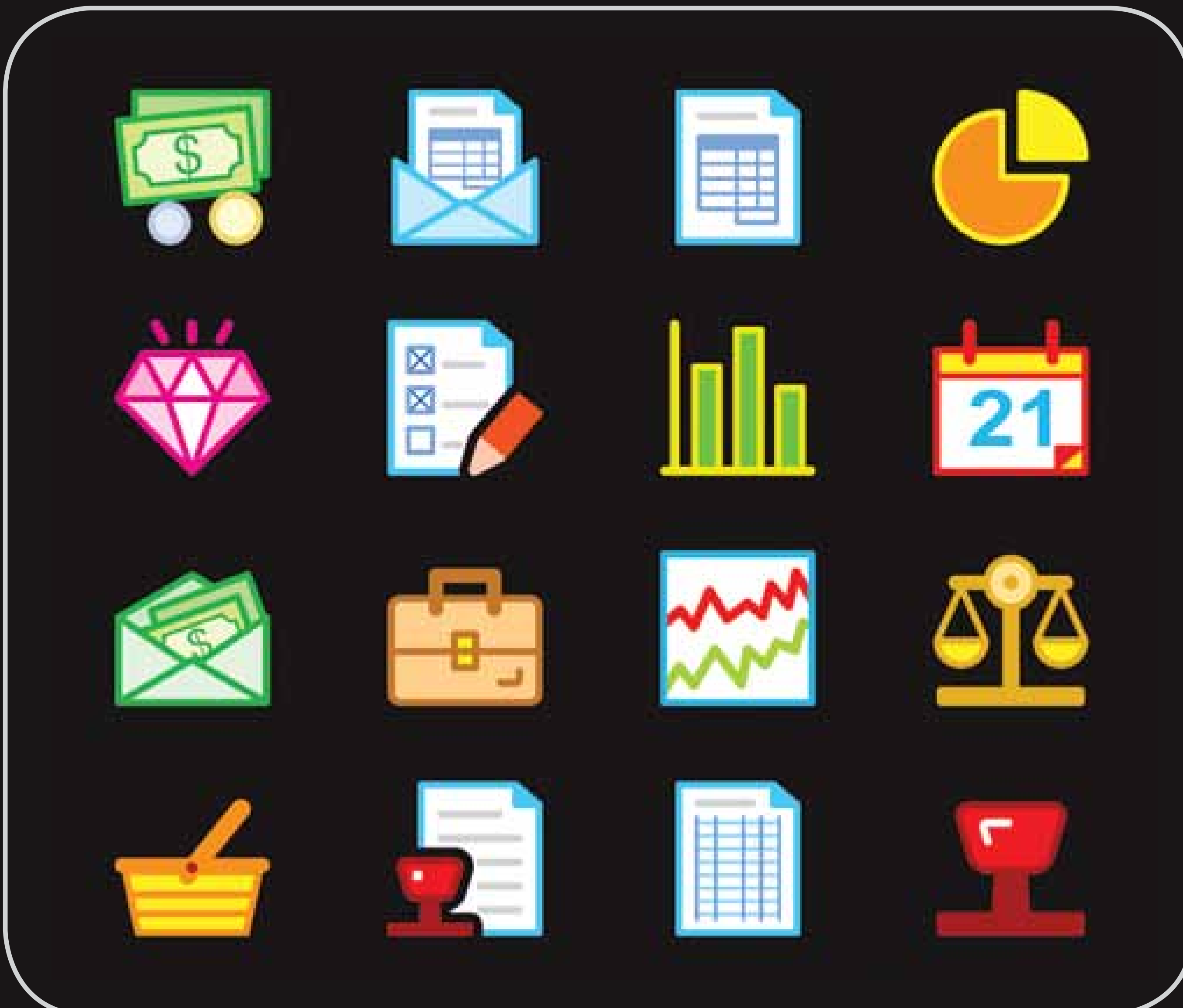
THE RETAIL JEWELER®

The Jewelry Business Magazine • Volume 3, Issue 5 • July / August 2012

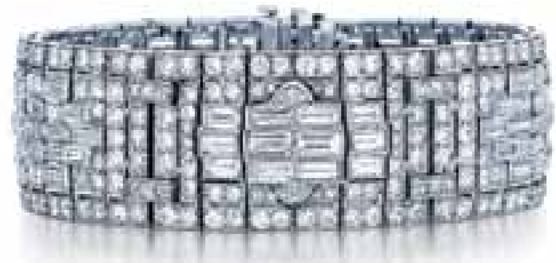


A Method for Determining Inventory Levels for Retail Jewelers - *page 22*

Genevieve Yang
Page 32

Mark Schneider
Page 32

Conni Mainne
Page 32



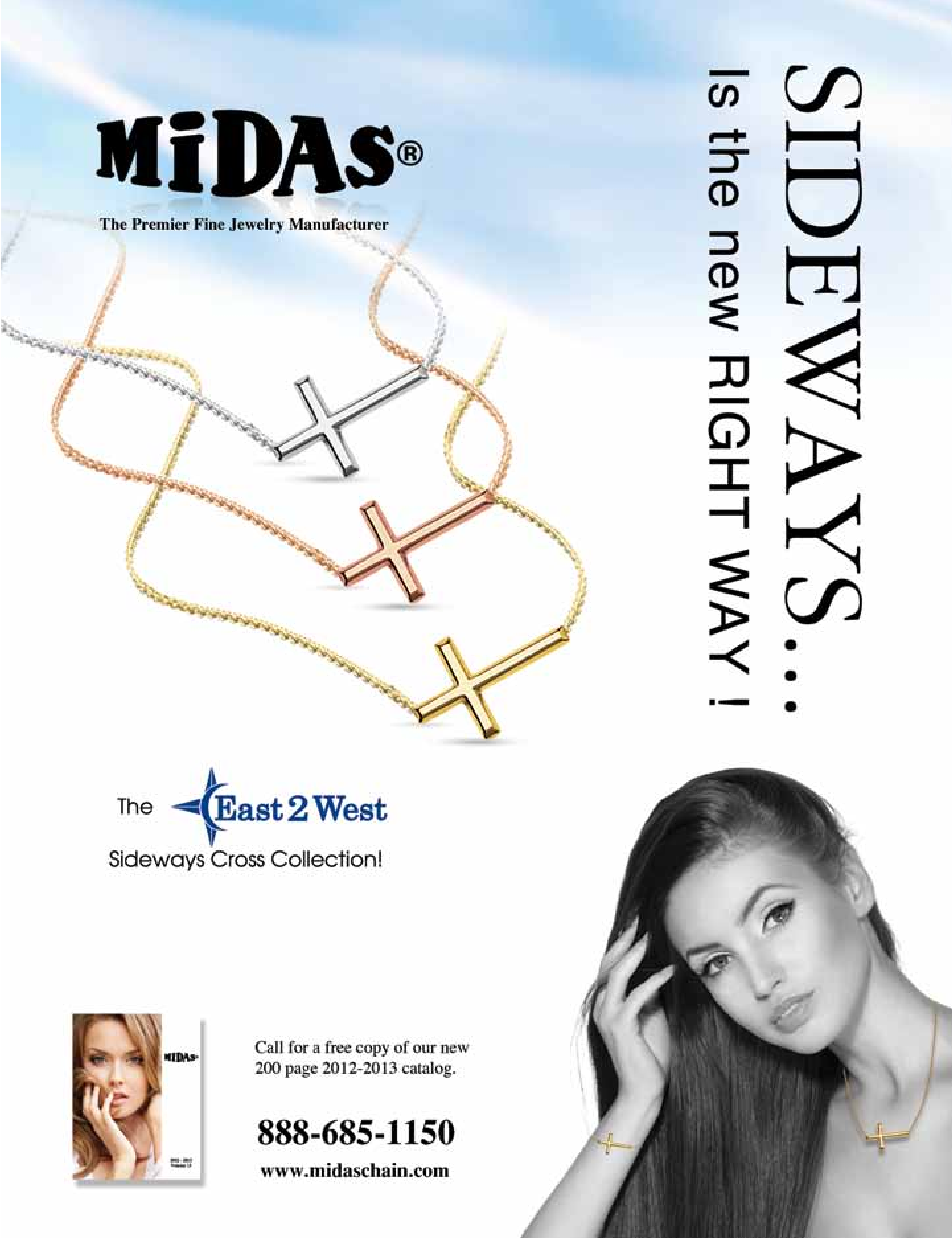


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TABLE OF CONTENTS

JULY/AUGUST **2012**

32

33

32

33

48

THE RETAIL JEWELER™

150 River Rd., Ste O-4
Montville, NJ 07045

Publishers

Andrew Kohler 973-263-2498 ext 18 • andy@theretailjeweler.com

Edward Coyne 908-637-8461 • edcoyne@theretailjeweler.com

Frank Dallahan 267-229-2475 • frank@theretailjeweler.com

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CONVENTIONAL WISDOM

By Frank Dallahan

There is a good deal of unconventional wisdom in this issue of The Retail Jeweler. One matter in particular is on a topic crucial to retailer jewelers' profitability. When the magazine was first formed Ed Coyne and Andy Kohler began with the simple concept of providing useful editorial that jewelers could use immediately to generate more profit dollars. There isn't a single topic that will do more for your bottom line that the related subjects of inventory control and open to buy. So, the issue begins with a very unconventional approach in a paper by Abe Sherman the President and CEO of BIG (Buyers Intelligence Group) on the topic of determining open to buy.

Inventory control is a frequent topic of editorial material in our magazine. This month in addition to Abe's article on open to buy, editorial contributor David Brown writes on the topic of reordering fast sellers and what jewelers give as reasons (excuses) for not reordering these items. You'll see how both writers are tuned into the importance of inventory control at the micro and macro levels.

It is our belief that this exercise of unconventional wisdom will motivate you to put into place methods of rethinking and re-doing your open to buy planning from a global perspective with Abe's article. And, that you will implement what David Brown suggests at the counter level in identifying and reordering fast sellers.

Conventional wisdom holds that you determine the inventory level necessary to support forecasted sales of $1 million at a gross margin level of 50% yields an inventory level of $500,000. ($1million multiplied by 50%). Abe destroys this notion of quick conventional wisdom in the third paragraph of his article. He then takes you step by step through the open to buy calculations. The piece is a classic of step by step thinking about a problem. It discusses why and how to exclude repairs, special orders, custom work. All of these go into the sales revenue numbers but should not be included in developing an open to buy plan which is essentially for your showcase inventory. It truly is a eureka article.

Abe and I first met when he was running his family's jewelry store in Flemington, New Jersey. I was traveling with Krementz Regional Manager, Lynn Grimm, making sales calls in the area. Lynn wanted me to meet Abe because he was a jeweler that was one of Krementz Overlay division's best accounts. The reason he sold so much was due his careful control of his inventory and the fact that he reordered frequently. Abe based his inventory levels by style number and their rate of sale. If he averaged sales of 2 pieces of a particular style number a month, he would have a basic stock level of 4. He would order up to whatever the rate of sale dictated. It was a very effective, and successful system. It was also very unconventional given the usual reasons/excuses you hear when jewelers tell you why they do not reorder a piece that they just received and sold right away. (Please see David Brown's article why you need to reorder fast sellers.)

