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Jewelers of America Releases 2008 Cost of Doing Business Survey

In 2007, mid-range independent retailers saw declines, while higher-end independents grew 3.5%

New York, NY – Jewelers of America, the national association of retail jewelers, has released the *JA 2008 Cost of Doing Business Survey*, which analyzes member stores' financial data from 2007. The *Survey*, which has been published annually for 17 years, represents the most complete and historical comparative financial information available to specialty jewelers in the U.S. It compiles data from a cross section of jewelers, including independent high-end firms (22.6%), independent mid-range firms (36.5%), jewelry chains (7%) and designer/custom jewelers (11.8%).

Sales Growth & Profit

For Jewelers of America members, 2007 produced mixed results. There was growth among designer/custom, independent high-end and chain retailers; while mid-range independents saw real declines. Overall growth was essentially flat for the first time since 2001 and 2002, coming in at -0.3% on average (down from 4.1% in 2006). Designer/custom retailers fared best with a 6.1% sales increase over 2006. Independent high-end retailers saw growth of 3.5%, but that was down from 2006, when the category was up 7.4%. Chain stores experienced 2.5% sales growth, while mid-range retailers were down 1.7% compared to 2006 sales.

Profitability was down in 2007, with specialty retailers experiencing a median 4.6% net profit as a percent of net sales compared to last year's 5.3% **[Chart 1]**. Gross margins were 48.7%, down from an increase of 49.1% in 2006. Results once again varied by type of specialty jeweler, with independent high-end retailers seeing their margins improve slightly to 45.2% (versus 42.9% in 2006), while chains and designer/custom firms were pressured by lower margins. Gross margins at independent mid-range stores were steady from year to year.

Share of Sales

The *Survey* shows that the distribution of sales remained consistent from year to year. Diamonds (loose and set) are still in the majority, with 52% of sales, up 2% from 2006. The next biggest product categories are colored stone jewelry (10% of sales) and karat gold (8%). Repair sales continue to be important, bringing in 11% of sales, up 1% from 2006. Sales of timepieces went from 4% of sales to 3% of sales, compared to 2006.

High-Profit vs. Low-Profit Stores

The *JA 2008 Cost of Doing Business Survey* proves that effective management can make the difference between a high-profit and a low-profit firm. While high-profit stores in 2007 did not have greater sales per store (\$1,179,108 on average compared to \$1,214,544 for low-profit stores), they did have higher sales per full-time employee, with lower payroll and operating expenses. Also, high-profit stores had a 20% greater inventory turnover than low-profit firms **[Chart 2]**.

High-profit retailers contained their operating expenses in 2007 by spending a lower percentage of net sales on payroll, occupancy, advertising and other related expenses. They spent 6.5% less on total operating expenses than low-profit companies **[Chart 3]**. "It is clear that high-profit jewelers do many things just a little better than their low-profit competition," says industry analyst Ken Gassman, who Jewelers of America commissioned this year to do a supplementary analysis of the *Survey*, entitled *JA 2008 Cost of Doing Business Survey: An Analysis*.

In his analysis, which will be included with each *JA 2008 Cost of Doing Business Survey*, Gassman observes that while financial results for 2007 were less robust, the business is cyclical. "It wasn't a bad year in 2007; rather, it was clear that the industry hit its 'high water' mark in 2006, and the tide began to recede in 2007, a trend that continues today," he says.

Gassman's analysis not only looks at this year's numbers, but also offers a historical perspective. Retailers may yearn for the "good old days" of more prosperous times, but he says a look at the *JA 1998 Cost of Doing Business Survey* (which reviewed 1997 data), reveals a different story. "Ten years ago, jewelers' gross margins were lower; their stores were large, inefficient...and, sales per store were a fraction of current levels," he notes.

Jewelers of America Cost of Doing Business Survey: Crucial to Managing Business

"Reviewing Jewelers of America's *2008 Cost of Doing Business Survey* can help retail jewelers generate greater profits," says JA Director of Education David Peters, "because it helps storeowners better understand the basic measures used to gauge the performance of a business."

