them. And they are not on the floor. They are not expected to wait on customers. And, I think, again, it all depends because we have different trainers. I take one section. Joel will take another section. My father, who's our certified master watchman, he takes the watchman part of it. So everyone has their own sequence of it. Sometimes we just have to move that around, but typically about four weeks.

MR. HOLEWA: I've got a quick question for Joel. Joel, can you stand up so everyone can kind of know who you are and that you're part of Rasmussen?

(Mr. Hassler stands.)

MR. HOLEWA: Okay. Thanks, Joel. Real quick, Joel, one of my initial reactions to the question is, you know, how does a staff member usually react to the training? Are they taken aback like, you know, let's say if someone comes in from previous retail jewelry training and says, you know, "I've already had this experience? Why do I need to be trained again?" And that's one part of my question. Then could you describe the actual test? Is it part written, part practical? Those are some things I'd like to address.

MR. HASSLER: Sure. The biggest thing with this new person that we had that went through it, it was amazing. She had spent nine years in two different Sterling corporations. Failed, failed the tryout test. "So where do we need to start"? I told her, I said, "Well, we're starting from scratch." Top salesperson, by the way, in two separate stores; nine years in the industry and didn't know anything. So I said, "Well, we're going to start from scratch." When she was all done, she said "This was more training in four weeks than I've gotten in nine years." Sales training, she did. They did lots of sales training. But no product, no operational. There were certain guidelines you had to follow. So even for someone in the industry, it was definitely an eye opener for her. The second half of your question again?

MR. HOLEWA: Just between the actual test itself.

MR. HASSLER: Oh, that's right.

MR. HOLEWA: I mean, how much was practical? How much was written?

MR. HASSLER: The first portion of the test, the very first test, was all written, 30 questions. I sat with her the whole time, just kind of watched. Very uncomfortable, nervousness, looking up at me like "I've never heard that word before. What is that"? The final graduation, final exam, if you will was, again, 30 questions, all written, no multiple choice. And I hate multiple choice. It's too easy, I think. I wanted handwritten answers. I wanted explanation. And then there was one-on-one questioning. I have a set list of -- because it's hard to test on the overall feel and the essence of the store. So there were some questions about vocal you know, some verbal, "What do you think of this, what do you think of that"? So it was kind of a combination of that.

MR. HOLEWA: The old blue book test. You guys are really tough over there (laughter). Okay. And then one thing I just wanted to stress real quick, and Bill mentioned The E-Myth. And, again, for Instore Magazine, it's a book that we have reviewed and referred back to constantly. It's a great book. Bill is ready to recommend this book to everybody. It's a great book. I'm not promoting it because I'm getting kickbacks. I'm promoting it because it's a book that, you know, Instore really believes in and really speaks to you as a small business owner. So that's one thing I just kind of

made in my notes here. But, again, this is about your questions. So does anybody else have anything?

MR. SUSTACHEK: I'd just like to say something about the E-Myth.

MR. HOLEWA: Sure.

MR. SUSTACHEK: Anybody that would like a copy of the "E-Myth Revisited" book, if you'll give me your card and just write on the back of it your e-mail, I will have E-Myth send you a copy, and they will do that complimentary. So anybody that would like one, just give me your card.

MR. HOLEWA: All right. Thanks, Bill. A free book. Not a bad deal.
Yes, sir? You had a question?

FORUM MEMBER: Well, I just had a question about the book.

MR. HOLEWA: Oh, okay, great. Okay. Anybody else on sales training or staff training?

(No response from the forum.)

MR. HOLEWA: Okay. One question that I wanted to, you know, put out there, just out of curiosity, we said the manuals have five sections. Of the five sections, what section gets the most weight, and why?

Joel, you can handle it, or Bill, or both.

MR. SUSTACHEK: Go ahead.

MR. HASSLER: The section that gets the most attention is going to be operationally in our store -- excuse me -- operationally in our store as well as we rely heavily on the graduate sales associate course through JEF and HES. That's kind of our textbook for the gemology part. Our consultant, and a very good friend of mine, has always said that "Training's great. Training's the big gun that you give to the person who already knows" -- you know, you hire for people. You will never train them to be "people people." So once you've got that, that training is going to keep them excited. So I focus real heavily on product. Because to me, it's all about confidence. The more confident you are in what you've got, the more confidence you're going to have at the counter. So we started the product with probably the most emphasis.