Abe tired of the retail day to day and launched a second career advising and consulting with jewelers using his methods of analysis and control of inventory. His work entitled, "A Method of Determining Inventory Levels for Retail Jewelers" is a must read. The paper walks you through his thought process of what to include and exclude from the open to buy exercise. It is well worth your time and study.

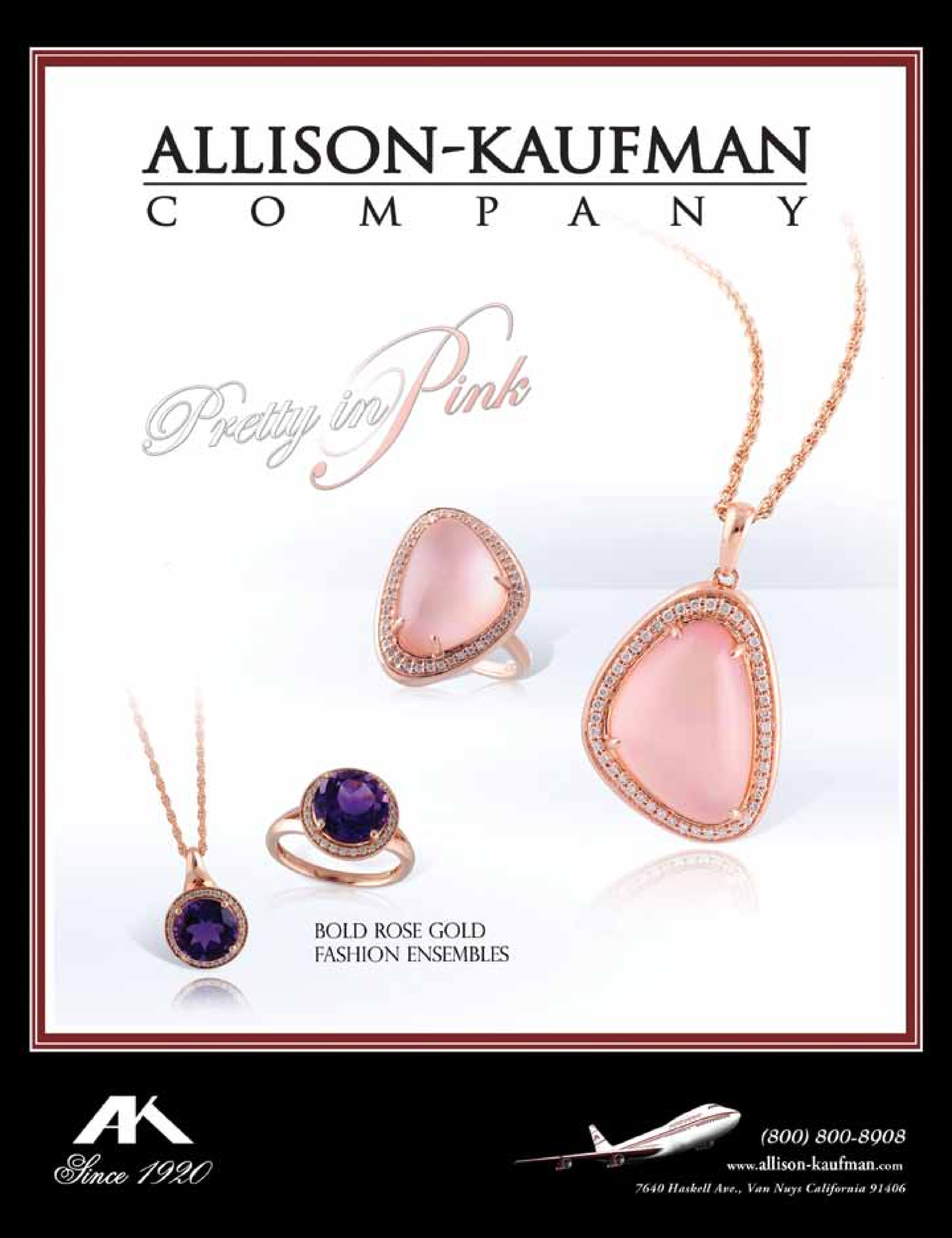
The Retail Jeweler is pleased and proud to have been selected for publishing this article. We too are unconventional. Rather than split the article into several segments, we decided that it made more sense to publish it in its entirety.

Conventional publishing wisdom would have you believe that people/jewelers don't read lengthy articles any more. Conventional wisdom would have you believe that trade publishing is giving way to the Internet. This is the same kind of conventional wisdom that said radio would die when television came into being. And, with the advent of the Internet, many said that television was dead. Think about the film industry. It too was going to go on life support with the advent of television and later the personal computer. All of this conventional wisdom turned out to be wrong. A healthy, dynamic business adapts to the new environment. Radio, television, and filmmaking are all doing fine in the aggregate. Jewelry industry trade publishing seems to be doing quite well as well.

And, so it is too with publishing a white paper on a topic of significant importance. Conventional wisdom in publishing as it is in managing retail jewelry inventory in our opinion is just wrong! Sherman's article sets a new standard for wisdom and for your profitability in managing open to buy.

Frank Dallahan

co-publisher of The Retail Jeweler
Email Frank@theRetailJeweler.com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By John Politi

My Personal Economy

It's the end of the world
as we know it
It's the end of the world
as we know it
It's the end of the world
as we know it
And I feel fine

In hindsight, it now appears that the chorus above written by four former University of Georgia at Athens classmates in 1987, was in someway truly defining our future. Well, at least possibly our economic future, or as I like to say, one's personal economy. The band, R.E.M., later became one of the most acclaimed and lyrically prolific alternative rock bands in America.

OK, I have to admit, it was somewhat disheartening not too long ago when I received my AARP membership card in the mail. Then again, at least they remembered my birthday. Now please don't get me wrong, I'm still not eligible for my Senior's discount at the movies, but it did help motivate me to re-visit my personal financial plan – which I do at a minimum every quarter. Hopefully, I've drummed it into your head, and made it very clear that without a financial plan your personal economy is rudderless. No one need be a Bill Gates, Warren Buffet, or even Nouriel Roubini, to understand that you must save. Please excuse the pun, but you cannot afford not to save. You cannot fail Saving:101. Scare yourself into believing that no government safety nets will be there to break your fall – no Social Security, no Medicare, no Medicaid, – no nothing, but you and your savings plan. And the earlier you start saving the better your chances of realizing the standard of living you aspire to live.

Previously, I highlighted how business owners can establish savings plans to max out their wealth accumulation period. I've often said that the first person that you must pay is yourself. If your employer offers a 401(k) Savings Plan, consider yourself lucky. If they contribute an Employer Match up to a certain level of employee contributions, consider yourself even luckier. This is the starting point for you to begin your investment plan in its most basic form. This is what I want you to refer to as, "my personal economy." Currently, Americans hold more than $4.3 trillion in 401(k) plans and similar defined contribution plans. And, let's face it, most people wouldn't be saving at all if it weren't for their 401(k). Fidelity reports 55 percent of plan participants wouldn't save without it and 20 percent have no savings outside the workplace plan.

What I've always been concerned with though are the high and often "hidden" expenses associated with some plans. These go right to the heart of your portfolio gains reducing them sharply. The Department of Labor has mandated that beginning sometime later this year, Plan Administrators must divulge the expenses associated with each investment fund offered – usually illustrated as a cost per $10,000 invested. If you work for a small firm the fees associated with your funds will usually be even more expensive then say someone working at IBM, where 200,000 plus employees participate in these savings plans thus keeping expenses low. Even more troubling is either the vague or nonexistent company advice

>> Continued on Pg 12

>> Continued from Pg 10

My Personal Economy

that usually accompanies these plans. Shame on any employer that doesn't provide their employees with this information or outside advice. This is where you'll need to help yourself. Or better yet, ask your employer if they will consider providing the employees with access to a Financial Adviser – to help explain in greater detail the different fund sectors, and proper diversification.

While it's hard for some workers who live paycheck to paycheck to set aside even a little money each week, missing out on an employer 401(k) match is the most obvious retirement savings mistake that people make. Below I want to provide you with some additional things to think about.

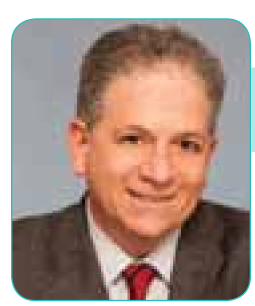
Putting Too Much in a 401(k). Plenty of people pour as much money as they can into their plan, but that's not always the best option – for reasons I previously shared where heavy fund expenses can eat into your gains. Sometimes just contributing enough to take advantage of the employer match, and then switching to a Traditional or Roth IRA. After maxing out your IRA you can decide whether to contribute additional funds to your 401(k) again.

Maintaining Too Many 401(k) Accounts. New job, new 401(k), but what happened to your previous 401(k). Did you leave it with that employer as allowed to by law? That's not always the wrong thing to do, but multiply this scenario by 3 or 4 job moves and you'll need an assistant to keep track of your accounts. Consider consolidating your retirement accounts either in one 401(k) or an IRA. This will allow you to view a much more simplified financial plan and picture, and also help you to better manage your finances and make better decisions.

Not Following Through on Savings Decisions. If you're the type of person that spends every dollar that isn't automatically withheld from your paychecks, then the company 401(k) is a much better savings vehicle for you – these contributions are taken out of each paycheck without fail.

I realize that what I've shared must seem fairly basic to most of my readers. Please try to understand that not everyone is as financially savvy as you, and they could use a little push to get them going. We need to get people to start to saving again, and 401(k) Savings Plans and/or Traditional or Roth IRAs make good sense for many people. I welcome any questions and hope that this article has provided some incentive for those with the need to begin saving to do so now. Don't worry that you haven't been saving all these prior years – the time to start saving is now. Still, in order to move forward, we need to reflect on what's passed. To quote Ralph Waldo Emerson, "Finish each day and be done with it. You have done what you could; some blunders and absurdities no doubt crept in; forget them as soon as you can. Tomorrow is a new day; you shall begin it well and serenely and with too high a spirit to be encumbered with your old nonsense."

Author's Note: Please consult with your CFP®, CPA and/or Estate/Tax/Eldercare Attorney when discussing your financial needs and developing the appropriate personal/business financial plan.



John Politi

John Politi honed his professional career in the Jewelry Industry as a business owner, CEO and Director with some of the industry's most prestigious organizations. John brings his readers more than 30 years of experience with an in depth knowledge in Precious Metal manufacturing & management, ISO-based Quality Assurance Standards, and Diamond Certification. He completed the Pace University, Lubin School of Business Financial Planning Certificate Program, and graduated with Honors having earned his MBA-Finance degree and Advanced Certificate in Health Care Management from Iona College, Hagan School of Business. John will serve there as an Adjunct Professor in Finance beginning in 2012. He enjoys active membership with the Financial Planning Association-Greater Hudson Valley, NY, serving on their Pro Bono Committee, as well being a member of ACHE, Healthcare Leaders of NY Chapter, and the 24KT Club of New York.
John welcomes your input and can be contacted at, john.politi@verizon.net.

