Third reason for financial distress in a jewelry store:
Wrong Price Points

The best way to manage inventory individually is to look at its GMROI by price point.

There are two POS programs that do this very well.

Jewelry Shopkeeper
www.JewelryShopkeeper.com

The Edge
www.ajsllc.com

Below is a report from Shopkeeper by price point on Diamond & Colored stone rings, category #200.

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Silver Jewelers
FOR SALES BETWEEN: 01/01/2004 & 12/31/2004
MAJOR CLASS CODES BETWEEN: 122 & 122
REMAINING INVENTORY INCLUDES MEMOS AND EXCLUDES LAYAWAYS

RETURN ON INVESTMENT ANALYSIS BY PRICE POINT
366 Days in the Report

PRICE POINT	UNITS SOLD	SALES TOTALS	COST OF SALES	PROFIT PER ITEM	GROSS PROFIT	GROSS PROFIT MARGIN PCT %	AVERAGE INVENTORY COST LEVEL	# OF TURNS PER YEAR	YEARLY GROSS MARGIN R.O.I.	% OF TOTAL GROSS PROFIT	COST OF REMAINING INVENTORY	QTY LEFT
** Inventory Group ALL MERCHANDISE					$	%	$		%	%	$	
0.00 to 9.99	0	0	92	0	-92	0.0	41	2.26	-226.1	-0.3	0	1
20.00 to 49.99	3	104	75	10	30	28.0	84	0.88	35.1	0.1	44	4
50.00 to 99.99	66	5,749	2,512	49	3,237	56.0	1,930	1.29	167.3	12.1	1,637	42
100.00 to 149.99	39	4,800	1,756	78	3,044	63.0	1,284	1.36	236.4	11.4	463	14
150.00 to 199.99	30	5,204	2,241	99	2,962	57.0%	2,019	1.10	146.3%	11.1%	809	17
200.00 to 299.99	38	8,988	3,823	136	5,165	57.0	5,278	0.72	97.6	19.4	3,574	46
300.00 to 399.99	16	5,524	2,191	208	3,334	60.0	5,463	0.39	60.9	12.5	5,179	51
400.00 to 499.99	8	3,617	1,461	270	2,156	60.0	4,476	0.32	48.0	8.1	3,899	29
500.00 to 699.99	3	1,815	360	485	1,455	80.0	4,818	0.07	30.1	5.5	5,395	33
700.00 to 999.99	4	3,685	1,576	527	2,109	57.0%	4,037	0.38	52.1%	7.9%	3,504	16
1,000.00 to 1,499.99	0	0	0	0	0	0.0	4,380	0.00	0.0	0.0	4,478	14
1,500.00 to 1,999.99	1	1,500	425	1,075	1,075	72.0	1,209	0.35	88.7	4.0	1,020	3
2,000.00 to 2,999.99	1	2,499	300	2,199	2,199	88.0	1,567	0.19	139.9	8.2	1,375	3
3,000.00 & UP	0	0	0	0	0	0.0	1,300	0.00	0.0	0.0	1,300	1
ALL MERCHANDISE	209	$43,485	$16,812	$128	$26,674	61.3%	$37,886	0.43	70.2%	100.0%	$32,677	274
>> REPORT TOTALS >>	209	$43,485	$16,812	$128	$26,674	61.3%	$37,886	0.43	70.2%	100.0%	$32,677	274

* R.O.I Return on Inventory Investment is Gross Profit $'s (on a yearly basis) / Average Inventory level
* Average Inventory Cost Levels are calculated estimates (and include unsold items on layaway but exclude memo items)
* % of Total Gross Profit is that line's Gross Profit / Gross Profit for the entire report
* # of Yearly Turns is Cost of Sales (on a yearly basis) / Average Inventory Level

This category is **Diamond & Colored Stone Rings.** Look at the bottom line:
>> REPORT TOTALS >> In a 12 month period of time they sold 209 rings. The gross profit margin percentage overall was 61.3%. Great! Isn't that wonderful?

NO!

Why "no"? Because even though they made 61.3%, their **GMROI** (Gross margin return on investment) was only 70.2 cents (4th *total* column from the right.)