MR. SUSTACHEK: The company culture is something that we probably can go through, and if they did it, they -- they either are going to get it or they're not going to get it. I mean, you can probably tell when you're talking with them in the very beginning if they really, you know, understand what the company culture is. If they don't, they're probably not going to make it through the university anyway. So we can pretty much tell that. A big portion of that is gone through like in the first day.

So that's a really short part of it. But when you say "Is it weighted", that is probably the biggest weight of whether they're going to make it in our store or not, okay? Because if they don't get that part, then they're not going to make it the rest of the way.

HOLEWA: Got it.

Anybody else got any questions or should I just keep wearing my reporter hat?

(One hand raised from the forum.)

MR. HOLEWA: Yes, sir?

FORUM MEMBER: I guess, Bill, how many people do you have on your staff now? How big of a store do you actually have?

MR. SUSTACHEK: Thirteen. Thirteen people. And we're actually planning on hiring probably another sales associate, one more this year. And hopefully if our business keeps on growing the way it does, we'll probably be hiring at least a new sales associate or two every year.

FORUM MEMBER: Yeah, Bill. As big as your store is, and you know how small my store is.

MR. SUSTACHEK: Uh-huh.

FORUM MEMBER: We've called Shane Decker in quite a few times. I, personally, can't afford to have Shane come in and train my staff. But is there a lesser alternative to that?

MR. SUSTACHEK: Well, I think Terry Sisko is a very, very good sales trainer as well as Brad Huisken. He's a very, very good trainer. Actually, it's quite interesting because Shane Decker sometimes, you know, can kind of rub people the wrong way. He's a wonderful trainer, but he gets people, you know, kind of a little agitated or something, and sometimes people will cling to him and understand, you know, where he's coming from. Brad Huisken is one of these cuddly teddy bear-type of guys that everybody loves and they can relate to him. So those are two that I can think of right off the top of my head.

MR. FAILLA: Paul --

MR. HOLEWA: Yes.

MR. FAILLA: -- I can maybe add something to that. We work with a lot of smaller stores that have the same challenges that you do in that regard and we developed the training around a special event program. This way, you're teaching behaviors that are going to service them well throughout the year, yet you can basically finance the training --well, well over finance. For example, we recently had a \$400,000 store do \$50,000 for the day without any advertising, just on their

merchandise. So now, what you've done is you go in --because when we do our training, we don't train for just a special event. We're trying to impart tools to be used. So you have the basic training. You hold them accountable and answer any questions they have over the preparation period, which is about six weeks. Then they get a big fat reward at the end. So you told them what you want. You showed them how to do it, and then you proved it worked. So every time you go to layer on training from there, not only is it affordable, but now you've got their attention because they were able to go on that vacation they wanted to, or any other number of things. So it wasn't just about the company training we all want. It was the reward. So that's an opportunity.

MR. HOLEWA: Thanks.

Yes, ma'am?

FORUM MEMBER: What was the fourth section of your book?

MR. SUSTACHEK: Okay. It's a company culture --

MR. HASSLER: Sales.

MR. SUSTACHEK: There's sales --professionalism and sales training. There is systemization, operations, and there's --

MR. HASSLER: Security.

MR. SUSTACHEK: What is it?

MR. HASSLER: Security.

MR. HOLEWA: Security.

MR. SUSTACHEK: Security is one of them.

MR. HASSLER: Company culture, salesman product. Systems and operations. Gemological.

MR. SUSTACHEK: Oh, gemological and product is one of them. We put gemological and product because basically it's knowledge. You have to have knowledge of your product. You have to have knowledge of gemology, whatever it is, we put those goes together. And we also put down professionalism and sales training together because those two are --sales training -- sales is sometimes a dirty word to some people. But sales is really not a dirty word. I mean, people say, "Oh, he's such a good salesman. He could sell refrigerators to Eskimos." Well, that's not being a salesperson. A salesperson is somebody who helps people get what they want, and that's why professionalism is put down. So did I cover them all?

