

A crystal clear way of managing costs



BODHGEMS CASE STUDY



BODH
GEM AND
CRYSTALS

How Bodh Gems and Crystals managed
and tracked their costs to transform their
passion into a profit-making business?



Introduction

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"All companies have some unique costs, so it becomes imperative to understand every element of your costing structure. As the various products we sell are mostly handmade, we need to incorporate the cost of breakage, faults, handling errors etc., in our price apart from the usual raw materials, advertising, storage, packaging costs, etc., that companies in other industries would incur."

— **Merul Dhedhia | Co-founder | Bodh Gems & Crystals**





The Background

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The saying "Diamonds are forever" championed by De Beers might be slowly losing its sheen. Although a sizable industry in its own right, the pandemic is supposedly shaving off 20% of revenue in 2022 for the diamond industry. Where is this money getting re-routed to, you may ask!

It's most likely the gems and crystals industry. Many names know by different people - semi-precious stones, gemstones, crystals, therapy crystals, healing crystals, and near-gemstones, among a few.





Whatever you may want to call it, it sure is turning a lot of eyeballs globally. From celebrities to business tycoons, many of them publicly advertise and talk about using gems and crystals for various reasons. Be it for its claimed healing properties or its striking appearance, the demand for gems and crystals are growing at **5.6% CAGR** to over a billion-dollar market.

What is fuelling this growth is the **increased supply** in various forms. Its economical prices compared to diamonds and the strong narratives companies are building around them. **Merul Dhedhia** noticed this trend and transformed her mother's passion for healing with stones into a **profitable e-commerce business**.



The central graphic features a white silhouette of a person in a business suit. Instead of a head, there is a white rocket ship with a red nose cone and red fins, emitting a yellow and orange flame. The background is a vibrant yellow with abstract, flowing orange shapes and several white starburst graphics. At the bottom, there are geometric shapes in shades of orange and red.

Company and Founder Background

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Mrs Monica Dhedhia had been a homemaker for over a decade. She would finish her daily chores and spend her afternoons connecting with friends and family over phone calls. Once when Monica was speaking with her friend Mrs Mina, a specialist in alternative therapy, she very proudly told Monica about how she was able to help people with various problems by practising alternative therapy on them.



Monica always wanted to do something for the larger society to help them in any small way that she could. Thus that day, she decided to start learning **alternative therapy** from her friend and assisting her in many of her philanthropic endeavours.

She very persistently started learning different types of **alternative therapy** in 2010. In 8 years, she was able to get certified as a professional alternative therapy healer with **12 certificates** in her pocket. She did a range of different courses from **grain therapy, colour therapy and acupressure to chakra therapy** during this period.

Her determination and dedication motivated her children - **Merul and Devash** - to take an interest in the world of **alternative therapy**.



Company & Founder Background

By now, they had started seeing its effects on their health through their mother's changes in their diet and the consumption of crystal energized water that Monica had incorporated into their daily routine. She could heal any minor health issue naturally by implementing her learnings.

Monica's motivation was the positive change she would bring about by healing others, while her children saw a strong business potential in her practice. After months of analyzing and understanding how a business could be built around this, they decided to venture into a consultative e-commerce business. While profits were tracking one metric, the founding team's overall goal was to make the world a healthier place with their products.





The journey of Bodh

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The journey of Bodh

Bodh Gems and Crystals was incorporated in 2019. They had a classic startup story! They mapped out a very meticulous journey for their company. The goal was to begin modestly with the **least amount of capital influx, test the market, get some respectable sales numbers and then reinvest** what they earn into the business to help it scale.

To put their plan into action, Bodh first started with consultation only services. Monica had years of experience in this domain and was a respected name in the market. They started approaching extended friends and family, and word of mouth helped them achieve stage one of their plan. They understood the commonly desired crystals based on the patient's problems through their consultations. They used the money they made from consultations to buy these gems and crystals stock. Thus began their journey into **product sales**.