WHY You Need Your Fast Sellers

By David Brown

We always advocate to clients the importance of reordering fast selling items Time and again we get the same concern raised asked the same questions from jewelers when it comes to ordering fast selling items.

"But if I get it back what will the person who bought it think?"

or

"My inventory will start to look like everyone else's"

or

"My customers want to see something new"

The issue gets right to the heart of why most jewelers won't reorder their best selling pieces. The fear that their selection won't look fresh and new, or will start to resemble the competition.

Let's break this into a couple of stages. First, what would the customer who just bought it think? I will answer that with a question for you. Does the price they pay guarantee them exclusivity? If a customer has bought a $99 pair of earrings from you do they have the right to decide that no one else can buy those earrings again? How would the auto industry survive if they designed and tooled up their factory for a model of car that they could only build once? The price of that vehicle would have to be horrendous to recover all the costs.

The same is true for you. What about the time you spend choosing that item in the first place? Most stores don't figure that into the cost, but if you are amortizing that time over one sale it starts to get significant. It is so difficult to find fast selling items you simply can't afford to restrict the sales – not without the customer paying a significant premium for the privilege. In most cases customers never ask about an item being seen again in the store after they buy it. I was discussing this with a former storeowner the other day who religiously reordered fast selling items. They said they could only remember it being raised once as an issue in 12 years. They even had an extremely popular ring that they sold over 50 times in a relatively small town and never once heard of anyone running into someone else wearing it! This is more of a concern for you than it is for the customer, and unless they are willing to pay more they cannot expect you to restrict your range for them.

Next, Let's address the concern that your inventory will start to resemble everyone else's. If you feel this will happen I will clear up a misconception that you have –and that is everyone else will be good at reordering their fast sellers. The reality is they don't. Everyone is out looking for the next new thing and it doesn't matter how often we tell them and provide numbers to prove it the vast majority won't reorder.

Your assumption is: there is a limited supply of fast sellers. Given the huge market and selection from the vast number of vendors available from which you can choose, you could fill a fleet of trucks with the number of jewelry pieces in the US that would constitute fast sellers. The selection is not that limited Third, yourmake an assumption that your selection will become boring. I'd ask the question "to whom?" Don't become confused between what you see and what the customer sees. Because you look at it everyday doesn't mean they do. Once they make their purchase they move on to something else. When you are in the market for a new house you are scanning the real estate advertisements – when you're not you don't. Most people make a purchase and move on; they are no longer in the market.

Don't worry about not showing new designs. 80% of the inventory in your store you will need to quit. If you do this on a regular and timely basis you will have the funds and space for all the new product you will ever need. So to summarize –you keep reordering until they stop selling. End of story.

David Brown

David Brown is President of the Edge Retail Academy, an organization devoted to the ongoing measurement and growth of jewelry store performance and profitability. For further information about the Academy's management mentoring and industry benchmarking reports contact Carol Druan at carol@edgeretailacademy.com or Phone toll free (877) 569-8657

Some **e-Commerce** Truths – It's **Not As Easy** As You Think

By Matthew A Perosi

If you attempt to set up an e-commerce jewelry website without a dedicated monthly advertising and operations budget you will set yourself up for disappointment. Not failure, but very slow progress and low sales.

That's blunt, but e-commerce does need to be treated like a separate business entity with its own expenses and even employees, or at least an employee that spends a lot of time in front of the computer managing it.

The big players in our industry have established a strong foothold in e-commerce and they have deep pockets of advertising dollars to beat out all the local retail jewelers.

Owning a jewelry e-commerce site requires you to navigate your way through the variables of setup, monthly maintenance, and monthly marketing. Some of these variables include bank fees for online credit card processing, security, and making sure your website software keeps current.

I mention the software because in January this year, in order to defend against security issues, many hosting companies phased out older versions of the programming language PHP. This caused adverse effects on websites running WordPress and other software that hadn't been upgraded since 2009. When you run an e-commerce site, you need to keep abreast of available software upgrades because one small newly discovered bug could mean the difference between your site having Fort Knox security or gaping holes that let all the animals out of the zoo.

Marketing will make or break your e-commerce website. In 2011 Google reported that AdWords marketing could increase a website's traffic by nearly 890%. That percentage sounds really good, until you find out that, as a jewelry store, you would need to spend at least $2,000 per month to achieve it.

Google has made it very easy for anyone to set up an AdWords account, pay money, and attempt that 890% traffic increase. Except a typical boost from 144 to 1282 daily visitors doesn't mean you will have sales.

You really need an AdWords expert that will create ads and fine tune your website for conversions, which of course means a larger monthly budget. If you think you could freely advertise on social networks then you need to think again. Social is a big part of your branding, but don't expect to make money from thousands of Likes on Facebook, or Followers on Twitter, or Circles friends on Google. On the other hand Pinterest has promise as a social network to lead people to your e-commerce site.

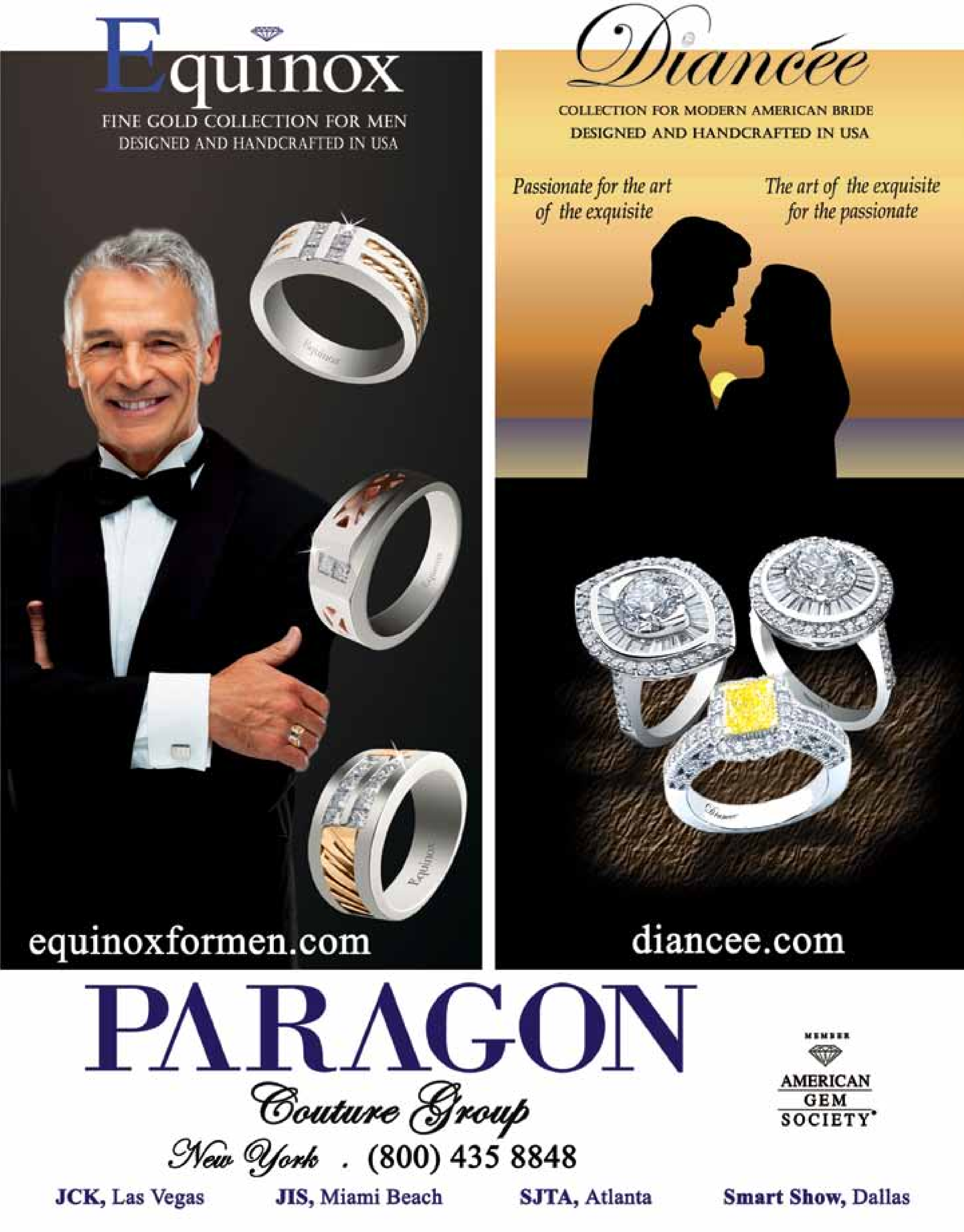
Many experts claim you can become profitable from social media buzz. My own research just doesn't add up to these claims. I simply do not see huge number of visitors referred from Facebook, Twitter, or Google that actually turn into online sales.

I've slapped you with blunt security and advertising information and didn't mention management payroll costs. When you hire a web programmer they will not tell you these things. Jewelry e-commerce is a very tough business model for a brick and mortar store to attempt because it is a parallel business that needs just as much management, marketing, and all around TLC as your brick and mortar business.

If you are committed, then do it... but please do it with the assumption that you may not break even the first year. There's a steep learning curve you need to get through and I'm only scratching the surface with the issues you will face.

Matthew A Perosi

Matthew Perosi is the Founder of the Jeweler Website Advisory Group (jWAG), a research team devoted to reporting how jewelers can use websites, mobile technology, and marketing trends to further personal and jewelry store goals. A library of articles, videos, and an archive of jWAG daily email "Nuggets" is freely available at www.jwag.biz. Matthew invites your feedback at matt@jwag.biz.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SOCIAL MEDIA…MARKETING TOOL OR MISTAKE?

By Phil Nullman

Technology has outpaced humanity, that's for certain. Thus, communication takes place virtually, letter writing is a lost art and even personal relationships suffer in business as in life because of the ever-evolving technological advances.

But, it's no wonder that General Motors pulled $25 million from Facebook advertising and more advertisers are re-thinking their digital strategies. At the same time, the very same technology is doing amazing things. For example, recently Hellman's Mayonnaise in Brazil developed software in conjunction with a particular supermarket chain that, upon scanning items automatically and instantly read that Hellman's mayonnaise was being purchased. Then instantaneously it read the consumer's other purchases….producing a receipt with recipes that utilize the exact ingredients of that purchase. Extraordinary. And, the result was a 40% spike in sales. This is the future of digital structuring and will not stop there. But, social media and other tracking methods are virtually useless without the brand equity being built from the ground up. Hellman's, after all, holds the number one spot in the mayonnaise category worldwide. They got there with traditional advertising.

So, is digital technology the strongest tool in marketing? Not really. For retail jewelers it has a limited place, such as some of the social/business sites and advancing database communication to customers as a means of stemming attrition. However, in the final analysis, just take a look at Facebook's valuation versus revenues. It's absurd. And does anyone remember My Space?

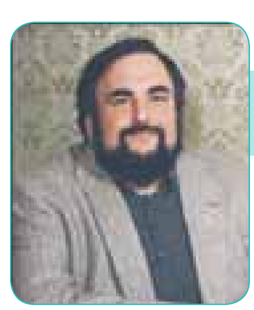
Jewelers have several things to sell that box stores, department stores or even online venues do not. Jewelers have themselves to sell, with social marketing beginning by training store personnel that they're in the relationship business. Social Media came about because technology was able to isolate people from picking up a phone or jotting off a note or even sending an email or gift card, even an automated "Happy Birthday" robo-call.