MR. HOLEWA: Okay. Anybody else?

(No response from the forum.)

MR. HOLEWA: One quick question I'd like to direct to you guys, and this may kind of sound a little trivial. But I was just wondering, I mean, what's the graduation ceremony like? Do you take them out to dinner? Do you give them a certification? No, really --

MR. HASSLER: No, no.

MR. HOLEWA: -- I mean it helps to reinforce that actually to accomplish a milestone.

MR. HASSLER: No, that's key. In anything that we do, you know, that's self-recognition at hand, "I did something really important." That's dinner, a gift certificate for dinner, and they can have their significant other if they want to at one of the best restaurants in town. Usually a dinner with Bill and Kathy as a congratulations. We have mandatory store meetings on Friday mornings, and we have a little thing there, the diploma. Now that we finally have the logo all nailed down and the diplomas printed up -- we must have gone through a dozen different renderings of the logo. So we do make it a big deal. As the first, you know, ten employees that we had prior to the building of the university hadn't gone through anything like that it was a little -- you know, they thought it was kind of trivial and "Oh, you're doing that. You never had anything like that for me." But for the new people, it is, it's a big deal. You know, we make it a big deal. Because part of the graduation from Rasmussen is the graduation from the GSA course and the CSA course. So, you know, they're getting a certificate from AGS and a certificate from us, and we make it a big deal.

MR. HOLEWA: Good. Good. Thank you. I appreciate that.

MR. SUSTACHEK: Just one thing I want to mention. Joel was mentioning the GSA course and the CSA course, which is basically the same course. It's just one lesson different through AGS. We decided when we were going through the university a lot of the things we -- why would we want to reinvent the wheel? We took a lot of real good programs out there. And the graduate sales associate course and a certified sales associate course for the American Gem Society is a great course. It just was rewritten a year ago, so it's very superb. It's wonderful.

MR. HOLEWA: Thank you. That's it for the Q and A section on training. We are going to go on to these bullet points here. Again, just some quick refreshers. Hopefully, there will be some trigger words in here that will generate some questions, and with luck, you folks are writing down your questions during the presentations. Does anybody have any questions for Lee on the technology side?

Yes, ma'am?

FORUM MEMBER: Great photos. I mean, how do you produce --THE REPORTER: I'm having a hard time hearing?

MR. HOLEWA: The question is: How do you produce great photos? Do you use, you know, some sort of just a digital camera? Do you use some sort of lighting system? Yeah, okay.

MR. KROMBHOLZ: Yes and yes. Like any photographer, sometimes it's based around the gadgets. So, you know, using a certain level of camera is important. But the one thing that actually, I think, is probably the best thing that I've learned in recent times is about lighting. I've been doing digital photography for probably as long as digital cameras have been around. And the initial digital cameras just weren't needy enough to make them good quality today. I can in-house produce photos that are good enough to put on a billboard. But the lighting part is an important part. And there's actually a great company and a great website that has a jewelry-specific lighting system. The website is tabletopstudio.com, and they produce a relatively inexpensive lighting system for jewelry photography. It's about \$250, \$300. And I had other things previous, and I've just replaced everything with that \$300 lighting system, and then plus a digital camera. And then the third part to the digital photography is camera lighting. The third part is the post editing. I have a lot of people that tell me that the base level Adobe Photoshop, I think it's called. I'm a Photoshop geek, so I use --

MR. HOLEWA: What was that, Photoshop CS

or --

MR. KROMBHOLZ: No. That's the full version of the Photoshop. There's one -- I think it's Photoshop Essentials.

FORUM MEMBER: Elements.

MR. HOLEWA: I'm sorry, ma'am?

FORUM MEMBER: Elements.

MR. HOLEWA: Elements, okay.

MR. KROMBHOLZ: Elements. And I think it's about a \$300 program, maybe, or it may a \$200 program. But I think it actually does enough for most people that you can, you know, probably do good enough photography that you could -- I produce all of our photography for all of our advertising, all of our website, everything, in-house, and, you know, I think it's great.

