CASE 5

Blue Nile, Inc.: "Stuck in the Middle" of the Diamond Engagement Ring Market

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Built on the premise of making engagement rings selection simpler, Blue Nile, Inc. (formerly known as Internet Diamonds, Inc.) has developed into the largest online retailer of diamond engagement rings. Unlike traditional jewelry retailers, Blue Nile operates completely storefront-free, without in-person consultation services. The business conducts all sales online or by phone and sales include both engagement (70%) and non-engagement (30%) categories.[1] Therefore, the company focuses on perfecting its online shopping experience and "providing extraordinary jewelry, useful guidance, and easy-to-understand jewelry education to help you find the jewelry that's perfect for your occasion."

Blue Nile's vision is to educate its customer base so that customers can make an informed, confident decision no matter what event they are celebrating.[2] It wants to make the entire diamond-buying-process easy and hassle-free.[3] In addition, an important part of Blue Nile's vision, as CEO Diane Irvine said in a recent webinar with Kaihan Krippendorf, is for the company to be seen as the "smart" way to buy diamonds, while saving 20-40% more than one would in the typical jewelry store. Blue Nile is working to become "the Tiffany for the next generation."[4]

Company Background

Blue Nile started in Seattle Washington in 1999, when Mark Vadon, the founder of the company, decided to act upon his and his friends' dissatisfaction with experience in searching for an engagement ring result, to battle their concerns, he created a co that offered customers education, guidance, quali value, allowing customers to shop with confidenc

Blue Nile operates its business through its thre sites: www.bluenile.com, www.bluenile.co.uk and bluenile.ca. Customers from the UK and all the ber states of the European Union are served b Nile's subsidiary, Blue Nile Worldwide, through website. Canadian customers are served throu Canadian website, and the US customers along w additional countries worldwide are directed to t mary website. In addition, Blue Nile owns anothe sidiary in Dublin, Ireland named Blue Nile Jewel which acts as a customer service and fulfillment c

Furthermore, in order to enhance and fac the purchasing process to serve both local and demand, Blue Nile has given customers the ch purchase their products in 22 foreign currencies as in the U.S. Dollar.[6] As of the beginning of 20 company has offered sales to customers in over 40 tries worldwide.[7]

Not being built as a traditional brick-and- jewelry company, Blue Nile uses its websites to its fine jewelry offerings, which include diamon gemstone, platinum and sterling silver as well a earrings, pendants, wedding bands, bracelets, ne

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RSM Case Development Centre prepared this teaching case to provide material for class discussion rather than to illustrate either effective or ineffective handl management situation. The author has disguised identifying information to protect confidentiality.

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and watches. Blue Nile's revolutionary and innovative ways of restructuring industry standards did not just stop with its lack of a physical presence. The company offers a "Diamond Search" tool that lets customers examine their entire directory of diamonds to choose the right one in seconds. It also offers the popular "Build Your Own" tool that helps customers customize their own diamond jewelry and then view it on the computer before executing the order. Moreover, Blue Nile offers customers financing options, insurance for the jewelry, a 30-day return policy and free shipping.[8]

Diamond sales represent the majority of Blue Nile's business and revenues. Diamonds, which are certified for high quality by an "independent diamond grading lab,"[9] are differentiated based on "shape, cut, color, clarity and carat weight."[10] Blue Nile uses a just-in-time ordering system from its suppliers, which is initiated once a diamond purchase is made on the website, eliminating the burden and the costs of keeping high-ticket items in inventory. However, the company does keep in inventory rings, earrings, and pendants that it uses as a base to attach the diamond to, in order to be able to customize diamond jewelry to customer requirements. In order to succeed in this industry, Blue Nile maintains a strong relationship with over 40 suppliers.

After its IPO in 2004, Blue Nile shares traded on the NASDAQ (ticker NILE). The company has been awarded the Circle of Excellence Platinum Award, which customers use to rank the best online company in customer service, by Bizrate.com since 2002. Being the only jeweler to be recognized for this excellence is a true testament to Blue Nile's solid business[11].

Strategic Direction

Blue Nile is in the business of offering "high-quality diamonds and fine jewelry at outstanding prices."[12] It is a publicly traded company, making its ultimate business objective to achieve the highest return possible for its shareholders. In order to do this, Blue Nile focuses on the following:

1. Cause disruption in the diamond industry by creating a "two-horned dilemma". According to Kaihan Krippendorff, Blue Nile has been able to effectively put its competitors in a position where if they try to compete with Blue Nile directly, they compromise an area of their own business (one edge of the horn), and if they do not choose to compete with Blue Nile, they slowly lose market share and competitive positioning (the other edge of the horn). Blue Nile's decision to offer the highest quality diamonds in spite of it operating in an online environment where it could easily position itself purely as a "discounter" has been key to creating this dilemma. Competitors with brick and mortar locations are then left to decide whether they should sell their product online at a lower cost than a customer would find in-store in order to compete (knowing that this could negatively impact the brick-and-mortar location) or not go head-to-head with Blue Nile online.[13] This dilemma helps Blue Nile keep its stronghold as the largest online jewelry retailer.
2. Keep the consumer in mind and establish relationships with customers during a very important time in their lives. The idea for Blue Nile was born during an unpleasant shopping experience. The company remains focused on perfecting its user experience by investing in online education tools and resources within its website to help customers make educated decisions.[14] Blue Nile is not able to show its customers diamonds in person before a purchase is made so it must reassure customers by providing a comprehensive website, a 30-day return policy and providing grading reports on their diamonds from two independent diamond grading laboratories—GIA or AGSL.[15]
3. Capture market share and emerge after the recession in a strong competitive position. Some competitors have pulled back during the recession by closing locations, while others have closed their doors all together.[16] Blue Nile has been investing in its website and is working to aggressively grow its market share.[17]

The Jewelry Industry

It is estimated that 2010 U.S. jewelry sales finished at $49.3 billion for the year, a 2.6% growth over 2009.[18] According to First Research.com, the U.S. retail jewelry industry is considered to be fragmented as "the top 50 jewelry chains generate less than half of (total) revenue" and there are 28,800 specialty stores that generate around $30 billion in revenue. Diamond jewelry and loose diamonds account for approximately 45% of total jewelry store sales.[19]

A closer look at this industry reveals that 17.2% of total U.S. jewelry sales took place in non-store retailers. Still though, retail locations continue to be the primary source of jewelry sales, accounting for 50% of total U.S. jewelry sales in 2009 in spite of these sales decreasing by 7.8% between 2007 and 2009.[20]

According to Compete.com, Blue Nile controls 4.3%[21] of Internet jewelry sales, and as of 2009 Blue Nile had about 4% of the engagement ring business in the U.S.,[22] which is 50% of the American online engagement jewelry market.[23]

Blue Nile's Competitors

Blue Nile's many competitors include various different retail outlets like department stores, major jewelry store chains, independently owned jewelry stores, online retailers, catalogue retailers, television shopping retailers, discount superstores and lastly wholesale clubs. Many local jewelers have great relations with their clientele in smaller communities, which poses a challenge for Blue Nile to achieve greater market share. Online retailers include Amazon, Overstock.com and Bidz.com, which are well-known for their discounting, creating tremendous competition for Blue Nile. Most major firms who specialize in jewelry have their own online presence as well, such as Zales, Signet, Tiffany and Helzberg.

DeBeers

DeBeers, which owns 40% of the world's diamond supply,[24] is establishing its presence online as a trusted advisor as Blue Nile has done. Upon visiting DeBeers' website, it is clear that Blue Nile's consultative approach online has made an impression on DeBeers, as the website has an "Advice" section under Bridal rings and an "Art of Diamond Jewelry" section that both educates and serves as a source of confidence of quality.

Tiffany & Co.

Tiffany & Co., one of the best known luxury brand names, had revenues in 2010 of $2.9 billion, compared to Blue Nile's $302 million.[25] Tiffany & Co. continues to stand out in the jewelry sector by opening stores in urban America and has shown to be a success as there are many consumers who are willing to pay extra for a well-known brand name. Tiffany also offers great service at its stores through product information. Lastly, owning a piece of jewelry from Tiffany's—and receiving the iconic blue box—has an air of prestige all its own that Blue Nile cannot replicate.[26] In spite of the value associated with the Tiffany name, due to its lean business model, Blue Nile's return on capital is three to four times better than Tiffany's.[27]

Blue Nile's many powerful competitors require the business to compete through differentiation, and Blue Nile gains an advantage over its competition through its unique operating structure. Its strategy, distribution channel, and supply chain help to keep Blue Nile in the market as it also creates barriers to entry. Some competitive advantages include its partnership with Bill Me Later® and its direct contracts with major diamond suppliers. Blue Nile partners with Bill Me Later®[28] in order to offer financing for fine jewelry and diamond purchases. Blue Nile also has direct contracts with major diamond suppliers, which in turn allow the company to sell stones online at lower prices than brick-and-mortar locations because it has lower overhead costs and fewer distribution interceptions.

Guild Jewelers

It is difficult to find a competitor that can be compared directly to Blue Nile because of the unique way in which the business operates. While Guild Jewelers are not necessarily a united force that Blue Nile must respond to, Blue Nile CEO Diane Irvine considers Guild Jewelers to be the company's major competitor because Guild has the local relationships with potential customers that are difficult for Blue Nile to establish online.[29]

Barriers to Entry/Imitation

Barriers to entry in the jewelry industry are high as the following are needed: capital, strong supplier relationships and reputation. With regards to capital, traditional jewelry stores must fund their brick-and-mortar locations, on-site inventory and store labor. Supplier relationships with diamond cutters and distributors are also key and as seen with Blue Nile can greatly impact the profitability of a given retailer. Finally, due to the expense associated with jewelry purchases, Blue Nile's "average ticket" is 2,000 dollars;[30] customers are looking for a trusted source with a strong reputation.