To help Bodh scale, Monica took a loan of one lakh rupees from her husband. This money was routed to buying more stock of crystals. Devash, Monica's son and Merul's brother, was a **gemologist**. He helped them source the best quality of products at the lowest price. Merul donned the role of looking after the entire operations of the business.

Bodh was now equipped with a founding team, consultation services, a small but strong product line and optimized procurement. With the **supply** side in place, it was time to scale **demand**.

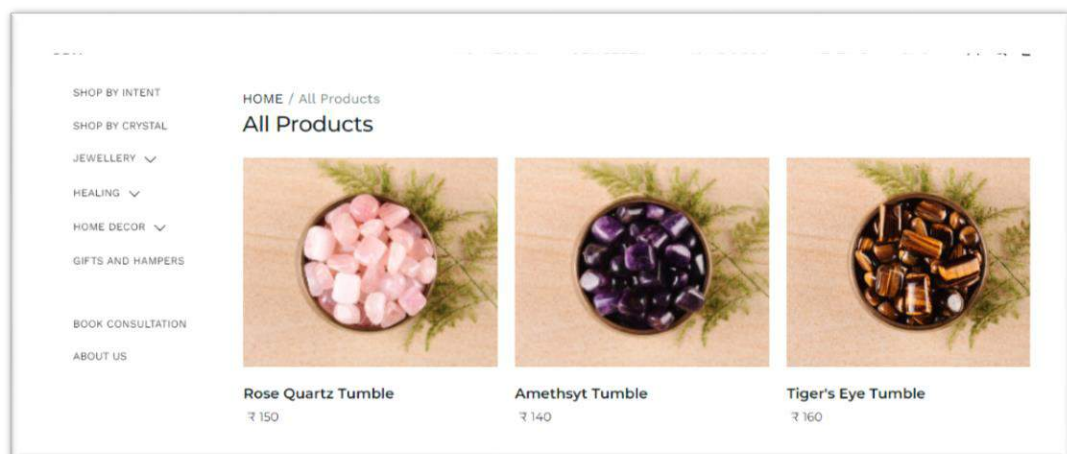


The journey of Bodh

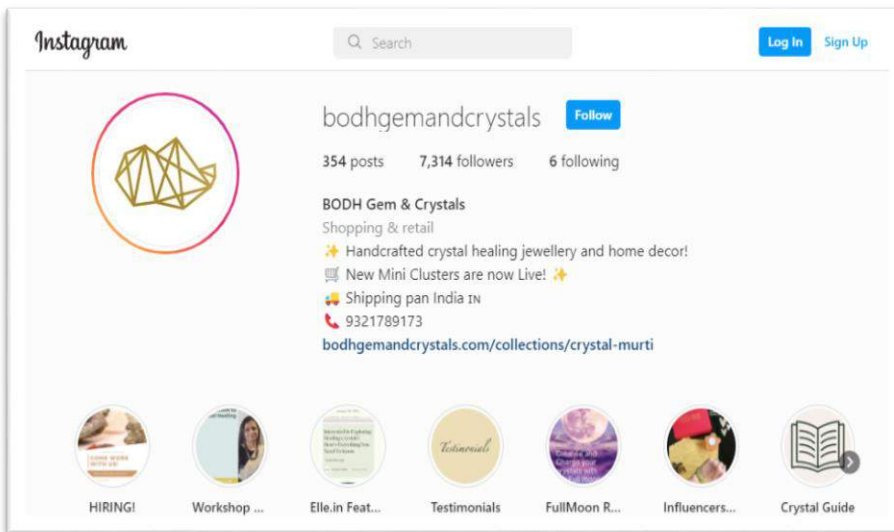
They started with small exhibitions at home for their existing consultation clients and friends and family. The focus here was healing illnesses and helping customers achieve their goals. They started participating in external events and exhibitions by reinvesting the profits they made after multiple home exhibitions. This was their first exposure to capturing new demand.



While the in-person exhibitions were going well, bringing in a steady income, Merul realized that Bodh needed an **online presence** to scale exponentially.



