

What a simple 19th century Italian can teach you about business and how following these proven principles can improve your jewelry store performance by as much as 59% immediately...

A big claim –but not without substance. I have seen stores adopt this simple principle and add thousands of dollars to their sales in a very short period of time through better staff management, better inventory management and better customer management

So what is this principle?

Well there are many principles of nature.....the laws of gravity, the theory of relativity, the law of diminishing return, to name a few.

But none has a greater impact on a business's performance than the Pareto principle.

The Pareto principle, or its better known name, **the 80:20 rule**, was based on the studies of Italian, Vilfredo Pareto during the 19th century. Pareto discovered that the majority of wealth was concentrated in the hands of a few; in fact **80% of the wealth was discovered to rest in the hands of only 20% of his study group**. When he carried his findings further Pareto discovered that the principle applied to other areas of society – **80% of the crime was committed by 20% of the population, 80% of the population lived in 20% of the country**, and so on...

So what does this have to do with retailing?

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Very simple. **By applying the 80:20 principle to your business you can concentrate more of your effort on the 20% of activities and time that gives you the majority of your results.** Let's look at how it can apply to the four S's of retail:

Staff

Stock (Inventory)

Suppliers (Vendors)

Sales

Let's look at the first - staff. Applying the principal to your sales staff (and using the reporting system you have available) you will discover that **80% of the sales, or some variation thereof, will come from 20% of your staff.** It may not be precise- you may find that 2 of your 8 staff (25%) are providing you with 70% of the gross sales... but the rule will apply to some extent.

How does this help?

Rather than giving all your staff equal treatment you are able to concentrate your time and energies where they are most needed – either by focusing on the remaining staff or better still -concentrating your efforts on making those two staff members better, or ensuring they get more opportunities to sell. If Sue can sell four times as well as Carol, then a 25% improvement in Sue will generate more sales than a 25% improvement in Carol.

There is no better example of this principal being applied than with our second S –stock or inventory. A quick printout of your categories by order of gross profit or sales will reveal that **the key 4 or 5 categories are probably contributing over half the businesses profitability.** Yet do we concentrate our time and energies in this area? No. We make the cardinal mistake of treating all jewelry items equally.

“We are often guilty of devoting more time to the lesser performing areas and neglecting those parts of our business that are the very lifeblood.”

Below is a typical representation for the average jewelry store. The first column shows the percentage contribution to overall store \$ sales. The second is percentage contribution to the number of items sold across the store.

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Category	% \$ of Sales	Qty of Sales Units
Diamond Jewelry	44%	4.80%
Colored Jewelry	11.60%	5.60%
Gold Jewelry	11.20%	8.20%
Watches	4.20%	1.40%
Silver/Fashion	8.80%	21%
Other (repairs, giftware etc)	20.20%	59%
	100%	100%

In the above report you can compare the percentage of sales dollars received (result) against the percentage of quantity sold (effort) for a number of categories. Looking at Diamond rings 4.8% of the quantity sold (effort) is yielding 44% of the sales (result).

Compare this to repairs and other items where 59%, or over half, of the salespersons time is giving just 20.2% of the sales dollars. **In this case the energies would be best spent nurturing and growing what is clearly an important area of the business (being diamonds) rather than spreading staff time, owner's time, marketing dollars and inventory effort across all categories.**

If the typical store can achieve these results from just 4.8% of their time and energy what would they achieve if they concentrated twice the effort in this area??

The third S where you can find the 80:20 rule apply is with suppliers or vendors. Again a quick printout of suppliers by gross sales will reveal the top 6 – 8 vendors providing more than 50% of sales. Do these vendors receive more concentrated effort? In most cases they are treated the same as other vendors in terms of time and money spent. Yet they have proven themselves as having the selection and price points that your customers want.

“Why put your energies and money into an under-performing vendor when there is more profit available from working closer with your top ones??”

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The last S is sales. If your computer has a customer management system you are able to produce a report of customers in order of spend with you. It will come as no surprise to discover that **the top 3 or 4% of your customers (often only 100-150 people) can be giving you 25-30% of your business** – either by regular small purchases or from infrequent large ones. Either way these people are extremely valuable. What are you doing to nurture them? **It is hard to manage a database of 10,000 people, but easy to look after a smaller group of 150 on a more personal basis.**

Stop wasting your time and start putting your energy into the areas that give you the most results. If you need help managing your activities to get the best results from the least effort contact carol@edgeretailacademy.com to discuss getting started today.



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) 5698657

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