**Hallstead Jewelers – Case Report**

**Problems**

Hallstead Jewelers has been one of the largest jewelry and gift stores in the United States (US), but the current market has brought new challenges for both the sisters who currently handle the management of the store. Hallstead Jewelers could not grow due to their location and sales had be stagnant for a long time. Advertising was required for promoting the new store and pricing was affected because of competitors who were growing rapidly, i.e. Tiffany & Company was the largest diamond seller in the world and Blue Nile was the largest online seller of diamonds. Most importantly it was necessary for both the sisters to bring in profits to save the Hallstead name.

**Potential Solutions**

**Option 1:** Eliminate Sales Commissions to reduce expenses and increase income.

* **Pros**: By eliminating sales commission the Net income comes out to be $130,000 which shows profits for the company (Appendix B- Tab 4). In addition to this, the management can use a percentage of the Net Income for advertising and promoting the new store. Also, this would lead to reduction in expenses for the company.

|  |  |
| --- | --- |
|  | 2006-2007 |
| Sales | $10,711,000 |
| (-) VC: | $6,106,000 |
| (-) Eliminate Sales Commissions | $536,000 |
| **Total VC** | **$5,570,000** |
| CM | $5,141,000 |
| Total FC | $5,011,000 |
|  |  |
| **Net Income/Loss** | **$130,000** |

* **Cons**: This may affect the sales for coming years as the sales staff would not put in as much efforts as they used to do and there is a possibility of losing employees who have been with Hallstead for a long time as they won’t be earning any commissions on sales which motivated them to stay with Hallstead.

**Option 2:** Franchise Hallstead Jewelers to other regions in the US by conducting market analysis to access the potential regions in which the stores should be franchised.

* **Pros:** Franchising would help Hallstead grow in other markets as well as increase profits for the company as the Hallstead name has been known for a long time and has had many loyal customers. This would also help Hallstead to stay competitive by franchising not only nationally but also grow slowly in the international market. The long-known name will attract many potential franchisees who are already in similar trade and have knowledge of the business.
* **Cons**: It would be a risky decision for the management of Hallstead since they have never franchised before and the possibility of franchisees incurring loss will affect the overall reputation of Hallstead Jewelers which may worsen their situation.

**Option 3:** Create online presence like Blue Nile by setting up website and promoting the same in the store as well as on the internet. The amount of $200,000 used for advertising should be invested in promoting Hallstead online (Appendix B- Tab 5).

* **Pros:** By launching Hallstead Jewelers on the internet the company would attract customers from all around the globe and because of its good reputation people would be more interested in buying from Hallstead in addition to it being convenient to buy online. Also, this would help to spread the Hallstead name and will even pull customers towards its store. Advertising would be expensive but it would be an investment which would turn out to be positive in the long run.
* **Cons:** Initially it would be expensive to create an online presence with the company already in loss as it took Blue Nile a decade to become the second largest diamond seller (from the case). Even though Hallstead Jewelers are well known, it would take them some time to recover from the losses and this time may not be sufficient and could affect Hallstead’s reputation as it would get difficult for them to keep up with their current position.

(Additional solutions in Appendix A)

**Decision**

Option 2 and Option 3 are recommended options. Option 2 should be adopted immediately as the franchisees will take time to setup and will at least take 2 years for Hallstead to recover its losses and start gaining profits from franchises. Option 3 can be adopted within a month after conducting some research about the online market and about Hallstead’s potential to fulfill several market requirements.

(Tabs 1 to 6 explained in Appendix B)

(Marketing Models discussed in Appendix C)

**Appendices**

**Appendix A**

**Option 4:** Should have decided on location by researching more at different places instead of taking the corner store on Washington Street and Second Avenue instantly.

* **Pros:** By researching and looking at other options by selecting different locations helps to shortlist a place where the customer pull can be maximum i.e. people other than regular customers which may result in increase in sales, simultaneously affecting the income positively.
* **Cons:** The possibility of losing this corner spot could be higher because all the stores were shifting on Washington Street and Second Avenue.