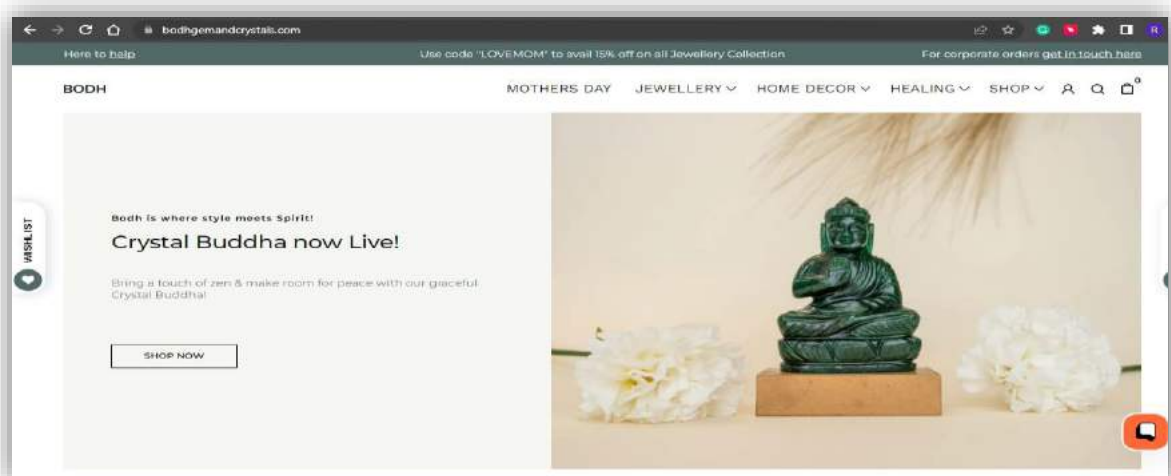
The journey of Bodh



Sticking to their ideology of starting small and scaling, Merul started with an **Instagram page for Bodh**. Her digital marketing course helped her refine Bodh's **social media strategy**, and soon Instagram sales became a more significant chunk of their revenue than offline sales.

In 2021, Bodh launched its **e-commerce website**.

The benefit of online sales was the ease of access to data about customers. Merul realized that to capitalize on this, and she would have to move Bodh's online sales to their website so that they could also build a better online experience for potential customers.



Merul credits a large part of their success to date to their focus on **money management**. They were careful not to go in too big too early, borrowed little, spent wisely and scaled slowly. In the next section of the case, we will dive deeper into Bodh's finances, cost structures and business metrics.



From Passion to Profit

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When Bodh started, they were sceptical about what the demand would be, if people would be willing to pay for their products and if they'd get recurring demand. Since demand was not consistent, they had to buy single pieces on order. This meant that their per unit buying cost was reasonably high. But as they began scaling through exhibitions and online sales, their demand became predictable. They were able to buy products in bulk. They were able to get better deals with their vendors, transport and administrative costs to procure goods that were cheaper (per unit), and they could get more **competitive prices** from various vendors. **Economies of scale** soon kicked in, which automatically **reduced the per-unit cost**.

This piqued Merul's interest in further exploring the business's financial aspect. Pricing formed a significant parameter of how the cash flows would look like. While initially priced their products on the lower end to gauge interest, once they understood that the market was accepting their offerings, they adopted a more **aggressive pricing strategy**.

After multiple conversations with Monica and some industry experts, Merul decided on pricing their products based on two parameters:

- ✓ **Category of the product**
- ✓ **The intent of why people were buying the products**

As their product range began to increase with time, Bodh reached a stage where they had **250 different types of products**. Merul clubbed these into buckets and built a **pricing strategy** for each category.



Different people bought every product category for different reasons and at different places. Some products like regular healing crystals were available with multiple vendors, while home decor pieces were exclusive with Bodh since they got them custom made. Rare crystals were hard to get, while small casual jewellery pieces were readily available.

