



U.S. Jewelry Business Under a Microscope

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By Rob Reuteman- FOXBusiness

For the roughly 22,500 U.S. jewelry retailers still in business, the road ahead is paved with challenges. But, experts say, those willing to adapt to industry changes have a good chance at being a diamond in the rough.

Jewelers across the country say they take little comfort in the estimated 900 store shutdowns in 2009, even when compared to 1,300 the year before.



They're also not consoled much by slightly better sales numbers in 2009, as sales were so catastrophic the year before it would've been difficult do worse. For the roughly 22,500 U.S. jewelry retailers still in business, the challenges remain steep.

"I can truly tell you that the jewelry industry has permanently shifted and will still do so with huge bankruptcy and fallout," said Kivi Bernhard, an Atlanta-based diamond wholesaler since 1997. "People right now are truly trying to afford diapers, never mind diamonds."

But not all the more than 2,000 store closures in the past two years represent business failures, said Hedda Schupak, former editor of the jewelry trade publication, JCK.

"In many cases of independently-owned jewelry stores, the owners simply reached a point where they'd had enough," she said. "They either didn't have heirs to take over as they neared retirement, or they were tired of working 10-hour days and struggling against rising metals prices and a tanking economy."

From e-mail correspondence and phone interviews with several dozen store owners, wholesalers, designers, Internet retailers, several common denominators crop up again and again when discussing what's wrong with the jewelry business. Let's take them up one by one, in seemingly descending order of importance.

The Economy

The Great Recession has taken its toll with all purveyors of discretionary items such as jewelry. Jewelry sales at specialty outlets were down 10.2% for the first nine months of the year, the Commerce Department reported recently.

“We see a pretty big decline in sales growth of discretionary stores,” Drew White, chief financial officer for Sageworks, a leading researcher of private companies. “With consumer confidence at an all-time low, and a terrible job market, people are still buying staples. They are not buying jewelry, furniture, flowers, not as much clothing.”

According to Sageworks research completed in December 2009, profit growth for private jewelers has slid from 17.67% in 2007 to a projected -5.86% in 2009.

Profits per employee in 2008 rang in at a mere \$470, especially miniscule when compared to the \$13,107 recorded in 2007.

“Jewelers still in business seem to have reacted quickly and appropriately to the economy - to get costs down and to maintain low overhead,” White said. “I have been impressed by that.”

Denise DelliSanti, a publicist for the online retailer, RomancingDiamonds.com, said, “The jewelry business is not doing well because people are trying to save money in the recession. Luxury items are suffering badly. For those who can still afford conspicuous consumption, they are trying not to flaunt their wealth because their peers no longer have the money they used to. The recession, coupled with the increase in the price of gold, has made it hard for many jewelry retailers to stay in business. “

At the beginning of last year, nearly half of marketing consultant Alexander Fowler’s clients were independent retail and wholesale jewelers in the Los Angeles Jewelry District. In 2009, they “vanished,” he said.

“These are the worst market conditions in most of our lifetimes,” said Fowler. “The \$5,000 customer is now spending \$2,000; the \$2,000 customer is now spending \$500; and the \$500 customer has virtually disappeared. I’ve seen it across the board with all of the jewelers I work with.”

The Price of Gold

Gold prices have nearly tripled in the past five years – to its recent high of \$1218.30 an ounce on Dec. 3rd – adding greatly to the price of making and selling jewelry.

“A gold chain that used to cost \$60 is now sold for \$400,” said Tod Ulery, owner of Jewel Box Jewelers in Campbell, Calif. “With such a horrific economy on top of that, people just don’t have the disposable income to use on jewelry.”

To cut costs, many jewelers are making lighter pieces, where a difference of just 2-3 grams can lower the price of an item by \$100. Demand for more expensive 18-karat

gold jewelry is way down, according to Inga Vaschenkova, brand manager with the online jewelry wholesaler, ItsHot.com.

“Customers are still buying gold jewelry, but because of the higher prices, according to our sales, demand for 10K gold jewelry has been growing rapidly,” Vaschenkova said. “Our customers - local New York City customers, as well as clients from other states and internationally - are choosing mostly 14K and 10K gold.”

Three years ago, customers would shy away from 10-karat gold jewelry, but now it's more acceptable because of high gold prices, she said.

Los Angeles jewelry designer Claudia Endler said she just created a lower price point line – from \$40-\$150 - using silver instead of gold.

“I did it so that people can purchase something and not feel they have to put it on their credit card or have to save for it,” she said.

Online Sales

In the past dozen years, Internet retailers have thinned the herd of brick-and-mortar jewelry stores, just as they have in every retail sector, but perhaps more pervasively in the bling market.

“Online purchasing is certainly one of the trends that is making it much harder for traditional jewelry retailers,” said Meghan Connolly Haupt, who owns both an online jewelry site and a sustainable line of jewelry. “Forty-one percent of all online purchases are in the area of accessories and jewelry. That is the highest online segment of any industry including books and electronics.”

In Hedda T. Schupak's expert opinion, Internet sales have not proven to be a category killer.