**Option 5:** Increase the number of product offerings by introducing a 5th department which will focus on smaller and cheaper jewelry items.

* **Pros:** This would increase the unit sale of Hallstead as well as increase the number of buyers because buyer behavior changes when they buy smaller items especially when they are cheaper.
* **Cons:** The increase in number of customers cannot be identified and the sales staying stagnant is also a possibility which would lead to increase in losses and would become very risky for Hallstead.

**Option 6:**  Invest the money eliminated from sales commission to advertising and promote the new store aggressively.

* **Pros:** This would decrease the losses incurred and may attract customers thereby increasing the unit sales and income for the company.
* **Cons:** The effect of advertising cannot be certain and it becomes difficult to understand without proper research, why the sales are not increasing. In other words, what are the other factors that affect the company and is it advertising only which can increase sales? These questions are to be answered precisely or at least with a little certainty.

**Appendix B**

Tab 1 – Income Statement in Contribution Margin Format:

Contribution Margin = Total Revenue - (Variable Cost per unit \* Quantity Sold).

The contribution margin is the difference between Sales and Total Variable Cost which is shown below for 2003, 2004 and 2006.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2003** | **2004** | **2006** |
| **Sales** | **$8,583,000** | **$8,102,000** | **$10,711,000** |
| (-) Variable Cost(VC): |  |  |  |
| Cost of goods sold | $4,326,000 | $4,132,000 | $5,570,000 |
| Commissions | $429,000 | $405,000 | $536,000 |
| **Total Variable Cost** | **$4,755,000** | **$4,537,000** | **$6,106,000** |
|  |  |  |  |
| **Contribution Margin (CM)** | **$3,828,000** | **$3,565,000** | **$4,605,000** |
|  |  |  |  |
| (-) Fixed Costs(FC): |  |  |  |
| Salaries | $2,021,000 | $2,081,000 | $3,215,000 |
| Advertising | $254,000 | $250,000 | $257,000 |
| Administrative expenses | $418,000 | $425,000 | $435,000 |
| Rent | $420,000 | $420,000 | $840,000 |
| Depreciation | $84,000 | $84,000 | $142,000 |
| Miscellaneous expenses | $53,000 | $93,000 | $122,000 |
| **Total Fixed Cost** | **$3,250,000** | **$3,353,000** | **$5,011,000** |
|  |  |  |  |
| **Net Income** | **$578,000** | **$212,000** | **-$406,000** |

Source: Hallstead Jewelers, pgs. 1-4.

Tab 2 – Breakeven in Sales Tickets and Dollars

Contribution Margin per unit = Contribution Margin/ Sales ticket units.

Breakeven quantity in sales tickets = Fixed cost/Contribution Margin per unit

Sales per sales tickets = Sales/total number of sales tickets.

Breakeven quantity in sales dollars = Breakeven quantity in sales tickets\* Sales per sales tickets.

The calculations can be seen in the table below:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2003** | **2004** | **2006** |
| Sales | $8,583,000 | $8,102,000 | $10,711,000 |
| Total VC | $8,585,003 | $8,104,004 | $10,713,006 |
| Contribution Margin (CM) | $3,828,000 | $3,565,000 | $4,605,000 |
| Sales tickets (In Units) | 5341 | 5316 | 6897 |
| **CM/unit** | **$717** | **$671** | **$668** |
| Fixed Cost | $3,250,000 | $3,353,000 | $5,011,000 |
| Sales/Sales ticket | $1,607 | $1,524 | $1,553 |
|  |  |  |  |
| **Break even in Sales Tickets** | **4535** | **5000** | **7505** |
| **Break even in Sales Dollars** | **$7,287,030** | **$7,620,198** | **$11,655,336** |

The company needs to sell more units than the breakeven quantity to achieve profits and since the number of units sold currently are 6897, which shows that the company is in loss and to achieve profits it needs to sell more than 7505 units.