Adding another layer to the equation of category pricing was the intent of people buying the products. There were primarily **three types of shoppers**:

TYPES OF SHOPPERS

Intention based

- People who were shopping to overcome certain hurdles in their lives or achieve some goals. These were people who needed consultation to understand which crystal would be best suited for them

The audience that already knows what they want

- They knew what they wanted, and they bought directly from the online store

People who found the products attractive and bought them purely for how they looked

- This constituted about 5% of Bodh's buyers



By clubbing these two critical parameters, Merul was able to narrow her pricing strategy into **three different models** -

PRICING MODELS OF BODHGEMS

1. COST + MARGIN

This applied to categories like nonexclusive commonly used crystals and more miniature ornaments that were moderately priced. Since these were competitive categories, she had to incorporate discounting to attract customers to buy them. A cost + margin approach for this category ensured that she did not lose money on this category of products. This category of products formed approximately 30% of her revenues.

3. DYNAMIC PRICING

This formed 10% of their revenues. Dynamic pricing was reserved for a small category of crystals where market conditions changed the perceived value of products. If a celebrity bought a particular crystal, its demand would automatically increase. But since this was not consistent and predictable, Bodh decided not to focus heavily on this at the moment



2. VALUE-BASED PRICING

This pricing model was reserved for home decor and consultation based crystal recommendations. Home decor was a category where people didn't mind spending more if that piece suited their interiors and aesthetics. They had a stronger sense of the value the product would bring to make their decor look appealing. Hence this model was a perfect fit. For the category of consultative crystal recommendations, this audience had particular needs for the crystal. It was for either helping them alleviate some pains, which could be physical or emotional or help them achieve some success in the form of positive vibrations and good luck. In either case, consultation sessions would help showcase the value of crystals and have specific recommendations for them. This also helped Bodh form stronger relationships through a personal connection with its customers. It automatically led to higher referrals for the company, repeat customers, and hence higher customer lifetime value. Value-based pricing categories brought in a sizable 60% of the business.

Merul's pricing strategy showed results as they were able to **increase their profitability by 40% year on year**. However, she was aware that they might need to **revisit their pricing strategy** since they were adding more products every month. If she wanted to optimize Bodh's profits as they scale and ensure demand remains strong, pricing would be a critical parameter that would need further thought.

From Passion to Profit

Once Bodh's pricing strategy was comfortable, it was now time to understand, analyze and map the most critical parameter of any business - **profit!**

Merul's strong business acumen and inquisitive nature led her to read multiple articles and books optimizing cost structures. She knew that profit would primarily depend on:



Revenues



Fixed Costs



Variable Costs

She then began mapping all her costs from the smallest to the largest, from procurement of crystals from vendors to office administrative costs. The next step was to segment them into fixed and variable costs. Bodh had some parameters in the fixed cost bucket such as office rents, salaries of full-time employees and software and platform costs - sales tool, customer relationship management tool, website maintenance cost, marketing automation tool cost, social media tools. They also had variable costs such as wastage while shaping crystals, consultation fees, marketing and PR budgets, logistics and packaging.

Understanding and analyzing these costs would help Bodh reach the optimum point of arriving at the **least average cost** of the product. This meant that Merul would be able to decide on which parameters should be fixed and which ones should be variable to reach the least overall cost price per product.

From Passion to Profit

One of the key results of this exercise was their decision in **standardizing their packaging**. Bodh realized that by doing so, they would save on a sizable chunk of their costs by placing larger orders for a single type of packaging. They also moved to work with a few quality vendors and buy products in bulk from them. Another avenue where they moved one key parameter from the variable bucket to the fixed one was by engaging with their **social media and PR agency** on a retainer basis, rather than paying them per post per product.

Once Bodh's **cost structure** was finalized and optimized, they naturally saw a more significant **profit margin** on their revenues.