MR. HOLEWA: Just, Lee, a quick follow-up. I mean, the photos are really versatile for a lot of things. I mean, I remember one of our closed doors winners a while back. I mean, they literally photograph every single piece of inventory in the store, which I think is great for a lot of reasons,

independent of the POS system. Now, you said lighting's important. Lighting's absolutely critical because you really want to punch up and give a lot of contrast to the gems and, you know, gold. So lighting is key. Now, your most important piece of equipment is obviously your camera. Now, is there a good brand that you like? And I mean, don't, you know, be shy about promoting Canon or Nokia – or Nikon, rather. But is there a camera brand you like? And if so, what features do you think are important for either a beginning person to grow into that camera?

MR. KROMBHOLZ: Now, I'm a believer that there's probably a lot of great solutions. I use Nikon, but, you know, I'm one of those people, I was a known photographer before, and I loved my Nikon, so I elected for Nikon. I use the E200, which is probably way more camera than I'll ever need. But it's great, again, for a geek, you know. It's like a great gadget. They make a great, I think, the D50 that's probably enough really for most people. But, again, I think Canon makes a great camera. You know, there's multiple people. I think, really, the important part is to begin a relationship with a photo store or photography store. They will also -- then, the next part of the equation is, the camera I use is considered a digital SLR. It's based on the old film photography that you can change the lenses. So the next part of the camera equation is the actual lens, and they make some great close-up lenses now that are very jewelry related. But, again, having a relationship with a photography store, they can basically give you all the specifics, you know, camera, and the actual close-up lens that will be appropriate for what you're trying to do, and then the lighting situation. There's that combination. The photography stores probably will try to help you with the lighting, but the website that I gave you is a much better resource. They have tons of online tutorials and information about how to use it, how to get the correct lighting situation for jewelry in specific and then other things.

MR. HOLEWA: Anybody else on the technology side?

FORUM MEMBER: Can you just repeat the website?

MR. KROMBHOLZ: The website is tabletopstudio.com.

MR. HOLEWA: And Bill had a question for our panel member.

FORUM MEMBER: Yeah. You said we do an e-mailed newsletter. Where do you get the information that you put in that newsletter?

MR. KROMBHOLZ: We actually produce the information for the newsletter in-house. We use a resource to produce the newsletter. It's a company called "Constant Contact." It's an online place that you can put basically the e-mail addresses that you use and then it develops a fairly simple template-style newsletter that you can basically put in photography and information and produce the e-mail. It's important to use some sort of online source for the e-mail template, partly because as you probably all know, there's great spam filters and things that avoid you from sending out tons of newsletters and broadcasts. But these companies are professional in figuring out how to make sure that your newsletter, when you send out hundreds or thousands of them at a time, get past the

spam filters and the junk mail filters, and Constant Contact, which is what we use, I think does a good job of that.

MR. HOLEWA: Yes, Nick?

MR. FAILLA: On that same name, our clients use that Constant Contact as well. It's a terrific, terrific program. And because it's permission-based, is the term for it, permission-based e-mail, not only do you get this bulk e-mail out, you spend \$3,000 on, say, a \$2500 direct mail. Constant Contact, you can do a dynamic piece, and what is it, \$30? It's like \$30. So, I mean, we're talking significant. And for those of you who aren't comfortable with photography yet, the really other neat thing about it is, any of your vendors typically will have some photography out of their sites. And you can actually incorporate very, very easily any picture, any logo, that they have online into this newsletter. So you get some really neat newsletters. You know, it's almost like too good to be true. It's cheaper. It's easier. It's better. And on top of that, it's measurable. It gives the ability of the customer to forward that e-mail. They can have like a promotion going, they can send it to their friends. And it's going to tell you how many opened it, how many people reacted to it. Lee's advice on Constant Contact, I can't stress enough. It's terrific information.

MR. HOLEWA: Do you guys have the URL on that? Is it www.constantcontact.com?

MR. KROMBHOLZ: I think you can Google it.