Source: Hallstead Jewelers, pgs. 1-4.

Tab 3 – Possible effect of reducing prices by 10%

Since the company is in loss, so the effect of reducing the prices by 10% would still lead to losses for the company until the company sells more units. Currently the company is sold 6897 units with a loss of $406,000 and after reducing the price by 10%, the sales commission is also affected and so is the total variable cost. The loss increases to approximately 1.4 million. The number of breakeven units increase to 9634. It is doubtful that by reducing prices, Hallstead will be able to sell more than 9634 units.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2006-2007** | **In Units** | **per unit** |
| Sales | $10,711,000 | 6897 | $1,553 |
| (-) Variable Cost | $6,106,000 | 6897 | $885 |
| CM | $4,605,000 | 6897 | $668 |
|  |  |  |  |
| **After Reducing Prices by 10%** |  |  |  |
|  |  |  |  |
|  | 2006-2007 | In Units | per unit |
| Sales | $9,639,900 | 6897 | $1,398 |
| (-) Variable Cost: |  |  |  |
| COGS | $5,570,000 |  |  |
| Commisions | $536,000 |  |  |
| 10% of comission | $482,400 |  |  |
| **Total VC** | **$6,052,400** | **6897** | **$878** |
| CM | $3,587,500 | 6897 | $520 |
| Fixed Cost | $5,011,000 |  |  |
| **Net Income/Loss** | **-$1,423,500** |  |  |
| **Break even in Sales Tickets** | **9634** |
| **Break even in Sales Dollars** | **$13,464,959** |

**Source: Hallstead Jewelers, pgs. 1-4.**

Tab 4 – Possible effects of eliminating sales commission

Sales commission are one of the heavy expenses for the company and with the growing competition it is one of the best possible solution to eliminate sales commission. It is also a good choice because no other company follows it. By eliminating sales commission, Hallstead Jewelers shows profit of $130,000 making this option to be followed in the future as well.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2006-2007 | In Units | per unit |
| Sales | $10,711,000 | 6897 | $1,553 |
| (-) VC: | $6,106,000 |  |  |
| (-) Eliminate Sales Commision | $536,000 |  |  |
| **Total VC** | **$5,570,000** | 6897 | $808 |
| CM | $5,141,000 | 6897 | $745 |
| Total FC | $5,011,000 |  |  |
|  |  |  |  |
| **Net Income/Loss** | **$130,000** |  |  |
| **Break even in Sales Tickets** | **6723** |
| **Break even in Sales Dollars** | **$10,440,152** |

Source: Hallstead Jewelers, pgs. 1-4.

Tab 5 – Possible effects of adding $200,000 in advertising

Advertising is an expense which can be beneficial in the future and currently it is going to increase loss for Hallstead because it is an expense.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2006-2007** | In Units | per unit |
| Sales | $10,711,000 | 6897 | $1,553 |
| (-) VC | $6,106,000 | 6897 | $885 |
| CM | $4,605,000 | 6897 | $668 |
| FC: | $5,011,000 |  |  |
| (+) Advertising expenses to FC | $200,000 |  |  |
| **Total FC** | **$5,211,000** |  |  |
|  |  |  |  |
| **Net Income/Loss** | **-$606,000** |  |  |
| **Break even in Sales Tickets** | 7805 |
| **Break even in Sales Dollars** | $12,120,525.73 |

Source: Hallstead Jewelers, pgs. 1-4.