“Online jewelry sales had been experiencing explosive growth, but realize that growth was coming from a basis of almost zero 10 years ago,” said the former editor, now an independent market analyst.

“Online sales growth has leveled off, and while it is a major source of competition for independents, it's not the sole cause of these businesses closing,” Schupak said. “Many were simply not managed as well as they could be, or they failed to find a unique selling proposition in a crowded market. There is room in the market for the ‘mall jeweler,’ just not room for a dozen of them all selling essentially the same thing.”

Fowler expressed frustration with traditional jewelers unwilling to embrace the Internet themselves.

“They are losing out to savvy companies like Ice.com, Blue Nile and Amazon,” he said. “Most of my customers are not interested in effectively using the Internet to market their products beyond a catalog of their merchandise.”

According to Eric Franklin, the Internet’s major effect on jewelers has been its ability to educate consumers.

“Most people no longer walk into a local jewelry store (nor car dealer, electronics/appliance store, etc.) with no knowledge of what they want, being at the mercy of the salespeople,” said Franklin, who owns D.NEA, a company that sells synthetic diamonds and jewelry primarily online.

“Most consumers do plenty of research, primarily online, to better educate themselves,” Franklin said. “Once they know what they want, it is a matter of finding that product and then who sells it, not the other way around.

“In many cases, a well-educated consumer can be more educated than the salesperson on the other side of the counter, especially in the chain stores.’

Marketing consultant Fowler agreed.

“If people do decide to purchase jewelry though, they are going to the malls to find what they want and then going online to buy the same thing at a fraction of the price, especially at Blue Nile,” Fowler said. “If a diamond is GIA (Gemological Institute of America)-certified through an unbiased, independent, respected laboratory, the value of the diamond is undeniable, which allows people to feel secure when buying online.”

But there will always be a demand for the brick-and-mortar jewelry store, Franklin was quick to point out.

“A physical store in a major market is incredibly beneficial for those customers that still need to touch and feel their jewelry prior to committing,” he said.

Resistance to Change

The root of many storeowners’ problems stems from a longstanding traditional way of doing business and a refusal to embrace new technology that has revolutionized selling, marketing, inventory control and consumer smarts.

“Many jewelers have been doing business the same exact way longer than many of today’s bridal customers have been alive,” said synthetic-diamond retailer Franklin. “That way of business may keep baby boomers buying jewelry for a little while longer, but many baby boomer’s portfolios have been hit hard by the economy, so their discretionary purchases have gone down.”

The jewelers that will still be around in ten years will have adapted to the modern consumer, Franklin added. "The closings won't stop just because the economy is getting better. The struggling local jeweler has been melting inventory and holding their breath, hoping something will stop them from being underwater before they have to close."

Alexander Fowler, of the L.A. Jewelry District, seconded that notion.

"A much needed generational transfer has yet to take place," he said. "These businesses are being run largely by aging patriarchs who are very slow to embrace change. I've talked with a number of sons, daughters, nieces and nephews who are privately upset at what they view as the disintegration of their family businesses because their fathers or uncles have lost touch with the market."

Michael Nedler took over the family jewelry business started by his father. The name "Sonny's Rocks" might be your first clue that his new store along busy Colorado Boulevard in Denver is not your run-of-the-mill affair.

Walk in, check out the guitars on the wall signed by Bruce Springsteen and Bon Jovi. Relax on a sofa and play Wii in front of a flat-screen TV monitor.

Nedler said this scene was created because he wanted to "convey a feeling of hanging out in your living room."

"We want to make the jewelry-buying experience fun enough, relaxing enough that it's a pleasure to do, rather than a chore," Nedler said. "Most jewelry stores are intimidating. Guys would rather set their hair on fire than come into a jewelry store."

Why would he open a jewelry store when so many are closing?

"I've been in business since 1976, long enough to believe very strongly in my ability to make a business work. We're doing this very differently. To get the younger buyer, we needed to create an environment that says 'We are not like that other jewelry store.'

We don't have the people standing around in coats and ties. I would send an employee home if they showed up in a coat and tie. It conveys a sense to the customer of 'Oh god, I didn't dress up enough to come and see you,'" he said.

Too many traditional jewelers continue to do business the way they have always done business, with expensive site leases and massive loads of inventory that isn't moving, Fowler said. They also were slow to recognize or adjust to the economic downturn in time.

"Too many of them 'hoped' things would get better, and they haven't," he said.

What did the thus-far survivors do to remain standing?

When sales started stagnating for Calla Gold, owner of her namesake jewelry store in Santa Barbara, Calif., she “started promoting repairs and the re-designing of ... clients” existing dated, gifted or inherited pieces. This led to more sales of [her] designs and other finished jewelry.”

“My biggest change was to act like I was just starting my business and get out there,” Gold said. “I realized I'd been able to coast for years and do well. It was now time to burn the midnight oil and go for it like it was a start up. That helped me tremendously in dodging the jewelry-business-closure bullet.”

L.A. designer Endler pointed to a brightside for the jewelry industry's prospects.

“The fine jewelry industry has always been slow to change, but they are coming along,” she said. “Right now the middle rung has suffered the most. High end will still be purchased and low end has grown. People are spending less.”