

**A Business Plan For:
The Diamond Brokers USA**

November 1994

President:

Jim Smith

1122 W. Box 123

Fort Lauderdale, FL 88448

Table of Contents

Executive Summary	231
Industry Analysis	232
Financial Analysis of T.D.C.	233
Market Conditions	233
Target Markets	234
Competition	235
Market Strategy	235
Financial Needs	236
Projections and Financials	236
Exhibits	236

Executive Summary

The Diamond Brokers USA is a small retail jewelry business located in Fort Lauderdale, Fla. It began through the part-time efforts of Mr. Jim Smith. During the early years of growth, the firm had little direction, poor financial reporting, and few efforts in marketing. Mr. Smith has recently received his M.B.A. from Florida State University and is now taking the firm into a new period of growth.

The firm recently moved to a new location on Fifth Avenue, after operating on the sixth floor of a bank building for the past six years. Mr. Smith has hired three additional full-time salespersons to help implement his marketing strategy. With commitment to a direct marketing strategy (personal selling), the firm should increase revenues substantially. To date the firm has steadily increased sales each year as a result of word-of-mouth advertising. Mr. Smith will continue to focus on the strengths of the firm: low overhead, a professional environment, strong clientele base, and an established reputation.

The Diamond Brokers USA will market fine jewelry and incentive and recognition awards. Its target markets include engaged couples, the "professional," insurance companies (insurance replacements), and small to medium-sized corporations. The strategy consists of developing and expanding the current customer base through direct mail and telephone prospecting. Businesses and professionals will be contacted and visited by out-of-store salespeople. A database will be developed and used for marketing to the repeat customer. A newsletter will continue to be sent to the firm's clientele.

The Diamond Brokers USA will need additional capital (\$50,000) to finance expansion. Much of these funds will be used to expand inventory. The balance will give the firm the working capital it needs to grow. Projected returns show that the firm should generate a \$28,890 profit after one year and \$67,802 after the second year.

The Diamond Brokers USA had its beginnings as the part-time endeavor of Jim and Mary Smith. As a student at Florida State, Mr. Smith used his background in diamonds to generate extra income for the family. After graduation, Mr. Smith moved to Fort Lauderdale Fla., as an employee of the L.D.S. Public School System. He continued to wholesale diamonds and jewelry to local jewelers and private individuals. He eventually opened an office on the sixth floor of the First Interstate Bank Plaza in Fort Lauderdale. Over the past five years, his clientele of retail customers has grown and he has discontinued wholesaling.

The Diamond Brokers USA has distinguished itself from conventional jewelry stores. Because it was located on the sixth floor, Mr. Smith kept overhead extremely low. This, combined with his ability to buy from some of the nation's largest manufacturers and suppliers, enabled him to offer diamonds and diamond jewelry at extremely low prices. Marketing consisted of word-of-mouth referrals. The firm employed a small part-time sales force and a part-time office manager. (Most of these have been college students.) Since its beginning, annual sales have increased from \$35,000 to over \$200,000. The firm is open six hours a day, Monday through Friday. The firm successfully built a loyal following because of personal attention, a professional environment, education given to the customer, and extremely low prices.

The Diamond Brokers USA's sales are in two areas: the diamond and jewelry market and, to a lesser degree, the marketing of incentive and recognition awards to Fort Lauderdale companies. Mr. Smith feels that the latter field has great potential, but has done very little to develop this area. The firm has several major accounts, including the U-Haul Corporation and Benjamin Wholesale.

Another area of success has been among "professionals." The Diamond Brokers USA has a developing network among professionals. This is in part because Mr. Smith is willing to go to their offices.

Sales for the firm are broken down as follows: Diamonds and diamond jewelry, 56 percent of total sales; karat gold rings, 15 percent; karat gold jewelry, 9 percent; custom work and repairs, 12 percent; corporate awards, 6 percent; and other, 2 percent.

To serve customers better, and in an attempt to increase walk-in traffic, the firm recently moved from its sixth floor location to the ground floor of the same bank plaza. The firm has maintained its professional image. There is a small display area, but the majority of the selling takes place in an office setting. The owner has employed a second office staff member. (There are currently four store personnel, and four part-time salespeople, besides the owner.) The firm has production and repair facilities on the premises. D&L Jewelry Repair, an independent goldsmith, sublets space in the office and performs work for The Diamond Brokers USA on a contract basis.

