Tom Shane has used his marketing savvy and knowledge of world diamond markets to build a chain of 16 jewelry stores that are atypical of the industry. He has brought big business thinking and systems to what he calls a "cottage industry," and has changed the way diamonds are merchandised and purchased.

- Most jewelry stores buy diamonds from a wholesaler; Shane Co. is a direct diamond importer from global markets. "The stones are traded internationally in U.S. dollars," said Shane.
- Most jewelers are small mom-pop operations; Shane Co. is a mass merchant.
- Most jewelry stores are mall-based; Shane's stores are stand-alone buildings with no connection to a shopping center.
- Most jewelry stores offer a wide and shallow selection; Shane Co.'s selection is narrow and deep: gold jewelry, diamonds, precious and semiprecious stones and pearls. No watches, china, silver or giftwares.
- In an industry where inventory turns once every 24 months, Shane's stores turn inventory more than twice a year.

"No one in the country is doing what we're doing as a real category killer on diamonds," said Shane. "It's one of the very few areas of retail that the big boys haven't touched; they're all afraid of it." Shane's knowledge of product, competition, and customer psychographics has helped him establish a strong presence in 10 metropolitan areas: Seattle, Portland, San Francisco, Salt Lake, Denver, Minneapolis/St. Paul, Indianapolis, St. Louis, Louisville, and Atlanta. Phoenix is set to come on board next spring.

"Our plan is to open two-three markets a year for the next three-four years," said Shane, adding that he is interested in opening stores internationally.

"One of the issues that I face is how do you encourage Shane Co. executives to leave American shores and operate globally. I find this a challenge."

A viable target market for a Shane Co. store is one that has a diverse economic base and a strong middle class. Shane also looks to fill a void in the marketplace. "We pay attention to competition. If there is an excellent local operator that is basically providing the service that we are, then the market doesn't need us." However, if the local marketplace lacks a jeweler that offers value, selection, service, and customer education "then we sense an opportunity."

**High closing rate**

One would think that a high-traffic mall is an ideal location for a jewelry store. But Shane Co. is not looking for the "accidental" customer. "The mall mentality is that people are 'just looking.' We want them pre-qualified."
Shane Company: A category killer in the diamond business

Tom Shane

Said Shane, "If you've got salespeople who are not able to make a sale because the customer is not really there to buy, they're not going to extend themselves when they have a serious customer because they're used to striking out."

People have to leave the beaten shopping path to get to a Shane Co. store. Consequently, they have already made the decision to buy when they walk in the front door, giving the store a closing rate of 80 percent.

The diamonds are all graded and what the salesperson tells the customer is printed out on the receipt. "We figure out all of the negatives, worries, human issues, and subtly try to overcome them one by one," said Shane.

Shane Co. stores are 10,000 square foot boxes that look more like office buildings than a typical retail operation. The decor is attractive but simple; no plush carpeting or crystal chandeliers. "We try to entertain without creating the illusion that we're throwing away money, because customers are sensitive they are going to pay for it."

What Shane's stores offer is "top quality with value pricing." Radio commercials communicate this message 50 weeks a year, targeting consumers in the bridal and special occasion's categories and also professional women "who are buying accessories for their business uniform."

Price leadership

Like every industry, the diamond business has undergone changes in recent years. Diamond grading, something that was not a factor when Shane started his business more than 25 years ago, has produced standards which give people the confidence to make buying decisions. The standards apply to the clarity of the stones and not the cut, which has many variables and can affect a diamond's value by a 40 percent swing, Shane explained.

"When things are standardized, or commoditized, there is a transference of power down. Buyers are, therefore, able to buy at the lowest price anything that they can standardize or commoditize."

Should diamonds become a commodity, they would have limited value as an investment. "If the price is fluctuating up and down all the time and you can look it up in the Wall Street Journal, that defeats the reason why the average person wishes to own it to begin with."

As a result of standardization, small jewelers are now making better diamond buys than ever before and are able to retail them at lower prices than in the past. Thus, they are narrowing the price gap between them and Shane Co., putting pressure on the mass merchant to maintain price leadership. "We want to be a minimum of 20 percent below the competition, so our margin on diamonds has decreased, which is very good for the customer," said Shane.

Shane describes the diamond business as "a cottage type industry" where purchases from diamond dealers around the world are sealed with a handshake. "From that standpoint, it's a very exciting business. Trading with other diamond dealers internationally is great. Buying is done on a fast track basis so your word counts."