When it comes to advertising, it's all about what you are, the distinctions you can make as a retail brand, how much commitment and desire you have to turn customers into guests or even friends. This begins by placing Social Media in its proper place…on the side. Manufacturers are touting national, even international advertising and marketing support through Social Media channels. It's nonsense. There is nothing digital that replaces traditional media and superlative service, nothing! But manufacturers who only provide consumer messages via social media are doing so for one reason…it's cheap.

So, when you ask your agency or your nephew about your Twitter account or your Facebook postings or ads or the next evolution in social outreach, be certain to remember that if it's free, it's because it hasn't proven its value yet.

In order to develop a true digital program, the requirements are expensive, expansive, highly technological and more time consuming than any other media program. It's why the most sophisticated brands in the universe use it as an adjunct to outdoor, broadcast, direct contact via email blasts, even print for the more mature market. Today, young people can be reached on the Smart Phones, but brands are not developed without the support of catching them where they live – specific radio and TV shows, outdoor and arena communications, concert sponsorships and on and on.

Look closely at what you're doing – whether you're spending 20,000 a year or 2 million, the principles are the same. Look at the menu and select accordingly based upon the lowest cost to reach a thousand people – but only the right people. And, remember that closing sales begins with a trusting and sensitive demeanor in the store…that's social media!



Phil Nulman

Phil Nulman, CEO of The Nulman Group, is author of four top selling books and has worked on brand development for jewelry manufacturers and retailers for thirty years. He is also an adjunct professor at three universities.

Off-Premises Crime Is A Threat To Retail Jewelers

By David Sexton

There is always an element of risk for anyone in the jewelry industry that takes jewelry merchandise off-premises for any reason. Whether you are a traveling jewelry salesperson or simply carrying jewelry from your store to the post office, you are engaging in one of the most dangerous activities in the business. Organized thieves target all types of jewelers who travel with jewelry and these criminals aren't afraid to use violence to get what they want.

Although JSA crime statistics clearly indicate the industry has experienced a significant decrease in the number of reported attacks on traveling jewelry salespeople (See Note 1, below) the attacks against jewelry retailers transporting jewelry merchandise away from their places of business remains an ongoing concern.

Of the 78 off-premises losses that were reported to the Jewelers Security Alliance in 2011, 54 (70 %) involved jewelry salespeople traveling with merchandise off premises and the balance of these reported attacks — 23 (30 %) — involved retail jewelers.

In fact, in the first three months of 2012, half of the off-premises losses Jewelers Mutual Insurance Company reported to JSA involved retail jewelers.

These thieves are indeed masters of observation and they discipline themselves to stay focused on their chosen victim until the appropriate opportunity presents itself for them to strike quickly.

The most common technique used by these thieves to identify their victim is to wait for the targeted individual to appear at or depart from a retail jewelry store and then merely follow that person, undetected and unobserved, until they are able to attack. Whereas they once primarily focused on individuals visiting the store, they now seem to be keeping a watchful eye on the jewelry storeowner and the store associates as well.

Jewelry retailers, who currently may not be sufficiently aware, therefore, need to raise their own awareness and that of their associates with regard to their heightened off-premises exposure to loss because they operate in the jewelry industry. It is therefore a good business strategy to adopt a loss-prevention attitude regarding how you and your team operate as retail-jeweler associates both on and off of your protected premises.

It is also important to remember that underlying every successful business survival strategy is the need for both adequate and appropriate insurance coverage. Because you and your associates can do everything right and nevertheless suffer a devastating loss, having appropriate and adequate insurance underlies all of JSA's loss-prevention and security recommendations.

Even if you have the world's best insurance coverage, not all costs associated with crime can always be covered by insurance. This is another compelling reason to have a risk-management strategy and to adopt a loss-prevention attitude in the operation of your store.

Accordingly, anyone who carries jewelry outside a jewelry retail store must follow the same sound procedural precautions that traveling jewelry salespeople follow.

Off-Premises Crime Is A Threat To Retail Jewelers

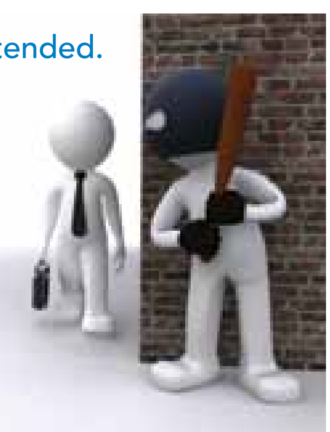
The complex and dangerous risks present in off-premises jewelry crime exposure differ substantially from the other crime-exposure categories, and are therefore treated separately in the JSA Manual of Jewelry Security. Review this critical information in its entirety and incorporate this sound security advice in your store operations.

The following six basic off-premises security recommendations taken from The JSA Manual provide a way for a jeweler who transports jewelry away from the retail store to reduce the all-too-real exposure to off-premises crime.

1 Never resist in an armed robbery

The advice contained in the JSA Manual, "What to Do in a Robbery," is equally important for all those who transport jewelry off-premises.

2 Never leave the jewelry you are transporting unattended.



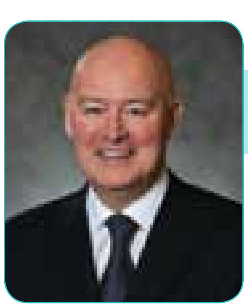
3 Check frequently to determine whether you are being followed.

4 Don't fall for distractions.

5 The jewelry being transported must be of a manageable amount.

6 Use your cell phone as a crime prevention tool.

Numerous cases have occurred in which alert jewelers who noticed they were being followed were able to contact the police for assistance. In some cases, the salespersons being followed were directed to a local police station or other location where the police were able to meet them.



David Sexton

vice president of loss prevention at Jewelers Mutual Insurance Company

A Method of determining Inventory Levels for Retail Jewelers

By Abe Sherman

Inventory management and control is an economic imperative

Your need to deconstruct the components of your business in order to have a deeper understanding of its parts is an imperative. In the stages of deconstruction, you'll begin to ascertain what elements are vital in the analysis of determining inventory levels…and determining inventory levels is your most significant objective. However, determining a goal for inventory levels is a personal one. It's personal because of what comprises your company's sales and your desired debt levels and cash flow, rather than relying on a formula that only measures turnover or GMROI (Gross Margin Return on Inventory).

Q The most often asked question is:
How much inventory should a jewelry store own?

For example, if you were to generate $1 million in sales with a 50% Gross Profit (GP), how much inventory should you own in order to achieve a one-time turn? This is not an academic question; it pertains to nearly every jeweler at every level of sales volume.

The overwhelmingly erroneous response to this question is $500,000. It's wrong for a number of reasons and this article is going to address each of those reasons and demonstrate how to analyze every jewelry store, regardless of the specific model or sales volume.

When inventory goals are based on Sales, the store will be significantly overstocked.

Special Orders, Repairs, Custom (and in some cases Over The Counter purchases) are almost always included in 'Sales' and need to be taken out of the equation. While the netting out of non-showcase sales is becoming more commonplace, there are two other significant factors, which also need to be considered when determining your company's inventory levels. The first is gross profit and the second is some calculated return on investment. For the purposes of this discussion, we will use GMROI as a measure of return on investment.

The budgeting process always begins with finding a starting point, but which numbers do you use to access your inventory goal? Should you use Total Sales or do you begin simply with showcase sales and calculate from there? The issue gets further complicated because each store's sales are made up of different components (for example, varying percentages of special orders, custom work, repairs or watches). Also, since the merchandise mix and pricing philosophies of each business are different, gross profit margins are going to be different, and as you will see, margin will have a significant impact on your inventory levels. Until now, there has not been a uniform formula that addresses an individual business.

While we're on this subject, it's important to note that your merchandising philosophy is a separate, although no less important area, but is beyond the scope of this particular discussion.

It can be argued that if your merchandise mix is not producing a healthy gross profit and turnover, your inventory levels are irrelevant and we should "fix the mix" as it were, first.

THE CHALLENGE

The challenge in developing a budgeting process is finding a single formula that all companies can use to get a close approximation of an inventory goal for their individual business model. However, it also has to take into consideration the variations from one business to another.

The budgeting process historically began with the Profit & Loss (P&L) or Income Statement. The majority of the budgeting formulas used begin with Sales (which is the first line of the Income Statement). However, Sales, as it turns out,

A Method of determining Inventory Levels for Retail Jewelers

may be the wrong number to begin with. For the purposes of this discussion, Sales will not be called "SALES" at all, but Revenue, since the number is a report of all cash coming into the business, regardless of the source.

INCOME STATEMENT MISNOMERS

Since all monies coming into the company is considered SALES on the Income Statement, regardless of what generated that income, the report will be misleading relative to your inventory needs. However, this exact information is relied upon in many circumstances to develop budgets:

JEWELER A	
SALES	$4,673,989
COST OF SALES (as listed on this jewelers P&L)	$2,835,441
GROSS PROFIT	$1,838,548

You may have seen statements that begin with SALES, subtracts Cost of Goods Sold (COGS), ends at Gross Profit (GP), from which Expenses are deducted, leaving a net profit or loss.

What can we glean from this information relative to our inventory levels? While this example may work for accounting purposes, the data is actually misleading for developing inventory budgets. In the case of Jeweler A above, if a turnover goal of 1X were used, this jeweler would aim for an inventory goal of $2,835,000, based on their COGS. If it was this simple, the industry's inventory levels and cash flow would be just fine – but they are not.

There are two things that are misleading from the P&L: Aggregating income from all areas of the business masks the various sources of that income, and Generally Accepted Accounting Principles allows items to be included in COGS that have nothing to do with the cost of the inventory. These items need to be segregated for inventory budgeting purposes in order to focus on the parts of sales and COGS related to inventory budgeting.

A typical Chart of Accounts is often set up so that expenses other than the cost of the goods are built into Cost of Sales. These numbers were taken from the P&L statement of Jeweler A: Of the $2,835,441 Cost of Sales, $2,161,992 is the cost of the merchandise. $673,000 is included in Cost of Sales on the Income Statement, but has nothing to do with the cost of the inventory that was sold. When you are determining your goals for inventory from your Income Statement rather than your POS system, make sure you are only looking at the cost of the inventory, not what is included in Cost of Sales which may be appropriate only for accounting purposes. Other examples we see included in COGS that are not on this list is often freight-in and sometimes packaging.

COST OF SALES FROM JEWELER A

COST OF SALES	
Cost of Goods Sold	2,161,992
OTC Gold Costs	477,574
OTC Gold Party Costs	19,748
Credit Card Expense	49,439
Wells Fargo Fee	18,059
Discounts Earned	-12,455
Wage Shop	49,750
Outside Jewelry Repair	1,747
Outside Watch Repair	41,130
Outside Repairs	2,663
TOTAL COST OF SALES	2,835,441

DECONSTRUCTING THE INCOME STATEMENT

We have established that SALES (the Total Sales coming into the company) is not the correct number to use for determining inventory levels. Showcase Sales should be used to calculate inventory levels. But what are Showcase Sales?