Industry Analysis

Today, the consumer has many options when purchasing fine jewelry. (Fine jewelry is defined as diamond, gemstone, and karat gold jewelry.) Traditional retail outlets, the family-owned stores, are decreasing in number as large retail chains continue to expand. There are more than 24,000 stores in the United States, with about 360 stores in the state of Florida. Small stores with annual sales of less than \$100,000 account for 25 percent of all jewelry stores, yet they have less than 4 percent of all sales. By contrast, stores with annual sales of more than \$1 million account for 7 percent of the industry and have approximately 35 percent of total sales. Other sources for jewelry include the growing number of "wholesale clubs" and discount department stores, such as Target and K mart. (Catalog sales of fine jewelry have not fared well.) In 1993, as reported by *JCK Almanac*, 70.7 percent of all diamond jewelry purchases were at jewelry stores, 13.4 percent at department stores, 7.3 percent at catalog showrooms and discount stores, and the balance at other sources. Jewelry sales have continued to increase steadily since 1982 and are expected to continue to climb at an annual rate of 9 percent through 1995. In 1993, sales topped \$12 billion.

Today's markets are more diversified. Shoppers are more segmented than in the past. Recent surveys published in the *Jewelers Circular Keystone* have indicated that the younger markets are attracted largely by price. More mature jewelry buyers are concerned with quality and service. In an interview with Tracy Larsen of the *Jewelers Circular Keystone* Marketing and Statistical Department, it was noted that wholesale clubs were felt initially in the market, but that the effect has stabilized and jewelers are not reporting any serious threats. (No harder evidence is available at this time.) Ms. Larsen stated that most consumers of fine jewelry want a certain amount of service and education with their purchases, and hesitate to buy from a "warehouse" outlet.

In the latest study of how jewelry sales are distributed, diamond jewelry was the highest category of jewelry sold across the industry. Diamond engagement rings were the top category for most stores, followed by other diamond jewelry. Total diamond jewelry sales for small to medium-sized stores were approximately 30 percent of their total revenues. In larger stores (chain stores), 40 percent of their sales were diamond jewelry. Smaller stores dominate in the area of jewelry repairs. They handle nearly 50 percent of all repairs in the industry, while collecting one fourth of their total revenues for this service.

It appears that the large variety in distributors serves a wide variety of market niches. Large chains and department stores offer the most variety in merchandise. They heavily promote credit purchases. They often use promotional sales, using high markups to allow for promotional markdowns. Another market segment is served by the smaller chains or upper-scale independent jewelers. These stores target the more affluent buyer and focus on quality and service. Still another group are the "mom and pop" operations that rely heavily on years of

past performance and an established clientele. These stores offer a variety of services and products at a moderate price. They represent a "vanishing breed," as the previously mentioned groups are taking away their small market share.

The traditional jewelry store works on a high-markup basis. The average markup for chain stores runs between 300 percent and 400 percent. The following information was obtained in an interview with a manager of a Miami-based medium-sized chain. (The interviewee asked to remain anonymous to avoid any problems with his employers.) The firm marks jewelry up an average of 300 percent, striving for a 60 percent gross margin. Twenty-five percent of this margin is for salaries and expenses, and the balance contributes to profit. Many items are marked up much higher than 300 percent to maintain the average. Larger diamonds of 1.5 carats or more are only marked up 60 percent. He stated that the use of even higher markups followed by "50-percent-off sales" used to be a key strategy, but that consumers are much wiser today; thus, the strategy is no longer used. To compensate, this store has kept markups level and decreased its advertising budget considerably. It also has found that putting more of its advertising dollar into increased merchandise has helped improve sales and profits.

The most profitable products in stores are diamond engagement sets (11.4 percent of sales), other diamond jewelry (9.1 percent), and 14-kt. gold jewelry (8.8 percent).