What are Cash Flows:

<https://www.investopedia.com/terms/c/cashflow.asp>



Methods of pricing:

<https://www.weebly.com/inspiration/product-pricing-methods/>

<https://www.profitwell.com/recur/all/pricing-strategy-guide/>



Fixed Cost and Variable Cost:

<https://www.investopedia.com/ask/answers/032515/what-difference-between-variable-cost-and-fixed-cost-economics.asp>



Economies of Scale:

<https://corporatefinanceinstitute.com/resources/knowledge/economics/economies-of-scale/>



How do you calculate profit margin?:

<https://www.investopedia.com/terms/p/profitmargin.asp#:~:text=Profit%20margin%20gauges%20the%20degree,for%20each%20dollar%20of%20sale.>





Measure what matters

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In the first year, BODH was an offline service-retail company built only on personal relations, which meant that they had very little data to analyze various parameters - which product was doing well, what the demand looked like, and how was the spending pattern of the clients etc. But as BODH moved to a more digital-savvy route by being available on social media platforms and slowly consulting on direct messages and comments on these social media platforms, they were equipped with **data** to make more **informed decisions**.

Being on social media and starting to sell on them enabled the company to keep track of their return on advertising spend - a significant component of BODH's costs. They harnessed platforms like Shopify to further decode how their advertisements were doing in particular regions and how they could **increase the ROAS**.



As they evolved into an e-commerce company, they knew that just analyzing the number of orders per month wouldn't cut them as the price variance between different products is too high. To map their growth and progress, they resorted to a more pertinent **sales metric** - average ticket size - and made sure they track it monthly.

Average ticket size enables the founder to understand the amount of revenue that comes from one customer. The knowledge and understanding of this metric further gave insight to the founder to lower their **Customer Acquisition Costs**.

BODH has been exposed to an entire-blown e-commerce market in less than a year. This means that they have yet to see all the business seasons and understand their consumers' behaviours effectively. Being mindful of this, BODH has taken the bold step of not withdrawing any profits from the company and keeping the profits in the company save for a rainy day.



[A Refresher on A/B Testing](#)





Bodh's way ahead

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Bodh has a **three-goal approach** for their future:

BODH GOALS

01

The company has set clear timelines to start withdrawing profits while maintaining enough cash flow within the company, making sure they do not compromise on inventory management, research and development and marketing

02

Bodh understands a business's growth limitations that depend on a centralized knowledge centre and personal selling. Thus, they aim to automate their consulting feature shortly. This will help their clients to be able to choose the crystals that suit them independently, taking BODH closer to its dream of being a global brand

03

Bodh Gems and Crystals are on their way to capturing the world. By the end of 2023, they aspire to mark its presence in 4 countries, starting with Canada this year





Additional Links:



1. <https://www.bloomberg.com/news/articles/2020-05-28/no-longer-kooky-crystals-are-outshining-diamonds-in-the-covid-era>
2. <https://bodhgemandcrystals.com/>



End of case questions

An intern has put down the details of the Costs and Revenues heads @ Bodh Gems:

Company formation costs:	INR 10,000
Avg. monthly Salary:	INR 12,000
No. of employees:	3 (Full time)
Gemologist Course:	INR 3,00,000
Warehouse Rent:	INR 40,000 per month
Marketing, Social Media:	INR 20,000 per month
Website set-up costs:	INR 35,000
Website maintenance:	INR 3000 per month
Avg. cost of gems:	INR 160 (per unit)
Trademarks:	INR 5,000
Cost of shaping the gems:	INR 120(per unit)
PR Agency fee:	IR 10,000 per month
License Fee:	INR 10,000 annually
Courier charge:	INR 100 (per unit)
Avg no. of customer per day:	8 customers
Avg. Sales price per unit:	INR 900
Returns:	10% of the no of units sold
Avg cost of returns:	INR 5 (per unit)
Packaging cost:	INR 66 (per unit)
Lawyer charges:	INR 5000 (company establishment cost)
Electricity:	INR 5000 per month
CRM Tools:	INR 12000 per month

Other assumptions:

No. of purchases by a customer in a month:	1 unit
No. of units purchased in a single purchase:	1 unit

NOTE: These costs are indicative and not actual costs incurred by Bodh Gems

Based on the above data points:

- ❖ Segregate these heads into Revenue and Cost Heads
- ❖ Within the Cost heads, classify into:
 - Fixed Cost
 - Variable Cost
 - Start-up Costs
- ❖ Fill up the Basic Financial Plan Sheet
- ❖ Evaluate the financial feasibility of the business taking the Break-even point and Payback period into account



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