“The survey also allows retailers to compare their store’s performance with industry averages. You can quickly identify your strengths and weaknesses and develop strategic action plans to support future growth and improvements,” continues Peters, who led a seminar about the management benefits of the *JA Cost of Doing Business Survey*, entitled “Financial Success Through Benchmarking,” at the JA New York Show on Monday, July 28.

Jewelers of America’s *2008 Cost of Doing Business Survey* contains 77 pages of data tables organized by the four categories of specialty jewelers. To order the *2008 Cost of Doing Business Survey*, visit www.jewelers.org or call Jewelers of America at 800-223-0673. It is available to Jewelers of America members for \$24.95 and non-members for \$150.

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– Charts –

Chart 1. *Net Profit as Percent of Net Sales*

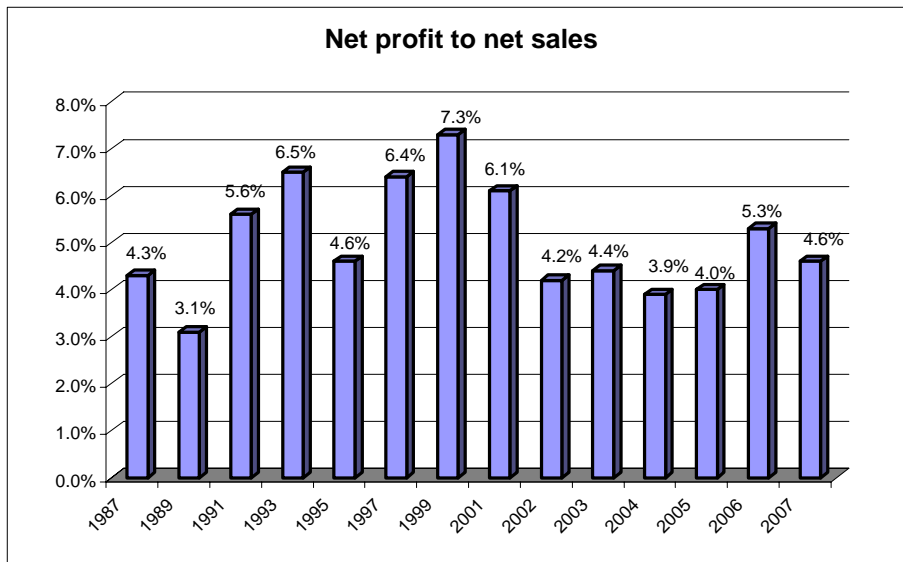


Chart 2. *Comparative Financial & Operating Ratios High-Profit vs. Low-Profit Firms*

Performance Measure	High-Profit Firms	Low-Profit Firms
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EBIT to Total Assets	13.8%	2.7%
Net Profit Before Taxes to Net Sales	8.7%	0.8%
Asset Turnover (net sales/total assets)	1.6X	1.4X
Inventory Turnover	1.2X	1.0X
Sales Per Square Foot - Total	\$556.25	\$609.58
Sales Per Full Time Employee	\$251,643	\$238,500
Sales Growth	2.8%	-1.0%
Total Debt to Total Assets	41.7%	48.9%
Current Ratio	3.6	2.9
Sales Per Store	\$1,179,108	\$1,214,544
Store Size	1,775	2,200

Chart 3. Comparative Income Statement High-Profit vs. Low-Profit Firms

	High-Profit Firms	Low-Profit Firms
Net Sales	100%	100%
Cost of Goods Sold	49.3%	52.6%
Gross Margin	50.7%	47.4%
Operating Expenses:		
Payroll (Incl. Benefits)	20.0%	20.3%
Occupancy	4.9%	5.9%
Advertising & Promotion	3.3%	4.4%
Employee Training & Ed.	0.1%	0.2%
Other Operating Expenses	7.8%	9.8%
Total Operating Expense	38.9%	45.4%
Operating Profit	10.0%	1.2%
Interest Expense	0.9%	0.9%
Other Non Operating Income	0.1%	0.1%
Other Non Operating Expense	0.0%	0.0%
Profit Before Taxes	8.7%	0.8%

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