MR. FAILLA: It is, though. I mean, we use that one all the time. It is simply that, Constant Contact. It's a great program.

MR. KROMBHOLZ: The chart, I think, is based on the number of e-mail addresses you hold in it. So if you're sending out -- actually, I think it's free up to 100, and then I think, you know, there's a charge for the number of addresses that you send to. And I think for us, I think we send a 1,000, and it's probably between and \$30 and \$50, I think it's a month.

MR. FAILLA: Yeah, it's a monthly fee. And you can add on an extra feature which allows you to store more photos online. If you don't want to do that, again, the way to get around that is to use links.

MR. KROMBHOLZ: Links.

MR. FAILLA: And it's really easy. Don't let it seem like it's not.

MR. KROMBHOLZ: Yeah.

MR. HOLEWA: Anybody else on technology?

(One hand raised from the forum.)

MR. HOLEWA: Yes, sir?

FORUM MEMBER: Regarding the Matrix CAD program, how do you handle it when you get the lady to say, "Yes, I like the picture" and "Yes, I like the wax", and then she gets the ring and she says "This isn't anything like I expected"?

FORUM MEMBER: Just get a gun (laughter).

MR. KROMBHOLZ: I use it in-store. I've used it for three years. I produce -- I probably produce about 300 to 500 custom things a year, and I've never had this happen. But, again, for me, it's based on, again, making sure that the satisfaction is what your goal is. And you have to always be prepared to start completely back over again, because the satisfaction is that important. But, again, having good photographs to make sure that, you know, at the initial contact that you and her understand each other, and then, you know, having conversation all along the way. And I'm not saying that it's impossible, but, again, the other part of that is saying that you really do have to be prepared to say, "Yes, we'll start all over again" and be completely -- you have to make sure that you're charging enough that, you know, that that could be a potential solution that's built in.

FORUM MEMBER: Do you charge a design fee?

MR. KROMBHOLZ: You know, our business model is probably a little different in the fact that we're very much a boutique store. We have very little traffic. We actually -- instead of 13 employees, we actually have four full-time employees and two part-time people. So we're a very niche sort of business. And so the people that come to us, first of all, we have like almost 100 percent sell rate. So if a person that comes into our store, almost 100 percent of the time we sell them something. And the second part of that is, in custom design, I give them actually -- usually in that initial contact, I'll tell them how much it's going to be and we'll make a verbal agreement. But I'm still sort of that handshake kind of guy. And I'm not getting burned, so I won't check that yet. Talking to other Matrix users and, you know, Matrix seminars, most people charge a design fee. To me, it just sort of puts the -- most of them say it's a nonrefundable fee. And to me, that just puts that relationship in a whole different place right at the beginning that I don't want to be. But, again, that's, I think very unique to us. I think most people are charging design fees, and I think it's fine. I think a typical design fine is about \$500. And, you know, it's basically an upfront nonrefundable charge that you say that you're basically buying the design and the

wax, and then you can, you know, kind of walk away if it's not right.

MR. HOLEWA: Yes, sir?

FORUM MEMBER: I'm not sure if this is a technology question or not. But regarding the fast sellers, what percentage of those fast sellers do you just automatically go ahead and take the order,

and -- for instance, you set up a two-and-a-half carat L colored or pear shaped, and you sold it, you know. Do you actually just go and make another one?

MR. KROMBHOLZ: Yeah, that's a great question. The ARMS people will tell you 100 percent, you know, absolutely, do it as quickly as you can. The designer boutique store that I am, I'm really challenged by that question because, for me, the basis of our store is uniqueness and something that's different. And if we turn around and make another very important piece like you're describing right away and somebody else is going to wear that same piece of jewelry that somebody else just spent pretty good money for, it's a really difficult thing. So usually the way I look at that is instead of designing exactly the same thing, I'll design something with the basic structure of that piece. So in other words, another important diamond, another fancy shape, something that's in the same price category, but a completely different ring, but in sort of the same category. Does that answer the question?

FORUM MEMBER: Yes. So out of that list of fast sellers, what percentage would you say that you just punch in the computer in the order? About 80 percent?