Financial Analysis of the Diamond Consortium

Pertinent financial data on The Diamond Brokers USA is only available for 1989 and later. Previous to 1989, the operation was much smaller and maintained a poor record system. Much of the information available for that period is lost and/or faulty. From 1989, sales have increased steadily, from \$151,679 to \$210,679. Net income has gone from a \$5,000 loss to nearly a \$10,000 profit three years later (see Projections and Financials). Currently, sales are about the same as last year at this time but profits are higher. An analysis of The Diamond Brokers USA's financial data shows some interesting comparisons with the industry. Although the industry strives for gross margins of 60 percent, The Diamond Brokers USA has consistently had a gross margin of about 22 percent. Since its move in May 1990, as well as the hiring of two full-time salesmen to pursue out-of-office sales, monthly overhead has increased. At the current level of sales, the firm needs a margin of at least 40 percent to break even. To compensate for this, it has recently raised prices by 20 percent. If sales remain level, this will produce the margin necessary to cover overhead. Any increase in sales over last year as a result of increased marketing efforts or the new location will contribute to profits.

A comparison of inventory with annual sales shows an inventory turnover of 6 compared with an industry average of 2.3. This appears to be good, yet a large percentage of sales are not out of current inventory but out of special orders and custom jobs. This has created a cash-flow problem for the firm and made it difficult to expand inventory or increase marketing efforts.

Although the firm lacks cash, it has managed to maintain a high credit rating with the Jewelers Board of Trade. This has made it possible to purchase from a very wide supplier base and obtain excellent financing arrangements.

Market Conditions

The market for jewelry and related products has been increasing and is projected by most experts to continue. Business Trend Analysts, of Commack, New York, predicts a 9 percent annual growth rate in sales of precious jewelry through 1995. Another indicator is DeBeers, the diamond magnate, which controls 85 percent of the world's diamonds. In its 100-year history of reading the market and its signs, it has an enviable record of being right. DeBeers is

convinced that in 1995, demand for diamond jewelry will surpass last year's records. As a result, it increased diamond rough prices by 10 percent last year, followed by an additional 13.5 percent this year. For diamond marketers that is a strong vote of confidence in continuing consumer demand.

Even with the recent slowdown in the economy, The Diamond Brokers USA has maintained sales even with last year. With the new location and with increased marketing efforts, sales should increase.

Target Markets

The Diamond Brokers USA has identified four specific markets that it will target.

Engagement Rings

The engagement ring market has always been The Diamond Brokers USA's "bread and butter." This represents an important area of sales. The average amount spent on an engagement ring has increased 22 percent over the past two years. Diamond engagement rings have accounted for more than 50 percent of The Diamond Brokers USA's sales over the past 5 years. The Diamond Brokers USA has created a referral network that continues to bring in new business.

Incentive and Recognition Awards

The corporate premium awards business will reach nearly \$25 billion this year in the United States, according to statistics provided by Premium Awards Publishing Company in Chicago, Ill. This is an increase of nearly 9.3 percent annually over the past 10 years. Of the market, 45 percent of the most popular awards consist of pens and desk sets, watches and clocks, and jewelry. The Diamond Brokers USA specializes in all three of these products. In the past few years, The Diamond Brokers USA has gained a small share of this market with virtually no marketing effort. Mr. Smith has also found that most of the major suppliers of corporate awards market to larger firms, those with 500 employees or more. In the Fort Lauderdale area there is a large market of smaller firms. In 1990 the U.S. Census Bureau reported that Florida had 136 firms with 500 or more employees. On the other hand, there were 3,584 firms with from 50 to 499 employees. The Diamond Brokers USA views marketing to these smaller businesses as a tremendous opportunity. These contacts will also provide the professional market, described below.

The "Professional"

The "professional" is considered to be the business man or woman, generally between the ages of thirty and forty-five. More women are entering the business world and have increasing jewelry needs. *Jeweler Circular Keystone* reports that "professionals" spend more than any other group on each purchase, making them more profitable for service for the time and effort invested. Large jewelry stores are targeting this market; however, The Diamond Brokers USA has a unique advantage in that it will have salespeople that will go to the client. This service has been successful for The Diamond Brokers USA, because the "professional" often does not have "time to shop." (Salespeople are insured up to \$10,000 and follow strict guidelines as to the amount of merchandise they may carry and the process of screening potential clients.) Another advantage of targeting this market is that The Diamond Brokers USA salespeople will be actively involved in marketing incentive and recognition awards to these same individuals when appropriate.