Here's how to read a report like this:

1. First thing to look at on the totals line is **Yearly Gross Margin Return on Investment**-4th column from the right. The total is 70.2% or 70 cents. It

should be above a 1.00. It’s not.

2. Second thing to look at is gross profit margin for the **TOTALS**, last line. It’s O.K. at 61.3%. This is not our problem.

3. 3rd thing we look at is **Gross Profit** versus **Average Inventory Cost Levels** (6th & 8th columns from the right). **Gross Profit** column should be *greater* than the **Average Inventory Cost Levels**. It’s not. Inventory is higher by $11,212.00. There is over $11,000 too much inventory in the diamond/gemstone arena. Now we want to know exactly where.

4. So now we look at GMROI column by price point, which is the first column on the left. We’ll ignore the 1st one, up to $9.99; it’s a fluke/mistake from a salesperson. But look at the $50.00 to $99.99 range (this is retail). The GMROI is $1.67 (great) because their gross profit dollars were $3237 while inventory was lower at $1930. Also notice they sold 66 units (far left side) and have remaining in stock (last column on right) 42 items in this one price point. They stock less than they sell. Way to go!

5. In fact up to $199 retail is doing well, GMROI wise. It’s when we get over $200 retail is when things go downhill (blackened area is good).

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6. Look at the $200 to $299.99 retail level. The gross profit percentage is 57%. Who could complain? The problem is the GMROI is 97 cents. Not awful, but below $1.00 and it’s because Average Inventory cost level is higher than Gross Profit. Not too high but they sold 36 units in one year and *still have 46 units left over***. Look at the $300 to $399.99 level**. 60% margin (great) but GMRIO of 60.9 cents because their inventory level is $2129 too high. Shucks, they sold 16 units in a year and have 51 for crying out loud! When they sell one unit, they go out and buy over 3 more! They’re making money and use all of the money they took in, plus borrowing even more money to overbuy and over stock.

Here’s the problem in this stores Diamond/Colored stone rings.

1. Although they make money when they sell it, they have too much inventory.

2. They buy for the most part the correct amount of goods that retail **under $199.99.**

3. When they go to market to buy, they buy good styles that sell and make money when sold; they just ***overbuy*** in the price points from $200 and up.

4. Customers cherry pick the lower end merchandise and don’t buy too much above $200.
   The proofs in the pudding. If you look at units sold **above $200 retail** and compare it to units still available above $200, here’s his problem:

   a. He sold 71 units above $200
   b. He *stocks* **196 units** above $200.
   c. He stocks 125 more units than he’ll sell in one calendar year.
   d. This is his problem.

So what to do?

A. Unload the 125 units in those price pints only. Take that money and reduce debt. It’s almost like sending it back and crediting your bill. You’ll owe less.

B. Retag some of the units and force them into some of the under $199 price points. Yes customers will be getting a deal and you won’t make so much on those, but look at what it will save you. You won’t have to shell out hard earned dollars to buy more inventory that plus into the $100 to $199 price points. Cash flow is helped a lot.

C. If you can’t discount it, double or triple the commission to the sales staff to sell it.

D. Take it apart, use the melee for repair and refine the gold. Send the gold to Hoover & Strong or Roseco in Texas and get a credit. Then instead of **paying** for findings and gold stock, use your credit to buy it. Another cash flow saver.

Then run a report like this every month to be sure you have not over stocked. And be sure to reorder ***fast sellers***. A fast seller is an item that sold within 6 months of buying it. Run a fast seller report every Monday, asking your **pos** this question:

“Dear ole magical point of sale program. *PLEASE* tell me everything we sold last week that we’ve owned for less than 6 months. Customers voted with their dollars that they liked it and we want to have more in stock for other customers until the fad fades.”

Jewelers who manage their inventory levels based upon GMROI and keep the stores total above $1.00 ($1.10-$1.20 would be great starting point) end up having **more cash** and less debt (and less stress).

Next step in the in our five reasons is “You don’t have enough people walking in the front door.”

See you then.

David Geller
Director of Profit