MR. KROMBHOLZ: Our store, again, even though I call it a boutique, you know, our average sale is \$1500 in our store. You know, we sell very inexpensive things and very expensive things. So far this year we sold something that was like \$250,000. But we also sell \$35 silver things. Of the fast sellers that we sell, probably a huge percentage of them are very basic things that we automatically reorder. And I would have denied that because I never looked at that, until you start looking at literally what you're selling on a regular basis and how much of it is just basic inventory. I was amazed because I didn't think that was the kind of store that we are. But the basis of your store is always going to be that basic inventory. And then the exciting things are what are fun to have and not always the best as far as selling.

MR. HOLEWA: Lee, if you can't commit to a percentage, can you describe some of the general inventory that you just mentioned? What kind of falls into that category, that general inventory?

MR. KROMBHOLZ: Well, I mean, I can probably say a percentage. We probably reorder 95 percent of what we sell because they are fast sellers. You know, in general terms, we're talking about gold earrings, you know, silver jewelry, bracelets, necklaces, pendant, chains. But we're also talking about colored stone, basic colored stone jewelry. I mean, kind of the whole range, but it's probably priced up to about \$1,000. And then the things above that are probably more of those things that we stop and look at and think about whether we really want to have a second one out there.

MR. HOLEWA: We'll move to questions from Nick. Dave, could you bring that slide up, please? Thanks, I appreciate it. Okay. Again, does anybody have any questions for Nick?

FORUM MEMBER: Nick, you mentioned the difficulty of reaching the engageable age customer at this point because of their lack of use of the traditional media. If you said how you reached them, I didn't catch it. Do you have a suggestion for what ways to go after them?

MR. FAILLA: Yeah, I would say really a lot of guerilla marketing techniques. In other words, cross branding. Lee mentioned, and he's definitely correct, that the moving-going crowd is a very similar demographic as the one we're going after. Aligning yourself with a cross branding situation with a reputable movie theater can tap into that market. Direct e-mail campaigns, both for professional and newsletter purposes. Because they're so easy to be able to afford them. If I like something that Lee sent me and I think Bill would be interested, all I have to do is push a button. So again, we're speaking their language, so it becomes vital. If you've gotten the right message out, it will go. Special events are a real important part of that equation. Because again, that's kind of vital because you're taking the customer base you already have, you're telling them about something big going on, you're taking the time to make it credible and really thought it through. Then I'm going to go tell Lee and Bill and they're going to come with me, and it's a similar demographic that you are after, all right? Okay. The third piece would be if you do any radio or TV is to ensure that you know the campaign in the beginning of the year and take that precious air time and talk about what's important to your customer, not what they would expect from you. Okay. Don't meet their expectations on that. Exceed them. Again, they already expect you to be reputable. They already expect you to have jewelry. They expect you to have good service, all those things. Don't use any of that time for that. Create a storyline that each ad throughout that year builds upon the other and brands your store as the place that gets it right for your customer. Does that kind of help?

FORUM MEMBER: Yes.

MR. HOLEWA: Nick, just real quick. You mentioned guerilla marketing. Is that just like a general expression or are you referring to the books by that name? And if so, could you please give the author, if you know?

MR. FAILLA: Well, sure. There's several books on it now. The original person is --Levinson is the original author. And "guerilla marketing" has really become a broad term. It refers to using ingenuity and good old-fashioned hard work over lots and lots of dollars. It does give you the ability to compete with the majors. Because your advantages are your ability to get personal, your ability to customize things. Search word marketing right now is a huge, huge opportunity. For not only advertising, but research. If you have a vendor come in and say "I've got the latest, greatest, bestest product in the world", you can do a search word campaign and find out if your customers think it's important and what they're looking for. Then you can make a decision to buy that product. Your big competition can't react that quickly, and that's your advantage, these guerilla techniques, because you can get down in the trenches and it doesn't cost you a lot of money.

MR. HOLEWA: Thanks very much, Nick.

Anybody else?

Yes, sir?

