

Client Profile: Gems N' Loans

By Luis Rodríguez Martín



Not all happy endings begin with love at first sight, and Gems N' Loans is a classic case study for why one can't always judge a book (or, in this case, a business) by its cover. In 1993, Mack Hembree, a successful real estate businessman, was invited to invest in opening a business that he had some commonly held reservations about. The business was a pawn shop, and Mack made sure to do his homework on the industry before jumping into a 23-year journey building an excellent organization in the most unlikely of places. By fostering and aligning employee satisfaction, collaboration, and commitment at every level, Mack has developed an ownership culture that differentiates Gems N' Loans from its peers and has been instrumental in the company's success. The company's growth from one location in Oceanside, Calif. to five shops and 46 employees is proof that this model has worked well.



While the pawnbroker industry effectively serves real customer needs and has been around for many centuries, pawn shops are often misunderstood and misrepresented. Pawn shops are regulated at the federal, state, and local level and generally adhere to high standards of conduct and best practices set by industry associations. Considering that almost a quarter of households in the U.S. are unbanked or underbanked, pawn shops and pawn loans offer a necessary and legitimate service to economically challenged customers in need of relatively small, short-term loans. Their business model relies on developing and maintaining strong relationships with customers, both for the loans and for the retail operations. It can be surprising to see how broad the range of customer incomes can be, though in the end, the value of the pawn loan model is the speed and convenience with which one can gain short term liquidity. In spite of the value they provide, one of the biggest challenges in the pawn shop business is still public perception, and that's something that Hembree has strived to reverse with his own brand of service at Gems N' Loans.

The first thing one notices when visiting any one of the five Gems N' Loans locations is how clean and welcoming the stores feel - closer to a jewelry store than a typical pawn shop. Gems N' Loans prides itself in creating a professional and inviting environment, and also in being very selective about the items it carries. By policy, the stores will not buy or sell weapons or junk, and much of the higher-end jewelry that they sell is certified by the Gemological Institute of America. All locations stay open until 7 p.m., seven days a week, in order to offer their customers as much flexibility as they may need to access the products or services they require. Employees are exceptionally friendly, knowledgeable, and highly professional, which is all a reflection of the surprisingly rigorous process by which they are selected and trained. This also is a result of the many incentives that were set in place to align their short- and long-term interests with those of the company. In a business that serves people who are often in less-than-ideal circumstances, having employees who can work well together and understand the customer's needs is crucial.

The employees, now part owners of the business, thanks to the employee stock ownership plan (ESOP) that was implemented in 2014, form the foundation of the company's operation. Mack recognized this early on, and made sure that the people who joined the Gems N' Loans team were carefully selected, trained, and incentivized. Before being granted an interview, applicants are screened through two highly respected tests - one to evaluate personality traits, and the other to identify professional strengths and weaknesses. If there appears to be a good fit, the applicants are then interviewed by the GM and oftentimes Mack himself. Joining the team is no walk in the park, as there is a 10-day trial apprenticeship, followed by a series of required tests and certifications in order to staff the floor. Once a person is admitted, they feel like they're part of a family, and also get to share in the company's success. All of this time and effort in recruitment reinforces Mack's belief that outstanding customer service can only be delivered by the most capable, committed, and happy employees.

Even before the ESOP was created, incentives such as the company-wide profit sharing helped ensure that everyone was appropriately motivated to seek the best interest of the entire business, and to do so in a collaborative way. If a customer at one store is looking for a piece of jewelry that another store has in stock, the store with the item will gladly help the store with the customer make the sale, because all employees benefit from the additional sale, and the customer benefits by getting what he or she needs. Every year-end, all employees collaborate to exceed the previous year's results, and often come up with unique ways to compete with more traditional retailers. If they rise to the challenge, everyone can expect a generous year-end bonus and know that they earned it. The rest of the year, employees at Gems N' Loans receive consistent praise and recognition for their efforts, ranging from weekly email "shout-outs" for exceptional performance, to birthday celebrations. Another event that boosts morale is the themed annual company party in January, usually hosted at an exclusive country club, complete with a DJ, costume photo booths, great food and drink. There's a genuine feeling of camaraderie and family that permeates the work environment at Gems n' Loans, and when Mack describes how he started planning for his eventual departure, he says "who else but [his employees] to take it forward? They are the business."

Deciding to move forward with an ESOP transaction wasn't immediately obvious to Mack, but it didn't take long for him to understand that this was the best win-win situation for himself and the organization he cared so much about. The Beyster Institute helped guide him and his company through the ins and outs of the transaction and its impact on the long-term future of the business. While there were obvious tax advantages for him, he felt that giving his people on the front lines of the business another way to win when the business wins was a perfect way to ensure that the organization was taken care of by those who understood it best.

At first, some employees were skeptical of the plan, because there was a general lack of understanding for how it would work. When they realized that they would not have to pay anything out-of-pocket for it, and that the transaction would effectively make them part owners of the company, employees became very enthusiastic, and embraced this as yet another vote of confidence from Mack. Irene Longoria, the Gems n' Loans general manager, said that "now employees seem to have more conviction coming forward with their ideas for the company, often prefacing their opinions with 'as an owner.' It's really great." Mack echoes the sentiment by mentioning a recent instance where a marketing initiative was challenged by an employee who thought there was an alternative that would be better for the bottom line. "I was delighted. I want them to take charge and tell me when I'm wrong." People don't always get to feel assured that their legacy will live on, but for Mack Hembree and the new owners of Gems N' Loan, it's likely that they will get to continue offering outstanding service to their customers for a long time to come.



Luis Rodríguez Martín, 2017 Rady MBA candidate

Copyright 2016 Regents of the University of California. All rights reserved.