

Jewelers' Outlook Lackluster

Amid Struggle, Some Small Shops Find Ways to Shine

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Foss Jewelry was honored by the Maine Legislature in September for reaching its 90th year in business. But like many jewelry retailers across the country, the family-owned store may have just celebrated its last birthday.



"We've talked to an accountant and we've decided to try to get through Christmas," says Anne Winter, manager of daily operations at the store, located in Livermore Falls, Maine. "At that point, we'll see if we will liquidate and close down."

Austin and Warburton's Brenda Warburton designs custom jewelry that customers order via the Web.

The store only sold one diamond ring last holiday season, relying on sales of cheaper, sterling-silver pieces and other gift items to bolster profits. Then one of the town's paper mills shut down, laying off hundreds and crimping the town's economy. Some days, Ms. Winter says, she is lucky to make \$20 selling watch batteries.

As younger generations become less interested in jewelry and as Americans gravitate to online shopping for convenience and bargains, Main Street jewelers and jewelry retailers are struggling to attract customers. The recession, which has spurred many consumers to think twice before making a luxury purchase, has added an extra burden, pushing many to shutter their doors.

According to a census by the Jewelers Board of Trade, the number of jewelry retail firms has declined more than 5% since September 2007, when the credit crunch started to take a firm hold on the economy. That's a net loss of 1,210 stores, primarily made up of mom-and-pop shops because the census tallies retailers by name, not by each store or kiosk location. This means that Foss Jewelry, as a standalone jewelry store, is counted the same as chains such as Zale Corp. and Kay Jewelers.

In 2007, sales for private jewelers were up more than 4%, according to Sageworks Inc., an economic-research firm in Raleigh, N.C. But in the last year, sales at those establishments are now registering a 4% decline. By comparison, sales dropped 2.3% at clothing stores and 3.3% at florists in the same period. Furniture stores, hard hit by the housing market, are enduring a 6% drop in sales.

"It's discretionary items that people stop buying when they are feeling insecure," says expert Drew White, chief financial officer at Sageworks and a credit analyst who researches market potential. "And there is lack of capital to finance inventory, which is another thing that is hitting private retailers."

Wise Jewelers, of Mount Vernon, Ohio, was shut down last February after 183 years in business. "It was difficult to compete with the chain stores and the Internet," says Brian McNamara, who owned the business for three years before closing it down. "For the most part, the service and repairs side of the business kept us going, but in the end, the economy did us in."

Some jewelers are staving off liquidation by implementing new business models. Carol Lipper, president of Designer Jewelry and Handbags, shut down her shop on the main thoroughfare of Millburn, N.J., in June because she couldn't afford rent. She laid off two employees, reduced her inventory and relocated to Livingston, N.J., where she is renting a small space inside Handcrafters, a store specializing in handmade gifts.

"I've seen downturns that affected expensive merchandise," says Ms. Lipper, whose products sell for \$20 to \$250. "But I've never seen anything like this, where the moderately expensive stuff is getting hit, too."

While it's been tough building a new clientele, Ms. Lipper thinks the model has potential. She is in negotiations to rent counter space at other stores and spas in the area to expand through satellite locations. She will also give the storefront presence another try: Just this week, Ms. Lipper signed a lease to rent a small boutique in Denville, N.J.—for 78% less than she was paying for her store in Millburn—and has hopes of opening by Thanksgiving.

In Ann Arbor, Mich., Craig Warburton also made a big change. His business, Austin and Warburton, hit \$1 million in revenues in the mid-1990s and was growing steadily. His wife, Brenda Warburton, designed and created all the jewelry in the display cases, which attracted pedestrians in the downtown area. In 2008, seeing the consumer shift to online purchasing, the Warburtons launched AustinAndWarburton.com, a Web portal that allows customers to design and order custom jewelry, from birthstone necklaces to wedding rings.

The site took off and the couple decided to shut down the storefront last May—shedding several highly-compensated employees in the process—and move to a nearby office. For added convenience, the couple installed a video-conferencing system that allows customers to discuss and see 3-D models without leaving home. This year, Austin and Warburton should post record sales, Mr. Warburton says.

"We changed the size of the business to suit the size of the customer base," Mr. Warburton explains. "And we got a chance to rewrite the rules at a time when a lot of people are going out of business."