Showcase Sales excludes Custom Sales, Repair Sales and Special Orders from Revenue.

Let's consider the example of a 3.00ct. diamond that you

buy for $90,000 and sell for $100,000. That sale will have an effect on Revenue, but will not have any effect on how much inventory you should carry. The accumulation of all sales that do not come out of the showcases will often total 40% or more of the company's total sales. Inventory goals that are based on Total Sales or Revenue will, therefore, be far too high.

SPECIAL CIRCUMSTANCES

We also have to address any special circumstances that may be specific for your business. Any high-volume lines should be removed from your sales data to give you a more realistic picture of what is happening without those lines. Rolex and Pandora are the most obvious examples of this. We remove Rolex because the jeweler cannot easily determine how much inventory to carry, as Rolex dictates that. Also, sales from Rolex are typically very high relative to the company's total revenue and the margins are usually far lower than the rest of the business. This combination, high sales volume and low margin, masks what is otherwise happening in the business (making budgeting far more difficult) and so, we will set Rolex data off to the side to be managed independently.

I would remove Pandora from your budgeting process because of the effect that the line (and similar lines in this category) has on virtually all of your Key Performance Indicators.

Due to the extremely high unit volume but low average unit cost, Pandora will also skew your numbers and should be analyzed apart from the rest of your sales inventory.

REMOVING ROLEX	
Cost of Goods Sold	2,161,992
Rolex COGS	(313,506)
COGS without Rolex	$1,848,486

WHETHER TO INCLUDE OR EXCLUDE A SPECIAL ORDER

There are two schools of thought about special orders. On the one hand, if the item did not come from the showcase, than it's a special order. On the other hand, for items such as wedding bands ordered in a specific finger size, since you are merely replacing the ring you own, it should not be thought of as a special order. Therefore, the nature of the special order should be considered when you decide whether to include that item in your calculation or exclude it. If you are in doubt, I would recommend that you choose the more conservative answer (exclude it) – you can always buy more inventory!

OTC PURCHASES AND SALES

It should be obvious, but in case there is any confusion, Over the Counter (OTC) purchases that are scrapped out are not to be considered a part of sales, but rather should be a separate line on your P&L statement. OTC Sales and OTC COGS should each have their own Chart of Accounts account and be shown on your Income Statement separately. However, if you are buying goods OTC and adding them to your Estate Department, this becomes Owned Inventory and you would want to include these in your Showcase Sales, COGS and owned inventory numbers.

HOW TO DEAL WITH MEMO

Memo Sales as well as memo inventory should usually be excluded from your calculations.

While it is important to understand how each of the areas of your business contributes to your SALES, we are looking to answer a specific question: How much asset inventory should you own at cost to do the business that you are currently doing? As we shall see, we will use a GMROI goal to provide the answer. Treat memo sales and inventory as you would a line such as Rolex; remove memo sales and inventory from the numbers and treat it as a separate business.

>> Continued to Pg 34

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Cause Marketing Update

Jewelers and Sarah's Hope Jewelry Raise Over $40,000 for Local Charities

Sarah's Hope Jewelry is no stranger to philanthropy. The company, founded in 2004, began with the mission to help low-income women lift themselves out of poverty through small business ownership. Through sales of their line of sterling silver and E'Sperene® jewelry, the company funds microloans, scholarships and small business education programs in the USA.

Last fall, founder Sarah Smith, had an idea. "I just kept thinking about how local jewelers are so deeply connected to what is going on in their own communities...they're the people who know the issues they face in their own backyards," she explained. "I asked myself: How can our company make it easier for jewelers to help make a local difference?"

The result was the birth of the "Giving Back Locally" program. In this holiday-based fundraising campaign, which ran November-December 2011, customers could choose from a special collection of Sarah's Hope Jewelry designs designated to give back locally. Each jeweler was able to select a local charity of choice that would benefit directly from the sales of the collection.

In addition, in partnership with Jewelers Mutual Insurance Company, the top-selling store also received a $1,000 bonus donation to their selected charity.

"We were proud to help Sarah's Hope Jewelry spread the gift of hope for the holiday season," said Chad Fulwiler, Director of Sales and Marketing, Personal Lines, for Jewelers Mutual.

Eighty-eight retail jewelers across the USA and Canada participated in the program. From food pantries to women's shelters, the United Way to Hospice, whether a few hundred dollars or a thousand, customers shopped locally to help raise over $40,000 for local charities.

The top-selling store, and winner of Jewelers Mutual's bonus charitable donation, was Goodman's Jewelers of Madison, WI who chose the Goodman Community Center as its recipient.

"This promotion created a lot of pride in our staff," said John Hayes, owner of Goodman's Jewelers. "They love to be part of philanthropy and it is such a part of our store's legacy, since its founding in 1933. It's a good feeling for us to give back – when the charity is brought home, it resonates even more." Like other participants, Hayes believes the program not only did good, but was good for business.

"The Giving Back Locally program had a fantastic impact on sales," said Hayes. "Our staff told the story of what Sarah's Hope Jewelry does to support microloans and scholarships, then we said we were going to donate an additional 20% of sales to the Goodman Community Center. Some customers literally changed their product purchase when they found out we were also donating to charity. It was amazing to see."

Sarah's Hope Jewelry also provided turnkey marketing materials that jewelers could customize including Facebook content, print ads, POP signage, press releases and thank-you cards for customers.

"The free marketing kit was essential: we sell jewelry, we're not advertisers! Any bit we don't have to spend on creative, the better it is for our budget," explained Hayes.

In addition to the local charitable efforts, Sarah's Hope Jewelry continues to help support small business programs nationally and internationally so each purchase of their jewelry had triple the impact - adding a trifecta of compelling incentives for customers to shop locally and make their purchases count in myriad ways.

"The holidays are a time when companies can go back to cause-marketing basics, seamlessly integrating two traditions that define the season: shopping and giving," wrote Craig BidA, EVP, in the 2010 Cause Evolution Study from Cone Communications. "Companies can use this time to raise mass amounts of awareness and dollars for critical issues through simple acts of consumer engagement."

To continue the giving spirit, Sarah's Hope Jewelry will continue its Giving Back Locally Program year-round, and has high hopes for an even more successful holiday season for local giving.

This year, Jewelers Mutual Insurance Company once again will provide a $1,000 charitable donation to the retail jeweler that makes the largest contribution to a local charity through the sales of Sarah's Hope Jewelry during the holiday season. At the same time, Jewelers Mutual is holding a direct-to-consumer promotion through its personal jewelry insurance product, Perfect Circle™ Jewelry Insurance (www.PerfectCircleInsurance.com).

The second annual Hope for the Holidays contest provides opportunities to win Sarah's Hope Jewelry as well as donations to local charities.

For more information please contact Sarah's Hope Jewelry, 1-877-888-8058, info@SarahsHOPEJewelry.com.

To learn more about the company please visit www.SarahsHOPEJewelry.com

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>> Continued from Pg 26

A Method of determining Inventory Levels for Retail Jewelers

GMROI EXPLAINED

Gross Margin Return on Inventory is quite simple. GMROI measures the relationship between inventory and gross profit dollars, expressed in dollars and cents.

For example, for every dollar you own in inventory, at cost, how much Gross Profit are you generating? When you generate the same in Gross Profit Dollars as you have in inventory, your Gross Margin Return on Inventory will equal exactly $1.00. This is an extremely important concept to understand.

Historically, you will find that various formulas have been used. Accounting formulas use an average inventory throughout the year, which is fine for determining GMROI for accounting purposes. However, when buying, we will need to know our current inventory positions to determine whether to feed a category or not. While your inventory will likely go through wide swings throughout the year, the average is going to be just that… an average. When we are buying for the spring season, what you had in stock last November has nothing to do with your current inventory requirements, so your current inventory is far more useful than your average inventory.

It is fairly common knowledge within the industry that inventory should turn at least one time. But what would be considered a good GMROI goal? As mentioned above, for merchandising purposes GMROI should be measured via a snapshot of your current inventory. Therefore, GMROI is going to fluctuate from month to month and a range can be expected. A GMROI goal of at least $1.00, but not much more than $1.50 is a very good target range. Meaning, for each dollar you own, you are generating at least $1.00 in Gross Profit. However, when GMROI goes above $1.50, it can be argued that the inventory is getting a bit lean and sales opportunities may be missed.

EXAMPLE A	
Sales	$4,673,989
GP%	39%
Cost	$2,184,222
GP$	$2,835,441
Cost On Hand	$1,838,548
Turnover	1.30
GMROI	$84

Jeweler A generated Sales of $4,673,989, and a gross profit of $1,838,548 with a current inventory of $2,184,222. While turnover looks good at 1.30 times, for every dollar of owned inventory on hand, only 84 cents of gross profit dollars is being generated. How can we be doing so well with turnover, but have a relatively low GMROI?

The answer has to do with margin. This jeweler is doing a good job in keeping inventory low relative to sales, but there are areas of the business that are pulling down margin, likely Rolex and OTC purchases. If this jeweler's goal was to achieve a GMROI of $1.00, one of two things will have to happen; either GROSS PROFIT has to increase, or inventory has to decrease (or a combination of the two). GMROI will equal $1.00 when inventory = gross profit. In this case, inventory will have to decrease by $350,000, or gross profit will have to increase by the same amount in order to raise GMROI to $1.00.


October — Opal


January — Garnet
February — Amethyst
March — Aquamarine
April — Diamond
May — Emerald
June — Pearl
July — Ruby
August — Peridot
September — Sapphire
October — Opal
November — Topaz
December — Blue Zircon

A Method of determining Inventory Levels for Retail Jewelers

NETTING OUT YOUR NUMBERS

Understanding the components that should be removed from Total Sales will help you determine your proper inventory goals. As we net out the numbers in our example from Jeweler A, just over $2,500,000 of the $4,700,000 was generated by sales from the showcases (without Rolex). As you will clearly see below, there will be a dramatically different result in the inventory budgets between the following two analyses.

TOTAL SALES	$4,673,989
ROLEX	478,762
SPECIAL ORDERS	593,670
MEMO	154,882
REPAIR & CUSTOM SALES	163,046
OTC SALES	759,168
	(2,149,528)
NET SHOWCASE SALES	$2,524,461

We began this discussion with the example: A jeweler with $4,674,000 in Revenue and $2,800,000 Cost of Goods Sold. What inventory levels would we have determined when relying only on that information? In just a few short steps, we netted out the non-showcase sales, as well as Rolex (sales and COGS), to show what is actually happening. In fact, showcase sales are only $2,524,461 of the total sales. In other words, showcase sales (without Rolex) are only 54% of total SALES! It is common to discover that at least 40% of total "SALES" has nothing to do with how much inventory your store needs, even without considering a line like Rolex.

How much inventory should this $4,700,000 jeweler have in stock? After netting out Repairs, Special Orders, Custom and Memo sales, as well as revenue from Over the Counter purchases, and removing Rolex from the equation as well, the store does $2,524,000. If the gross profit is 47% for this portion of the sales, then the Cost of Goods Sold is $1,337,000 (without Rolex) and Gross Profit is $1,186,000. Therefore, this store needs an inventory of $1,337,000, not including Rolex inventory, just to achieve a one-time turn. Currently, the store has an inventory of $2,184,222, with about $400,000 at cost of Rolex, or $1,784,000 without Rolex.

