BUSINESS

INCREASE PRICES? ARE YOU MAD?

Discounts are everywhere on the high street at the moment, but that's no solid long-term strategy for Australian jewellers. Lorna Goodyer finds out how retailers can increase, rather than lower, their prices.

The Australian jewellery industry has entered a vicious cycle. There are so many "40% off" banners on the high street that discounted prices have become the new normal. And it isn't just the big jewellery retailers being drawn into this fruitless price battle: to keep up, many smaller players are reluctantly having to follow suit. What has been created is a perpetual lose-lose situation: raise prices, and shoppers will baulk; continue to discount, and profits will suffer. What was once a sales stimulus will no longer give the desired kick.

At last year's Small Business Summit retailers' concern was clear. Craig Emmerson, the keynote speaker at the event and Minister for Small Business, admitted that although Australia had avoided recession, small business owners were suffering because their margins had been cut by all the Sales that were occurring to shore up consumer spending. Business consultant Greg Chapman, who attended the meeting, says, "A point repeatedly made at the summit was that retailers are hurting and trying to discount their way out of their problems."

Chapman warns that this is no long-term solution: "Decreasing prices is, of course, the most obvious way to increase demand to overcome consumer caution, and retailers were hoping that they could maintain their gross profits (even with a lower margin) with a higher volume of sales. This is very hard to do successfully, particularly if overheads continue to increase."

According to Retail Edge Consultants managing director David Brown, jewellery offers much better margins than almost all other forms of retail and these margins have held up during the Global Financial Crisis. However, Brown explains that this is only because sales of lower value, high-margin silver branded jewellery, such as beads, have increased so much in the past couple of years. Categories more prone to discounting, such as diamonds, coloured gems and gold, have taken a big margin hit. And as sales of branded silver jewellery start to level off – which Brown says they definitely are – overall margins are likely to suffer too. Discounting on certain product categories, he insists, will not protect jewellers in the future.

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TONY ARGYLE

Many in the industry argue that this new discount-driven business model is doing little to aid consumer confidence in jewellery retail either. Only last month, Temelli Jewellery director John Temelli wrote in *Jeweller*, "All it does is teach the consumer there is no value in your product to start with. This starts off hurting the company that discounts, but ends up hurting the whole industry, as consumers think that if the biggest jewellery companies can go on Sale regularly there must be too much profit in jewellery."

If things are to change, Chapman says price perception is key, and jewellers need to reassess their business model if they are to change how much consumers value their product. "Retailers must look at how they position and market their business and present the products they sell," he explains.

Far from impossible, Chapman insists that jewellers can and should be increasing their prices instead of discounting them – jewellers just have to be clever about it: "To increase prices in such an environment they must be strategic in their approach. If they just put up their prices without doing anything else, their customers would of course ask questions."

So where to start? Chapman says marketing is key: "Without changes in marketing, no price rise is sustainable." Most crucial is shifting the focus away from price, so that customers begin to use a different criteria to assess the value of what you sell.

As Tony Argyle, co-founder of Jewellery Marketing Solutions, says, "If you don't want to be price-shopped then stop marketing [your jewellery] as a commodity. Advertising that says: '1ct tdw solitaire diamond h-i si2 was $8,995 now $6,995,' may be fine when it's Sale time, but all year around and you may as well be selling petrol."

With independent stores unable to match the price discounts that large jewellery chains can, it is more important for these stores to shift the focus to other strategies. Argyle advises, "Independent store marketing needs to be focused around the store's strengths – such as community presence, customer guarantees and risk reversal, testimonials and the store's points of difference. They need to make sure what they are promoting is more than just the item."

Chapman agrees. In his book, *Price: How you can charge more without losing sales*, he talks about the importance of establishing your points of difference. "In order for a business to understand their points of difference – or to create them – they must undertake a competitor/product market analysis and then determine where their business sits in that framework or where they want it to be. Once that analysis is complete, decisions about marketing can be made," he explains.

