

The Danger of "Magic Numbers"... by Mary Galeski

A client mentioned said to me on a recent call, "You're the first consultant ever to tell me there is no such thing as magic numbers." I too, once believed there were magic numbers. That is, specific targets that indicate "good" versus "bad" performance in jewelry store. I have since learned through practice, a diverse client base, and working with people who know how to ask the right questions, that there are inherent dangers in basing your own goals on someone else's definition of *success*.

The top five questions we get asked by jewelers who are searching for magic numbers are:

5. "How can I increase my Average Sale?"
4. "What's a good margin for me to shoot for?"
3. "What's a good percentage of aged inventory?"
2. "How much inventory should I have for my current level of sales?"

And the number one question we get asked:

1. "What should my stock turn be?"

The answers may surprise you. We can give you industry benchmarks for all of these questions to give you some idea, but answering them for your specific store requires looking at, and thinking about *your* store.

Average Retail Sale - We can not possibly know what your Average Sale "should be" as we don't even agree with the *concept* of 'average'. If it was 124 degrees yesterday, and will be 20 degrees tomorrow, it doesn't mean that we have a beautiful day today.

A more detailed understanding of what your customers are buying, and how frequently, is needed. In fact, merely concentrating on increasing your average sale can mask selling opportunities. For example, what opportunities for increasing market share exist in your area? Trying to set an arbitrary goal for average sale assumes that every store should simply employ the philosophy "stock it and they will come." Increasing the average cost of goods based on average sale goals rather than consumer pull is like building a baseball diamond in a cornfield. There is nothing wrong with a goal for Average Sale, but it must be driven by an understanding of your customer and of what they buy and how much they spend.

Margins - are dependent on how branded you are, what your merchandise mix is, what your competition is doing, how confident your staff is at handling discounting requests, and what marketing and positioning decisions you have made. Saying you should maximize margin and working from a cost up perspective without regard to value is often suicidal for a retailer. It ignores perceived value. It assumes customers are not just uneducated about jewelry, but incapable of a gut feeling of what something is worth or of comparing you to your competition.

Aged Inventory - How strapped for cash are you? How much space do you have in your cases? If neither is a problem, who are we to tell you not to operate a jewelry museum? If, however, you

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are tired of collection calls and sleepless nights, we can help. Your target? How much cash do you need, and when? This answer obviously varies from store to store.

Sales to Inventory Ratio - There simply is no ideal ratio. This number contains huge variables. Those include brand saturation, amount of custom, percentage of special orders, types and amounts of memo goods, financial variables and more.

Stock Turn - We need to determine how much risk you can handle, what stage your business is in and what your merchandise mix is like. Then we will set a GMROI goal for each area of your business and derive a stock turn goal from that. Sounds complicated? It really is not any more complicated than trying to force a stock turn of 2.0 out of a brand you have no control over - so why not take the time to make the goals make sense?

The point of all of this is certainly *not* to tell you that goals are not incredibly important. Rather, it is to make the point that they need to be *your* goals, not someone else's. Benchmarks are fine to determine if you are within a reasonable range. But given that our entire industry is at best treading water financially, it seems like a good time to differentiate your store - why not start by determining what your goals are, rather than trying to build your business on someone else's standards?

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