EXAMPLE B	
Net Showcase Sales without Rolex	$2,524,461
GP% without Rolex	47%
Cost of Goods Sold without Rolex	$1,337,720
GP$	$1,186,280
Cost On Hand without Rolex	$1,784,222
Actual Turnover	.75
GMROI	$.66

Consider the relationship between each of these numbers. The COGS without Rolex needs to be compared with the Cost of On Hand inventory, again without Rolex. In this case, there is $450,000 more inventory on hand at cost than in Cost of Goods Sold, resulting in a turnover of .75. GMROI is calculated by comparing our Gross Profit Dollars with Cost of On Hand inventory. The $1,186,000 of Gross Profit is compared with our on hand inventory of $1,784,000 for a GMROI of just $.66. This store would have to reduce their inventory by $600,000 in order to achieve GMROI of $1.00!

It is vital to understand the difference between the two sets of numbers represented between Examples A and B. The contribution of OTC and other non-showcase-generated gross profit masks the true nature of turn and GMROI.

It will be dangerous to rely upon the gross profit of the non-showcase areas included in SALES to keep the company's cash flow and bottom line healthy. For example, this company will run into cash flow challenges when OTC purchases suddenly stops. This store went from a healthy turn of 1.30 to an anemic turn of .75 by deconstructing what makes up the numbers in their financial statement. When inventory levels are determined by top line sales, and that number is a compilation of income that has no relevance to your inventory, your inventory levels will be far too high.

GROSS PROFIT MARGINS

We see that determining an inventory goal should be based on the Gross Profit Margin generated from the net revenue as described above, and it is this number that will be used for our inventory budget. This does not presume that we are completely

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A Method of determining **Inventory Levels** for Retail Jewelers

satisfied with current GP; however, we need to work with the Gross Profit that the business has been able to generate.
Each area of the business – showcase sales, repairs, OTC purchases and for our purposes lines such as Rolex, are going to generate very different Gross Profit percentages. The Income Statement that does not break out the Sales, COGS and GP% for each of these areas isn't going to be helpful when determining your inventory levels.

GMROI VS. TURNOVER

Using turnover to arrive at an inventory level works if the company's gross profit is right around 50%.

For companies with GP significantly higher or lower than 50%, using turnover is simply erroneous. The reason is the cost of your inventory does not drive your business, Gross Profit does! When Gross Profit is at (or very near) 50%, Cost of Goods Sold and Gross Profit are nearly identical, so using either GP or COGS would work just fine.

However, since many jewelers, especially highly branded stores, have margins in the low 40's; using turn will not be useful when determining inventory levels.
In this next example, a $10+ million business has a GP of 42%. Note the difference between Cost of Goods Sold of $6,138,000 and GP of $4,385,000.

As you can see, the company is getting nearly a one-time turn, but based on their available Gross Profit dollars, they are more than $2 million overstocked, resulting in challenging cash flow and high debt levels to both banks and the trade.

The relatively low Gross Profit, combined with a relatively low turnover, results in the anemic GMROI.

Sales	$10,523,151
Cost of Goods GP $	$6,138,042
Cost On Hand	$4,385,109
Turnover	$6,639,197
Cost On Hand	0.92
GP%	0.42
GMROI	$0.66

SEASONALITY

Your inventory levels will vary depending on the time of year. We expect it to be at a peak in the fall and at a low point in January or certainly by the end of Q1. The ebb and flow of inventory levels is normal – but when inventory gets too high, and stays too high, cash flow (or bank debt) becomes a problem. The goal is to maintain inventory at a healthy level throughout the year.

CURRENT SALES VS. PROJECTED SALES

A typical approach to determining inventory levels is using projected sales. An Open to Buy plan, for example, begins with your expectation of what sales will be over a future period, say the next 12 months, and you would build your inventory budgets based on that 'estimate'. There is an inherent danger in using an estimate of future sales, rather than starting with what you actually know – sales from the past 12 months. If your sales increase, so will your turnover, and only then should adjustments be made to your inventory levels. You will be making those adjustments within the categories (and price points) where you are experiencing your growth, and not just increasing overall inventories based on a projection. Far too many stores become significantly overstocked due to looking forward and basing their inventory levels on the expected continuation of rising sales. When those increases do not occur, cash flow suffers immediately.

ARRIVING AT A FORMULA

The first half of this article described which numbers to use (and which to ignore) for determining an inventory budget. Now, we will jump into figuring this out for any jewelry company.

First, your inventory levels will be determined by removing all non-showcase sales from your total revenue. Next the variable of your company's GP% has to be included in the formula, since as GP% rises and falls, so should inventory levels. Finally, we have to use some factor to arrive at our goal, and that factor, also variable based on your individual company, is GMROI.

The formula, written out, looks like this:

Inventory will equal Revenue, after removing all non-showcase sales, factoring in your GP% and dividing the result by your GMROI Goal.

Inventory = Revenue – (Custom Sales + Repair Sales + Special Orders) X GP % / GMROI Goal

Expressed as an equation:

I = R – (CS+RS+SO) x GP% / GG

Here it is again, using dollars and percentages.

Inventory = $1,000,000 – ($100,000+$100,000+$200,000) X .45 / $1.20

Inventory = Revenue – (Custom+Repairs+Special Orders) X GP% / GMROI

Inventory should equal your total Revenue ($1,000,000), minus all non-showcase sales (Custom, Repair and Special Orders), multiplied by your GP% (45%) divided by your GMROI Goal of $1.20.

In this example, Inventory = $225,000

The entire process step by step

Inventory = Revenue – (Custom Sales + Repair Sales + Special Orders) X GP % / GMROI Goal

Inventory = $1,000,000 – ($100,000+$100,000+$200,000) X .45 / $1.20

Inventory = $1,000,000 – ($400,000) X .45 / $1.20

Inventory = $600,000 X .45 / $1.20

Inventory = $270,000 / $1.20

Inventory = $225,000

WHY GP MARGIN AND GMROI GOALS MATTER

Now let's look at the same size business, but demonstrate what happens as margin and GMROI change. Taking exactly the same situation, but for a company that is generating 55% GP rather than a 45% GP, there will be a significant impact on the inventory level. Also, because GMROI is your goal to set, you may determine that a GMROI of $1.20 won't leave you with the inventory levels you are comfortable with. Or perhaps, because of your current mix of merchandise, you may find that a GMROI goal of $1.20 is not possible, at least until your merchandise mix changes. Whatever the reason, a GMROI goal is going to be based on your current situation and what you anticipate achieving over the next 12 months.

As your product mix changes, and as you work on replenishing fast-sellers and moving out aged inventory, it will be easier to raise your GMROI goals in the future.

By improving GP margin and lowering your GMROI goal, your inventory budget will change dramatically.

In this scenario, we will increase GP to 55% and lower your GMROI goal to $1.00. This combination, higher GP and lower GMROI, will result in a significantly higher inventory budget. (Currently, the average true GMROI in the jewelry industry is in the $.70-$.75 cent range, regardless of what you have seen written on the subject).

Inventory = $1,000,000 – ($100,000+$100,000+$200,000) X .55 / $1.00

Inventory = $1,000,000 – ($400,000) X .55 / $1.00

Inventory = $600,000 X .55 / $1.00

Inventory = $330,000 / $1.00

Inventory = $330,000

As you can see, by changing two things, GP and our GMROI goal, the inventory budget was increased by more than $100,000. This is a 50% increase over the budget in the first example, and it demonstrates the impact that GP margin and your GMROI goal will have on your inventory levels. Please remember this when considering your own GMROI goals and use a realistic and achievable number.

UNDERSTANDING THE EFFECTS OF THE TWO VARIABLES

The two variables, GP % and GMROI, are combined to determine your inventory budget. For a given GP%, as GMROI increases, inventory must decrease! However, as you increase GP and decrease GMROI, higher inventory levels are allowed. A store with one million dollars in showcase sales, a 50% GP and a GMROI goal of $1.00, will have an inventory budget of $500,000. Yet, the same store, but with a 53% GP and a GMROI goal of $1.30 will actually have a lower inventory budget! (Please study the effect that the combination of these two variables will have on your inventory in the table provided below.)

This is the part of this discussion that many people find confusing. If you keep GMROI fixed, at say, $1.00, as you move into higher GP margins, inventory will indeed increase. A store that achieves 53% vs. 45% GP can have $80,000 more

inventory, which is pretty easy to follow. But remember that we need to establish our GMROI goal as well, and it is here where things tend to get fuzzy. GMROI is the number that measures return on your inventory investment. The lower your return, the more inventory you will have. The higher the return, the less inventory you will have.

As you can see in the table below, a store with $1 million in sales and a 53% GP that has $663,000 in inventory is producing a GMROI of $.80. The store that achieves $1 million in sales, but does it with $408,000 in inventory, has a GMROI of $1.30. Remember that GMROI is your goal to set – and it is this goal that will determine how much inventory you will have in your inventory budget.

PROJECTED INVENTORY AT COST PER $1 MILLION IN SALES*

	GMROI	$0.80	$0.90	$1.00	$1.10	$1.20	$1.30
	45%	$563,000	$500,000	$450,000	$409,000	$375,000	$346,000
	46%	$575,000	$511,000	$460,000	$418,000	$383,000	$354,000
	47%	$588,000	$522,000	$470,000	$427,000	$392,000	$362,000
	48%	$600,000	$533,000	$480,000	$436,000	$400,000	$369,000
GP	49%	$613,000	$544,000	$490,000	$445,000	$408,000	$377,000
	50%	$625,000	$556,000	$500,000	$455,000	$417,000	$385,000
	51%	$638,000	$567,000	$510,000	$464,000	$425,000	$392,000
	52%	$650,000	$578,000	$520,000	$473,000	$433,000	$400,000
	53%	$663,000	$589,000	$530,000	$482,000	$442,000	$408,000

ADJUSTING FOR SPECIAL CIRCUMSTANCES

Now let's go back and look at the jeweler who carries a line like Rolex and how this will change our formula a bit. As mentioned above, Rolex should be handled as a separate business, and addressing it is just a minor addition to our formula.

Inventory = Revenue – (Custom Sales + Repair Sales + Special Orders + Rolex) X GP % / GMROI Goal

Expressed as an equation:
I = R – (CS+RS+SO+RX) x GP% / GG
Inventory = $2,000,000 – ($100,000+$150,000+$250,000+$700,000) X .52 / $1.00
Inventory = $2,000,000 – ($1,200,000) X .52 / $1.00
Inventory = $800,000 X .52 / $1.00
Inventory = $416,000 / $1.00
Inventory = $416,000

For this example, we started with total Revenue at $2,000,000, kept Custom Sales at $100,000, raised Repair Sales to $150,000 (Rolex repairs will bring in the additional repair revenue) and kept Special Order sales at about 20% of Revenue without Rolex. We used a GP of 52% (again, without Rolex) and a GMROI Goal of $1.00

The resulting inventory level may appear to be low at $416,000, but remember that this is without Rolex. Add back the Rolex inventory and this budget will increase significantly; it may likely double. The problem remains one of trying to figure out your inventory goals while having all of these disparate parts added together on the Income Statement under SALES, where there is no simple way to unravel it all.