Chapman says the question that every buyer asks themselves is, "Is the product or service worth it?" Let's face it, no piece of jewellery will make the buyer money, save the buyer money, or save them time: by its nature, jewellery is no essential purchase. Because of this, establishing your points of difference is even more vital if a retail jeweller is to be able to answer that question in the face of a cautious buyer. After all, with more than 2,500 independent jewellery stores in Australia it's crucial your store stands out in the crowd. Chapman argues that if a retail jeweller can create a unique selling proposition (USP), it should have no real competitors.

So how can retail jewellers build their points of difference?

One idea is to create a package out of your jewellery product. "If you sell a product, package it with advice or service," Chapman suggests. Enhancing the value in this way will make it more difficult for consumers to make a direct comparison between your store and your competitors – even if you are selling the same product.

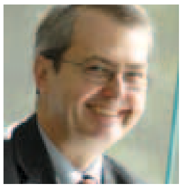
However, Chapman warns that jewellers need to be able to clearly define the terms they use to explain value. For example, when it comes to quality of service he points out: "Everyone says they have quality service. Before you use quality in your USP, answer these questions: What do you mean by quality? Right the first time? Delivered on time? Delivered on budget? Customer satisfaction? Spell out what you mean by quality service."

It is also worth considering packaging. Chapman highlights Tiffany's as a classic example of adding value through packaging: everyone wants that iconic little blue box and all that it represents. "If the packaging is too good to throw away, it is a constant reminder of your name," he says.

Another means of creating a point of difference is to "become an expert", says Chapman. In jewellery retail, there is significant scope to employ this tactic – your store could become a go-to place for coloured gems, for example, or responsibly sourced jewellery. "Experts are regarded as a safe choice for the service," says Chapman. "Potential clients seek you out by name. When that happens, you aren't being compared with anyone else." Experts are therefore able to charge a lot more than non-experts.

Chapman warns, however, that advertising will not help forge a retailer's status as an expert because "that is just you talking about yourself". Instead, he recommends writing articles on a specific area of expertise, and speaking publicly about the topic.

Once a retailer's points of difference and marketing strategy have been shifted away from price, jewellers will be in a position to revisit their pricing structure.



"EVERYONE SAYS THEY HAVE QUALITY SERVICE. BEFORE YOU USE QUALITY IN YOUR USP, SPELL OUT WHAT YOU MEAN BY QUALITY SERVICE"
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Brown advises jewellers to look at two important areas when trying to increase margins: price points and supply and demand. "Too many retailers use prices such as $87.50 or even $1,870, when the item can cope with $89.95 or $1,995 with little or no buyer resistance," he explains. Similarly he says jewellers should not be afraid to test the water with price increases based on demand: "If an item is selling well at $89 it's time to test if there is resistance at $99."

Chapman says small businesses often don't understand the big picture when it comes to the total cost of running their business – and these costs should be a key determiner in fixing prices. "Owners routinely exclude key parts of their cost structure and often have hidden cross subsidies between products. I've even seen cases where for certain products the more they sell, the more they lose."

With that horrifying prospect in mind, perhaps it's time for jewellers to stop discounting and ask what their products are really worth? *

WHO ARE YOUR 'BEST BUYERS'?

To successfully increase prices, establish which of your customers you are happy to wave goodbye to, and which ones you really want to keep, says business consultant Greg Chapman.

In any business, 80 per cent of the value comes from 20 per cent of the customers. These are your 'best buyers.' These buyers truly understand the value of your offers and are willing to pay more for them. They will be the least resistant to price increases and these are the ones you should focus on.

Look for the common characteristics that these buyers have. Do they have very specific needs, or are they from a particular income/age group? Be as definitive as you can be about your best buyers. Once you identify them and the benefits they value, you must clearly communicate these differences. This is the value they will be prepared to pay extra for.

Dr Greg Chapman is author of 'Price: How you can charge more without losing sales.' www.increaseyourprices.com.au.