FORUM MEMBER: Just to get back on the search word, what your topic was. What's the procedure? I mean, do you ask the customer or --

MR. FAILLA: Oh, no, I'm sorry. Search word marketing taps into the process of Googling. What you're doing when you're Googling something is you're performing a search. And the search word marketing is keying on the word you've literally searched. One thing that we found that was really interesting is we set up these campaigns through Google. You can set them up through Yahoo. And what it does, it reports back to you what the customer is searching for, and you can pay to have your ad come up. There's a few different ways to do this, but the essence of it is, you can pay to have your ad up when somebody searches for that word, for that product. So in other words, you have hungry fish looking for your product and you can drop it right in the middle of the school of fish, okay? And an interesting thing, and it will surprise us sometimes. We all know that tanzanite was one of the hottest gemstones to come out when it did. It just was doing terrific. Then the controversy came, and we all backed away from it, rightfully so. We haven't come back for it heavy. But if you put tanzanite in your search word campaign, you'll find out your customers are searching way more for it than you ever imagined.

MR. KROMBHOLZ: And this is another thing. One of the ways he was talking about search word is basically you pay for it. So with Google or with other things, you pay per click. But there is actually another way of getting search words to pop up and, basically, it's through getting information about you and your company in the news and having that news now being all published on the Internet. What Google looks for is that when somebody searches for, the example would be, for my case, "Jewelry Design Cincinnati." There's lots of information on our website that's related to jewelry design Cincinnati or other websites that talks about us as being jewelry designers in Cincinnati. So for me, what I do is basically try to make sure I create a lot of buzz and press about me being a jewelry designer in Cincinnati, by doing PR pieces on design contests that I win, by being published in Instore Magazine. All those things that you do to create true press about yourself basically optimizes you when you're being searched. So I have people -- I have probably a person a week to tell me they come in for an engagement ring to tell that the way they found me was they Googled "jewelry design Cincinnati" and I was the first one to pop up. And the reason isn't because I'm paying for it because I don't pay a penny for a search word authorization. All I do is create a PR that creates my identity as the major source of jewelry design in Cincinnati.

MR. HOLEWA: So you would definitely encourage jewelers to put a local spin on those sorts of searches? You said your city name, for example?

MR. KROMBHOLZ: Basically, it's creating as much PR as you can about whatever it is that you want to be found for. I think the first thing is, what are you looking to be found for? For me, it is jewelry design. But yes, local is the easiest way to get it because, you know, obviously, your local news, if you create a PR piece about a design contest that you won or even a piece of jewelry that

you design that you're particularly proud of. Many, you know, local press will put that in their news and most of them have online sources of that and then that just basically continues to build up your identity on those Google searches or Yahoo searches.

MR. HOLEWA: Thank you.

MR. FAILLA: The other piece of that is -- and Lee's exactly right, that's called "reciprocal linking" or it's the organic portion of this creative search word -- tie yourself into all your vendor sites and such. Every site that you're tied into that's credible revolving around the subject that you're trying to promote enhances your ranking, and it doesn't cost you a cent. It will cost you time, and that kind of goes back to the guerilla piece. And he's got to be doing a fantastic job of that because number one, it means you're making sure that any time --installer would be a good one. Any of your vendors that you use, a diamond company. If you're linked to a credible source, these robots, for lack of a better term, that search the Internet see you more than anybody else and so they determine that you're more important.

MR. HOLEWA: Anybody else have any questions?

FORUM MEMBER: I do.

MR. HOLEWA: Yes, ma'am?

FORUM MEMBER: Okay. I'm completely lost. How do you actually -- I mean, like, how do you actually get linked to this? I mean, like, say we're a little jewelry store somewhere and somebody Googles "Design Jewelry in Minnesota" or whatever? How are they going to find us?

MR. FAILLA: There's two ways, the paid for or the organic. And I don't know that there's a right or wrong. It depends on your resources.

FORUM MEMBER: Okay.