Tab 6- Increase needed in average ticket price to breakeven

For price to be at breakeven there should be no profit-no loss which is achieved when Net income is $0. The contribution margin is the difference between sales and variable cost and in this case for the reverse income statement the contribution margin and fixed cost are same which leads us to our sale. The difference between breakeven sales and current income statement is $59 ($1,612-$1,553), so the percentage increase comes out to be 3.79%.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Reverse Income Statement** |  |  |  | **Current Income Statement** |  |  |
|  | 2006-2007 | In Units | per unit | 2006-2007 | In Units | per unit |
| **Net Income/Loss** | **$0** |  |  | **-$406,000** |  |  |
| (-) Fixed Costs(FC): |  |  |  |  |  |  |
| Salaries | $3,215,000 |  |  | $3,215,000 |  |  |
| Advertising | $257,000 |  |  | $257,000 |  |  |
| Administrative expenses | $435,000 |  |  | $435,000 |  |  |
| Rent | $840,000 |  |  | $840,000 |  |  |
| Depreciation | $142,000 |  |  | $142,000 |  |  |
| Miscellaneous expenses | $122,000 |  |  | $122,000 |  |  |
| **Total Fixed Cost** | **$5,011,000** |  |  | **$5,011,000** |  |  |
|  |  |  |  |  |  |  |
| **Contribution Margin** | **$5,011,000** | 6897 | $727 | **$4,605,000** | 6897 | $668 |
|  |  |  |  |  |  |  |
| (-) Variable Cost(VC): |  |  |  |  |  |  |
| Cost of goods sold | $5,570,000 | 6897 | $808 | $5,570,000 | 6897 | $808 |
| Commissions | $536,000 | 6897 | $78 | $536,000 | 6897 | $78 |
| **Total Variable Cost** | **$6,106,000** |  |  | **$6,106,000** |  |  |
|  |  |  |  |  |  |  |
| **Sales** | **$11,117,000** | 6897 | $1,612 | **$10,711,000** | 6897 | $1,553 |
| **Increase Needed in Average Ticket Price to Breakeven** | $59 |
| **% Increase** | 3.79% |

**Source: Hallstead Jewelers, pgs. 1-4.**

**Appendix C**

Brief Description of different marketing tools used:

SWOT Analysis:

Strength: The strength of the company is its long-known name and the loyal customers it has.

Weakness: There is only one store of Hallstead jewelers and the number of products offered are very less. Also, the management is new which affects the decision making of both the sisters due to lack of experience.

Opportunity: There are a lot of opportunities such as franchising the stores, creating online presence, effective advertising to attract customers in the new store.

Threats: The major threat are Tiffany & Company which is the biggest diamond seller because of its Blue Box concept and Blue Nile which has become the largest online seller of diamonds.

Product Life Cycle

Introduction: The company was introduced 83 years back by the grandfather of both the sisters who handle the management of company now.

Growth: The company grew since grandfather’s time and even during father’s time until both the sisters assumed control of the management of the company.

Maturity: Hallstead had reached its maturity in 1999(from case) and could not grow further as the sales were stagnant.

Decline: It started declining slowly after 1999 as profits were seen slipping away.

5C’s of Marketing

Analyzing customers: It is important for Hallstead to understand their customers and modify their products according to their needs. By doing this they will attract new customers which would increase their sales and profitability.

Analyzing the Context: Hallstead needs to consider all the factors under context which are demographic, economic, socio-cultural, political/legal, technological and natural environment to grow itself in present as well as in the future.

Analysis of the company: This is done by looking at all the tab’s in Appendix B as well understanding the different possible options that the company should become profitable again.

Collaborators and Complementers Analysis: The collaborators and Complementers here are both the sisters and franchisees if they plan on giving any.

Competitors analysis: This is done by adopting similar strategies as used by the competitors who are Tiffany & company as well as Blue Nile.

7P’s of Marketing

Product: The number of products offered as of now is less as compared to competitors and has to be increased.

Price: Price is a big factor and it can be seen in Appendix B how reducing price affects the Net income.

Place: The location has been discussed and how there could have been more locations if both the sisters had researched more options.

Process: The process is straightforward but it could be improved if Hallstead thinks about franchising and going online.

People: Attracting more customers is important other than the loyal customers to grow in the competitive market.

Promotion: Hallstead should be promoted aggressively and effectively to achieve profits by selling units more than the breakeven.

Physical evidence: The products are the physical evidence and this does not play a specific role in this case.