HOUSTON JEWELRY BREAKS CATALOG SHOWROOM SHACKLES

It's difficult and risky to change the format and strategic direction of a long-standing company—as Service Merchandise is finding. But it's not impossible.

Case in point: Houston Jewelry. In 1992, this Texas business did what Best Products, Brendle's, and other catalog showrooms could not: transform itself into a full-service, traditional retail jeweler.

Started in 1953, Houston Jewelry (formerly Houston Jewelry & Distributing Co.) and its parent store, Sterling Jewelry & Distributing Co. in Dallas, had grown by leaps and bounds via the catalog showroom concept. At its height, Houston Jewelry was pulling in $20 million to $30 million in annual volume at its 40,000-sq.-ft. location, employing a staff of 125 to 150, and carrying $7 million in inventory. Between them, the two stores were generating some $60 million in revenues but no profits for their owners and founders, the Donsky-Solomon family.

"In 1990, I drove from Boston to Houston to see as many catalog showrooms as I could find," recalls Rex Solomon, executive vice president of Houston Jewelry and part of the third generation of Solomons to run the business. "Most of them were gone. The writing had been on the wall for some time. Our company stopped making a profit in '87-'88. We had a family meeting, and I said to the older members, 'If we don't change, we'll die.' "

Like other catalog showrooms, the company was now facing category killers that were eating away at its business. The retailer was

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also a step behind the times, with the older generation resistant to technology and change—or even accepting credit cards.

"We were totally manual," Solomon says. "The salesperson would write up the order, and the customer would pay by sending their money through a pneumatic tube to a cashier with an adding machine."

After several cataclysmic events in 1992, including the death of one of the three founding brothers and the incapacitation of another from a stroke, the remaining family members met to discuss the company's future. The consensus: Liquidate the business and start over as a traditional retailer. The Dallas store was sold to Barry Zale, and the company was dissolved to allow family members to pursue independent ventures. The Houston location was leveled. Rex, his father, Andrew, his mother, Dana (daughter of Houston jewelry founder Abe Donsky), and brother Keith erected a new 6,500-sq.-ft. guild store across the street.

Besides selling jewelry and watches, the new business carries some of the better-selling categories from its catalog showroom days, including china, flatware, holloware, porcelain, crystal, designer fragrances, clocks, leather goods, writing instruments, vintage books, fine art photography, and famous gift lines. It is the largest independent jewelry and gift store in Houston.

Houston Jewelry, which once was "totally manual," has now embraced the Internet.

The store enjoys the luxury of a 250,000-customer database in Houston and 350,000-customer database in Dallas for advertising and direct mail, compiled during four decades as a catalog showroom. Solomon says the company uses only an active list of about 50,000 customers from the last four years.

Houston Jewelry has become fully automated. Orders are generated on laptop computers. Inventory, cash registers, accounts payable, timeclocks, and payroll interface seamlessly into its general electronic ledger. Customer purchases are recorded

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and archived electronically for future reference.

"We're one of the few independent jewelers that have totally embraced technology in our store," Solomon notes. "This has enabled us to cut costs and optimize inventory turn as well as evaluate the productivity of vendors and personnel. And technology and unique product offerings have allowed us to stay on a par with the largest jewelry and department store chains but retain our local feel."

The store generates about $2 million per year in revenues—a fraction of what it used to do. But it's become more profitable.

The firm has embraced the Internet, using a general home page (www.houstonjewelry.com) as well as a series of niche sites it uses to market individual categories. The company launched its first site last August. Solomon estimates that cyber-sales already account for 2.5% of the company's total volume, with minimal investment and no advertising.

"We've contemplated opening a 1,500-sq.-ft. second location, but a store would realistically only have the potential to increase 5-6% in a given year. There is a realistic probability that the Internet will become much more profitable than any single location. Even at only 2.5% of sales, our online business will make five times the profit of our store, and with little overhead." ✦