MR. FAILLA: If you have the time to contact other sites so that you can become linked to them, and you have time -- and you should be doing this anyway, like Lee was saying, get as much press out as you possibly can about your store and things you do -- it will happen naturally. If you don't, you can go to one of the search word or one of the search engines, Google or Yahoo. I wouldn't necessarily waste your time with the others. Those are the two big ones. And they have programs that you can click on and it will walk you through the process. Now, some things to remember if you do a search word campaign is that computers are very literal. If you put in that you want to be recognized for the word "engagement ring", and that's all you put in, you will lose half your opportunity. Because not everybody says they're looking for engagement ring, they're searching for engagement rings. So you have to put in the plural. So there's little things like that.

MR. KROMBHOLZ: I think I would just also throw this back to Bill in the back. I think for me, it's important to completely understand what your identity is. So that's the first challenge for you when you go. Or maybe you already know exactly what you are. You cannot be just a jewelry store in your neighborhood. You have to be an expert in something. And that goes back to exactly what he was talking about is basically creating that vision, that mission, that core of competency. That's so important. Because from that, you then take that and you start -- basically everything you do and everything you say and every piece of PR that you try to get is based around that core of competency. And that is really what will continue to drive and grow your business in your marketplaces is that understanding and then, again, developing a PR that will then keep on building a search for that. Bill, I see you're anxious to answer that.

(laughter).

MR. SUSTACHEK: Actually, most people think that brands are just like catchy phrases or just something that people talk about. A brand is the essence of what your business is. And once you identify what the essence of your business is and you can build vision mission values around it, you can build a tag line around it, you can build some key parts of your essence and identify those, and then make sure they're really yours. And once you do that, then you keep that, and that becomes you, and then that is where you build your brand from that particular point.

FORUM MEMBER: That's our base. That's what we actually will begin. They need to know who we are, what we're all about, and we want to put that out there.

MR. HOLEWA: Okay. A little soul-searching for your business. Okay.

MR. FAILLA: You've got to be able, in two sentences, tell somebody why you're different from the rest. You know, and it was Lee going back to the creation of fine jewelry that his grandfather had tagged. And everybody's got their niche. Anybody can be a jewelry store. Who are you, in two or three sentences or less?

MR. HOLEWA: Anyway, now just real quick, does anybody have any questions for any of the panel members, not specifically Nick, at this point? We'll give you a chance to ask questions of all three of the panel members.

(No response from the forum.)

MR. HOLEWA: Okay. Everybody's questioned out, I see. Okay.

Okay. Well, first of all, I want to thank our panelists. You know, each one I think brought a real interesting dynamic into the town hall discussion today, and we hope that combining Instore's work with JA really helped bring together what we think are very relevant topics to retailers to help you build your business and not just operate more effectively, but with luck, more profitably. And so we hope the topics and the speakers will help you walk away with a lot of new knowledge to bring back

to your store and to kind of jazz up your staff. Another thing we want to make people aware of is, this is two of four town hall meetings that Instore is organizing with JA. The next one will be in Vegas.

So please don't party too much the night before on the 30th (laughter).

And we will wrap things up with the JA show in July, and that will be four of four town hall meetings. So if you would like more information on those, just leave your business card with David or just on the way out the door with JA.

Speaking of business cards, this is Instore's opportunity to kind of plug our brain squad. No, we're not looking for jewelers at midnight as neurosurgeons at all. "Brain Squad" is the phrase we put to like a retail advisory group. And this is retailers that can help us drive unique content. If you go to our booth, you'll see our April survey issue, and most of that is, you know, the retailers just from coast to coast responding to a very lengthy survey of almost 100 questions. So you'll see, you know, that particular group, plus JA members, and we'll have affiliates, you know, as our retail advisers. So if you're interested in joining that, you get a really cool free T-shirt that kind of looks like those athletic department shirts. And if you'd like to leave your business card with me, I'll get you all signed up and get you a cool T-shirt so you can wear it to Vegas. And, of course, thank you and everybody for attending. We appreciate you coming in. There's our contact information if you'd like to contact either JA or me at Instore. And we thank you for your time and we hope you have a great show today. And, please, if you could take a moment to fill out the green sheets to let us know if we did a good job or not. And that's it. Please everybody, can you give it up for our panel?

MR. HOLEWA: Thanks again, everybody.

Have a good day.