SIMPLIFYING THE FORMULA

Some people have already made the adjustments to their Chart of Accounts to track only Showcase Sales. If this is the case, there is no reason to begin with Revenue. The formula for determining inventory is then simply:

Showcase Sales X GP% / GMROI Goal
I = SC x GP% / GG
Inventory = Showcase Sales x GP% / GG
Inventory = $600,000 x .55 / $1.00
Inventory = $330,000

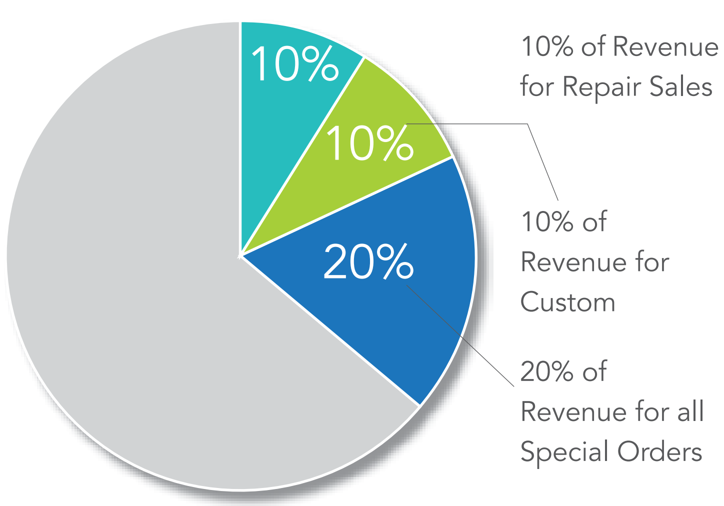
SIMPLIFYING EVEN FURTHER

If you have the ability to measure the GP Dollars generated from your Showcase Sales, you can simplify the formula even further.

I = GP$ / GG
Inventory = GP Dollars / GMROI Goal
Inventory = $330,000 / $1.00
Inventory = $330,000

A Method of determining Inventory Levels for Retail Jewelers

ESTIMATING USING PERCENTAGES



n case you cannot get the exact breakouts of these numbers from your Income Statement or your POS system, you can still approximate the results by using the following percentages.

10% of Revenue for Repair Sales

10% of Revenue for Custom (unless you are a business geared towards custom work)

20% of Revenue for all Special Orders. It isn't as important to get these percentages exactly right. Instead, spend more time on the concepts and calculating your inventory levels based on the net showcase sales.

ALL INVENTORY IS NOT CREATED EQUAL

Developing a budget does not address the quality of your inventory...how it's performing and how you are managing it – it is simply a dollar figure to aim for. While this article was not intended to delve into how to deal with non-performing inventory or how to manage your inventory, we would be remiss were we to ignore the quality of the inventory you own.

All things being equal, a company with 20% aged inventory is in far better shape than a company with 60% aged inventory.

Therefore, even though you may be close to having the correct amount of merchandise, you have to analyze further to determine if your dollars have been invested in the best way possible. If not, steps should be taken to move out non-performing merchandise and to re-order fast-selling items.

DEVELOPING YOUR GMROI GOAL

We had the opportunity to discuss this article in depth with dozens of our retail clients and the one area that was most challenging was how best to determine your GMROI goal. At first blush, one would expect that higher goals are always better goals which led to discussions about why we would want our GMROI goal to be a relatively low number, instead of shooting for, say, a GMROI of $2.00. The answer is in having a better understanding of how to use GMROI as a guide for developing inventory levels.

It is up to the person or persons responsible for achieving the company's goals to guide the process of inventory performance. In the case where the systems are in place for frequent replenishment of fast-selling items and higher than average turns are being achieved, we would expect GMROI to be in the $1.20 to $1.50 range. Much above $1.50, we would suggest looking at feeding the inventory somewhat to encourage increases in sales. However, in an area where you determine you can take market share but are under-inventoried, investing in inventory beyond what your historical sales would dictate to be the 'right amount' is often called for.

The result of increasing inventories beyond what would have been a prudent level will lower your GMROI immediately. We do this in order to grow sales in this underserved category. Since we are always looking for sales growth opportunities, it is expected that certain categories of your business will have lower GMROI than other, more developed categories.

A Method of determining **Inventory Levels** for Retail Jewelers

CONCLUSION

You expect there to be differences in GP margins among your categories. Loose diamonds will generally produce far less GP% than will sterling silver. Margins also differ widely from business to business in each of the areas that we are excluding from SALES: Repairs, Special Orders and Custom. While each of these non-showcase-sales areas are removed from your total sales numbers, they will be producing additional GP dollars as well and you may consider the contribution of these GP dollars when determining your GMROI goal. This is all well and good, but the purpose of this discussion is about dealing only with the amount of inventory you should carry based on the amount of merchandise that is sold from the showcases, the GP that those sales generate and your target return on the investment of that inventory, using GMROI as the calculation. Arriving at your inventory goal begins with understanding the parts of your business that require inventory.

Today, Alloy Samples readily available for your bridal department would augment the need to stock hundreds of thousands of dollars of live 'sample' inventory.

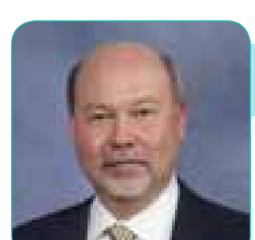
Varying margins achieved from the different areas of your business makes the need to deconstruct your business, separating the parts on your Income Statement, extremely important. Regardless of what numbers you start from, Sales or GP Dollars, you can fairly easily determine an ideal average inventory goal based on GMROI. This process should also point out the pressure that declining GP Margin has on your ability to merchandise your company, buy new merchandise and pay your bills.

This process also supports the concept of introducing higher-margin inventory to offset the low-margin areas, and rethink your markup strategies as well as your discounting policies. Keep in mind that as margins decline, it will become ever more important to manage the dollars that you have budgeted. Having a dollar budget is a good start, but if the fast-selling inventory is not being replaced and non-performing merchandise is not being dealt with, the dollar budget will be meaningless insofar as your cash flow is concerned – but this for another discussion.

It will be infinitely easier to do this work when your Income Statement reflects the various parts of your business as outlined above.

Your POS system should also separate showcase sales, special orders and custom sales for you. If it does not do this already, speak with your POS provider to see if there are some workarounds for you to use.

And finally, it's important to understand the nature of budgeting inventory using a formula. I have attempted in this article to explain an approach for determining inventory levels that can be used by any business, regardless of its makeup. However, using a goal, such as GMROI to arrive at an inventory budget does not address the myriad strategic decisions that should be considered when working on your own company's budgets. An overarching merchandising strategy must be considered when deciding whether to over-inventory your watch or bridal departments, for example, not so much to generate a desired return on investment, but in order to own a specific position in the market or when you may be fighting to take market share. Deciding to invest more than a formula would dictate in order to take advantage of a significant purchase of loose diamonds, may take precedence over the adherence to a simple formulaic approach to the budgeting process. While I wanted to bring this to your attention, a more comprehensive discussion is beyond the scope of this article.



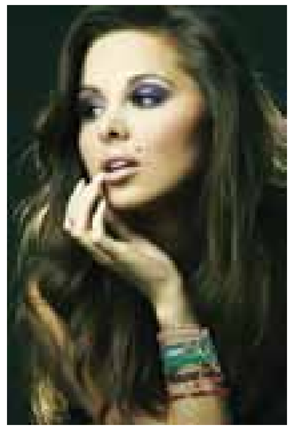
Abe Sherman

Abe Sherman is the President and CEO of Buyers Intelligence Group (BIG). He is a second-generation retail jeweler who understands the challenges faced by retail jewelers and has continually developed new approaches to overcome those issues.

BIG also operates Plexus Performance Groups where a team of jewelers evaluate marketplaces, exchange ideas, information, inventory and sales analysis and marketing strategies.

NEW AND NOTEWORTHY

Midas Launches On-The-Rocks



The new collection of quartz faceted bracelets contains a wide array of elegant styles and vibrant colors. The exclusive and unique "On The Rocks" designer collection has been created to be stackable with the most intricate of detail and are available in countless styles. For more information contact Midas Chain 888-685-1150

Superfit Announces New Product Lines

Superfit announced an expansion of its product line from their innovative bridal line of engagement rings and wedding bands into high-end jewelry featuring cocktail rings, tie accents, cufflinks, toe rings and their most recent addition "Initial Reaction" a pendant you can customize with your initials or symbol of your choice. The initial reaction necklaces are available in 14K yellow gold, 18K white gold and platinum.

The toe rings are available in a variety of colored stones, featuring green tzavorite, diamond, yellow and pink sapphire. The innovative hinge mechanism allows the toe ring to fit safely and securely. The toe rings are available in 18K white gold and platinum.

The company also produces a patent-pending Digital Installation® design template for CAD-savvy jewelers, and a patented Accusizer® to help customers determine their base-of-the-finger ring size. To learn more, call 800-765-7111 or visit www.superfitinc.com.

Hellmuth Hund Dog Centric Jewelry

Hellmuth Jewelry is going to the dogs with the introduction of its new high-end Hellmuth Hund® Collection announced Michael Pucci, President of Abbiamo Group, the Burbank-based company handling sales, marketing and advertising for Germany's premiere luxury jewelry brand. Featuring diamond-accented "charms" in three different categories, price points and sizes — all decorated with the friendly faces of popular dog breeds, the Hellmuth Hund Collection celebrates the unconditional love provided by man's (or in this case woman's) best friend.

NEW AND NOTEWORTHY

The irresistible charms are created with heavy Hellmuth quality 14K gold and signature crocodile pattern on the back, adorned with white diamonds, as well as polished .925 sterling silver and 14K gold two tone and diamonds, and .925 sterling silver with ICY diamonds. There are currently 23 coveted AKC breeds in stock, and for an additional charge, and eight weeks for delivery, customers can submit a 300dpi digital photo of their best friend and Hellmuth will use the custom image on the charm. The Hellmuth Hund charms range in price from $546 to $7,998 retail and will be available at select fine stores this fall.

Contact the Abbiamo Group at 818.319.4200 or visit www.abbiamogroup.com.

Guertin Brothers Appoints Marie Pugh New Manager of Sales and Marketing

Wedding band manufacturer Guertin Bros and per Amore announced the appointment of Marie Pugh to the position of Manager, Sales and Marketing. "Pugh's deep industry experience will be a strong addition to our team at a time of substantial growth for the company," states Rob Nordt, Jr., Director of Business Operations. For more information, please contact him at 540-362-9717. Guertin Brothers is a division of John C. Nordt Company, Inc.

R•Findings Launches Online Shopping Cart

R•Findings has launched a totally redesigned website at www.rfindings.com that features daily pricing and an online shopping cart. In today's world you can not afford to stand still for too long. R•Findings president Howard Merimsky feels that all of the work and customer input has helped produce one of the most user friendly ordering sites out there. "While many of our customers will continue to call in because of the great

NEW AND NOTEWORTHY

relationships we have built over the years, they have welcomed the ability to get current pricing online."