Insurance Replacements

The Insurance Replacement market is an area in which the Diamond Brokers USA should be able to excel. Through the use of out-of-store salespersons, the firm will be able to personally call on insurance agents and adjusters to let them know of the firm's services. In the past The Diamond Brokers USA has worked well with insurance companies in settling their clients' losses, and have been encouraged by various agents to expand their services to other agents. Other major metropolitan areas have firms that do nothing other than insurance replacements. In Fort Lauderdale, no one has effectively pursued that market. One local private party has generated sales in excess of \$100,000 annually doing insurance replacements on a part-time basis. (Reported by John M. Jensen, Inc., a local diamond wholesaler.)

The Competition

There are many firms that market the same products offered by The Diamond Brokers USA. The Diamond Brokers USA differentiates itself from these in several ways. Low overhead makes it possible to sell at tremendous savings. The "professional" environment helps establish the feeling of "not" buying from a "retailer." The referral system has been spreading for the past 5 years to create the firm's current market, without using any other marketing. The use of out-of-store salespeople and personalized attention are desired by the market.

Market Strategy

The Diamond Brokers USA will use the following marketing strategies:

- Direct Marketing persuaded one in five adults to buy something in 1993, according to a Gallup survey. Mr. Smith will hire one full-time salesperson in the first year (Sept.). This salesperson will be trained by suppliers regarding the products in the first few weeks. He or she will prospect through a program of telemarketing and direct selling supported by mail. Fifty professionals will be contacted each week, first by mail and then by follow-up phone calls. They will be approached for incentive awards as well as personal jewelry purchases. He or she will also contact the Valley's Insurance Adjusters and let them know of the firm's services. In the following year a second salesperson will be added.
- Mr. Smith will continue to recruit young people at valley colleges and universities to act as referents in return for a finder's commission. Five new sales representatives will be added by November 1995, and an additional five in 1996.
- Mr. Smith will develop a customer database to keep track of anniversaries, birthdays, and other occasions that might be an occasion for a jewelry purchase. Reminders will be sent at these times. He will also continue to mail a newsletter, as has been used in the past.
- Moving to the ground floor of the First Interstate Bank building will give The Diamond Brokers USA exposure to some street traffic in the business district of Fort Lauderdale. (This is an area that is being heavily developed at this time. Several new office complexes are currently being built.) Mr. Smith also has arranged for a goldsmith to sublease part of the office space. This will help in serving customers. Frequent displays will be set up in the lobby of the building to attract new business.

The Diamond Brokers USA has had some success with all the strategies mentioned; however, it has not been consistent in implementing any of them. In the last year, Mr. Smith has not fully implemented any of the above strategies because of personal time restrictions. Even without any marketing efforts, the firm has continued to grow. With the addition of a new staff member, Mr. Smith will again concentrate on generating new business.

Financial Needs

Mr. Smith wants to raise \$50,000 to help the firm move into a period of growth. These funds will give the firm additional inventory (purchased at reduced cash prices), some needed fixtures for the office, and sufficient operating capital.

Use of Funds (See Cash Flow Projections)

February 1993	\$1,000	Furniture
March 1993	\$10,000	Inventory
	\$2,000	Cases
May 1993	\$15,000	Inventory
	\$10,000	Accounts payable
	\$4,000	Computer and printer
June 1993	\$8,000	Inventory (as cash permits)

Projections and Financials

The following Income Statement and Cash Flow Analysis is based on last year's monthly averages. Sales have already increased over last year at this time, so these numbers are felt to be conservative. (Sales were calculated by adjusting for the increase in prices implemented last month to correct the low gross margin.) Sales are projected to increase slowly as the new salesperson develops his or her clientele. Sales again will increase in the second year several months after hiring an additional salesperson.

First Year's Net Income (1995)	\$28,890
Second Year's Net Income (1996)	\$67,802

(Note: Financials not included with this business plan.)

Supporting Documents

EXHIBITS

AUTHOR'S NOTE:

List all supporting documentation in the appendix/exhibit section as noted and referenced throughout your business plan. Remember, this information should be clearly and neatly presented so the reader of your business plan can easily reference and understand the data being provided. As in the previous business plans, the Financial Sections are primarily the same format.