R•Findings has been an industry go to for findings for the last 60 years. What better way to kick off their 60th Anniversary than with a new and improved website. Highlights of the new website are the ability to get daily pricing, search by item number, and catalog page number. The shopping cart even offers a picture of each item ordered, making it easy to remember what is in your cart. Merimsky emphasizes that R•Findings will continue to expand and improve the site. For more information, go to www.rfindings.com or contact R•Findings at 1-800-422-7624

GIA Career Fair New York July 30

Designer David Yurman, jewelry manufacturing executive Ann Arnold, retail jeweler Lex Graham and auction house executive Rahul Kadakia will be panelists at GIA's Jewelry Career Fair on July 30 at the Jacob Javits Center in New York.

Aspiring jewelry professionals – including those in retail, design and manufacturing – will be able to meet with job recruiters; attend an expert session on jewelry trends; and spend one-on-one time with volunteer career-coaches. This marks the return of the GIA Career Fair to New York for the first time since 2008.

This leading industry event is free and open to the public; anyone interested in attending is urged to RSVP www. prior to the event. GIA's New York Jewelry Career Fair will take place from 8 a.m. to 1 p.m. on July 30 at the Javits Center. Recruiting will occur from 10 a.m. to 1 p.m. The event is sponsored by JA New York.

For more information, visit www.careerfair.gia.edu or call (800) 421-7250, ext. 4100, or email careerfair@gia.edu.

NEW AND NOTEWORTHY

Berco's Market Research Influences Holiday Flyer Program

What is it that jewelers need to successfully make it through the holiday season? Berco asked retailers. The results of the research were incorporated into a new 2012 Holiday program.

#1 The Perfect Marriage of Style & Quality.
Today's technology gives your customers unlimited access getting exactly what they want at a price they can afford. What they want are the latest designs crafted in the best quality. Berco's 2012 Holiday Flyer Program keeps in step with the demands of your customers by offering a diversified collection that includes color diamonds in karat gold, stylish rose gold with champagne diamonds, elegant bridals, and sterling silver with diamonds.

#2 The Best Profit Margin.
This competitive environment has placed a lot of strain on profit margins. By showcasing exclusive styling, Berco's Holiday Flyers allow your store to market at attractive price points to your customers, while also providing you with a healthier bottom line for the holiday season.

#3 Attractively Packaged and Personally Customized.
Berco's Holiday Program offers jewekers three beautifully designed 8.5" x 11" flyers. They can choose from Berco's holiday editions, available in an eight and four page format, and their Valentine's Day four page edition. All flyers are customized with your store logo on the front cover, and a photo of your store or staff on the back cover.

#4 A Season of Charity Reflected in Your Marketing.
This year's program will also include a back cover "Help Make the Holidays Brighter for Those in Need" promotion allowing your store to raise money for your local food pantry or charity during the holiday season. Through a special buy, Berco made available cultured pearl earrings at a very low cost, plus Berco will match the quantity you purchase up to 50 pairs. They recommend selling these at $5 per pair and donating the proceeds to a local food pantry or charity.

#5 Co-op Program and Exclusive Market Areas.
The cost of effective holiday marketing, coupled with stocking your store with inventory can be cost prohibitive. The Berco Holiday Program dovetails these two expenses by offering free

NEW AND NOTEWORTHY

brochures equaling your merchandise order. And you can be assured that your marketing area is exclusive to you, providing you with a sharper competitive edge.

#6 Customized Marketing Tools to Support Your Program.
In addition to your customized flyers, marketing tools are available including: Customized E-Blasts, TV commercials and a CD of flyer images ready for print or web use. For more information please call: 800.621.0668

Rarest Rainbow Partners with Jewelers for Children

Rarest Rainbow has partnered with The Jewelers for Children Fund. Rarest Rainbow has created in 925 sterling silver & natural colored diamonds the "Heart of Hope Pendant"

The Heart of Hope pendant represents the message that someday these children will be happy healthy productive members of the world community.

With each purchase of this pendant Rarest Rainbow will donate a portion of the sales to JCF. As a token of their commitment to this cause Rarest Rainbow will present each retailer who purchases any Rarest Rainbow collection a free Rarest Rainbow pendant.

The Rarest Rainbow, an innovative, ecofriendly fine jewelry company specializing in natural colored diamonds has created a unique and affordable line on 925 sterling silver highlighting natural colored diamonds....with the starting MSRP at under $200. The company provides: custom displays, brochures, postcards, custom email templates, duratrans, artwork for billboards, newspaper advertising, cooperative advertising, & exclusivity in local marketing areas. Contact Rarest Rainbow at 800-426-4435.

NEW AND NOTEWORTHY

PAI Announces Industry's Largest Design Contest Up to 100 winners; up to $1 million in prizes up for grabs!

Palladium Alliance International (PAI) announced that it will sponsor the largest jewelry design contest in the industry to date. The competition which will exclusively showcase designs crafted in palladium will offer up to 100 designers and retailers who create in-house custom designs a chance to share up to $1 million in prizes and promotional consideration.

The competition began on May 29, 2012, with photos/drawings/CAD-rendered concepts due from entrants on Friday, September 21, 2012. Up to 100 finalists will be notified on Friday, October 5, 2012 to begin work on their finished pieces, which will be due for final evaluation no later than Monday, December 17, 2012. Palladium Alliance International will announce the official winners, up to 100, on Monday, January 14, 2013, along with the winners of the third, second and Grand prize. Checks reimbursing winners for the cost of the 950 palladium alloy used in their pieces will be issued February 28, 2013.

Studex® Moves Forward with Styles For Less Launch

Studex®, the manufacturer of ear piercing instruments studs and accessories announced a deal with one of the nation's fastest growing retailers of young women's fashion – Styles For Less. The first locations to roll-out the Studex® brand are located in Arizona and Texas with more to states to follow.

"The Studex line of ear piercing products will help bring incremental dollars to their fashion forward stores without cannibalizing existing sales" said Ed Oberg National Sales Director. "Out of the box thinking is mandatory in this challenging economy, and retailers can't help but notice the high margin, loyalty building potential of ear piercing services" he added.

Studex® is recognized as a leader in ear piercing systems and allergy-free fashion earrings for consumers of all ages. As the world's largest manufacturer of ear piercing instruments, studs, and supplies they uphold an uncompromising commitment to quality and service that has lasted for over forty years. They meet this demand with over thirty-five offices around the world on six continents. All Studex® sterilized ear piercing studs are proudly made in the U.S.A. and meet or exceed U.S Food & Drug Administration regulations and European Commission standards. For more information call (800) 478-8339 or visit www.studex.com

New York State Jewelers Annual Golf Outing to Benefit Jewelers for Veterans Foundation

The New York State Jewelers Association (NYSJA) will be holding its Third Annual Golf Outing on Monday, October 1, 2012, in Harrison, NY. NYSJA has announced that a portion of the proceeds from this event will be donated to the Jewelers for Veterans Foundation. Mike Wilson, NYSJA President, and Owner, Wilson & Sons Jewelers, Scarsdale and Mount Kisco, NY, and the NYSJA membership, have proudly embraced the mission of Jewelers for Veterans Foundation – "To address the high unemployment rates prevalent among returning veterans by offering solutions within our industry. J4V is dedicated to connecting US Military Veterans with training and employment in the jewelry industry."

For additional information please contact Barbara Keefe, NYSJA Executive Director, 212-290-1555 or Email her at, BKeeferose@aol.com. TRJ

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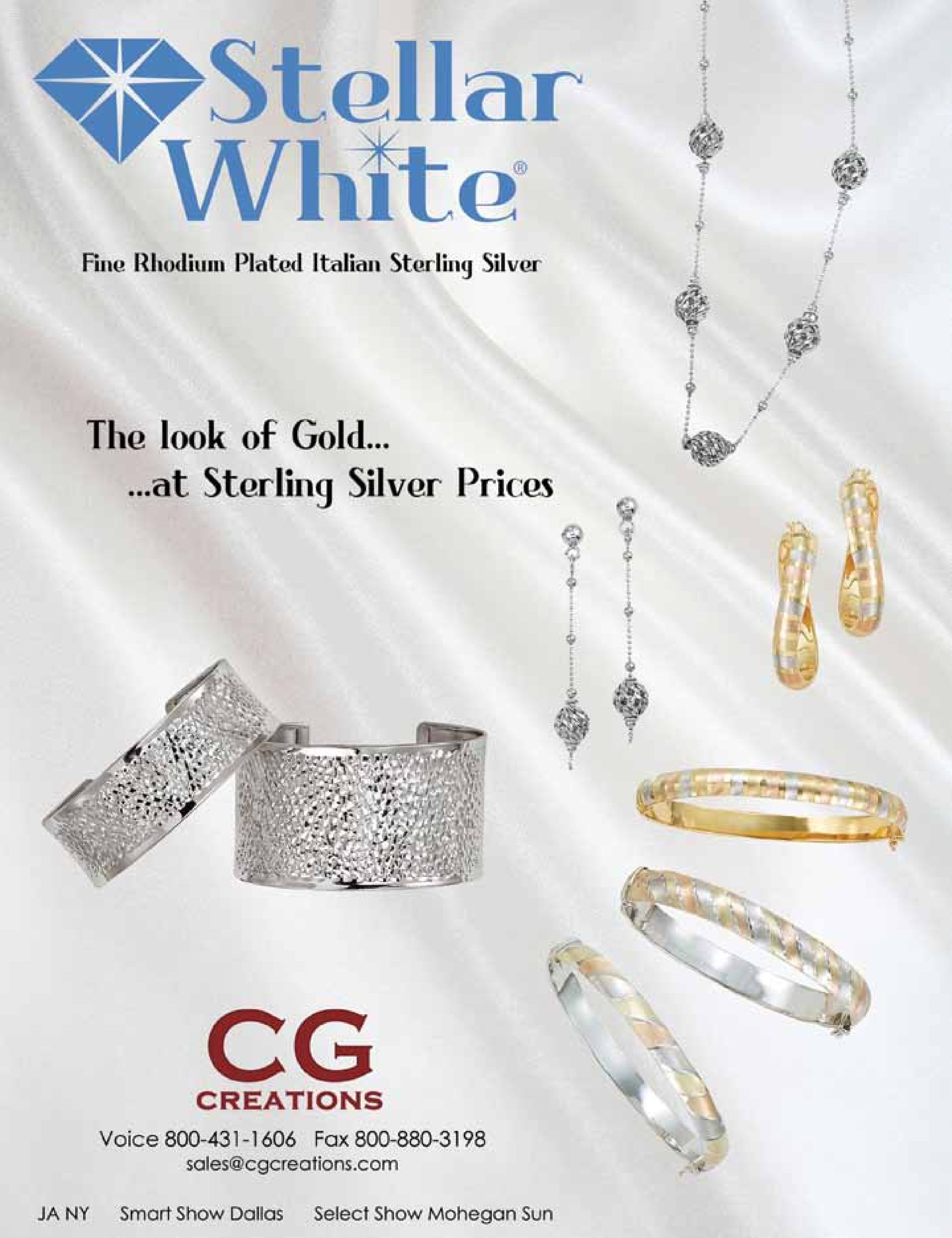
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