In regards to imitation, Blue Nile leverages a few unique systems and services that are hard for the competition to imitate. First, Blue Nile's "build your own" functionality online differentiates it from competitors by allowing the customer to personally create their ideal diamond ring, earrings, pendant, multiple stone rings, and/or multiple stone pendants. The consumer also has access to an interactive search function, which references an inventory of 50,000 diamonds, including signature diamonds that are hand-selected and cut with extreme precision.[31]

Second, Blue Nile has its own customer service team of diamond and jewelry consultants that offer suggestions and assist customers with their purchases. This online interactive customer service approach creates a barrier to entry as the information technology platform for these functions is complex.

Lastly, Blue Nile also offers exclusive colored diamonds, which include rare diamonds that are red and pink.[32] It has a more diversified product range than its competitors because it does not have to hold inventory in stock.

The threat of new entrants is always a concern, but Blue Nile has been successful thus far at staying ahead of new entrants and has established a reputation as a quality, reputable online service.

One of the most significant resources for jewelers is diamonds and with DeBeers owning 40% of the world's jewelry supply, diamonds are considered scarce and unique. Large diamond suppliers like DeBeers are not as powerful as they once were—DeBeers at one time sold 80% of the world's diamonds[33]—but their presence is still felt. In addition, diamonds are generally obtained in politically unstable regions of the world, like Africa, and companies must be aware of the risk of obtaining conflict diamonds. The diamond trade is complex with regards to politics and legal issues, as the majority of diamond mines exist in underdeveloped countries, where corruption is prevalent and the rule of law is not easily enforced. Many of the diamond mines are located in African countries such as Botswana, which currently produces 27% of the global diamond supply.[34] However, recent global initiatives including the Clean Diamond Trade Act of 2003, and the Kimberly Process Certification Scheme of 2002 have made significant impacts on violence and illegal trade in the last decade.[35]

The lack of legal and political stability in many of the diamond source countries represents a threat to Blue Nile, and the industry as a whole. With unstable changes in leadership and power, threats to the global supply chain of a valuable commodity are possible, and perhaps even likely to occur. Takeover of diamond mines by militia groups, government claims of eminent domain, diamond smuggling, and obsolescing contract negotiations with foreign governments all have potential deleterious impact on the jewelry industry.

Finally, given the increased valuation of gold in recent years, this jewelry material has become harder to obtain. In just April, 2011, *The Times (London)* reported, "Gold prices hit a record $1,500 an ounce as investors continued to seek a safe haven."[36]

Social and Demographic Trends

There are a number of social and demographic trends that offer opportunities for Blue Nile. First, the average age of first-time newlyweds is increasing in the United States, currently 28[37] for men and 26[38] for women.

A *USA TODAY* analysis of the Census figures shows that just 23.5% of men and 31.5% of women ages 20–29 were married in 2006 (The analysis excludes those who are married but separated.) Both the number and percentage of those in their 20s fell from 2000, when 31.5% of men and 39.5% of women were married.[39]

Higher marrying ages tend to translate into greater spending power for marriage-related items, such as engagement rings.

Next, people nowadays are more receptive to handheld technologies and apps. These on-the-go technologies are an opportunity for Blue Nile to reach busy customers who do not have time to drop by a jewelry store to research their product choices and make a purchase. Mobile sites and apps allow a customer with a smart phone to make purchases on his/her own schedule, without adhering to a brick-and-mortar schedule. As this generation ages and people become comfortable with technology, Blue Nile will have more segments to cater to and a broader reach. With online purchases becoming more of a cultural norm, with less associated negative stigma, and as higher percentages of the global population gains reliable access to the internet, Blue Nile is poised to capitalize on its web-only strategy.

Finally, with historical events like the marriage of Prince William and Kate Middleton dominating the media, Blue Nile and other jewelry retailers reap the benefits of Kate's sapphire ring being displayed and/or mentioned in countless media venues throughout the world. Jewelers could not have planned that great of a publicity stunt for making jewelry top of mind, and have the opportunity to ride the wave for a while.

One social threat Blue Nile faces is tied to issues of internet fraud and online security in today's environment. The relatively high purchase price for quality jewelry increases the perceived risk for consumers making online purchases.

Another threat is that with each new generation, traditions (such as the purchase and gifting of engagement rings) risk becoming outdated or out of fashion. While the gifting of jewelry is highly entrenched in many cultures around the world, it is possible that potential customers in Generation Y or later may perceive lower value in this gifting tradition.

Global Opportunities

Blue Nile wants to expand internationally as it sees great potential in the global marketplace. Currently non-US sales represent 13% of the total sales at Blue Nile.[40]

Blue Nile's international sales have continuously been growing. Recent numbers show that in 2010 the sales figure grew by 30.4% compared to the previous year.[41] It is a high priority to grow internationally at Blue Nile. It is important for Blue Nile to monitor online purchasing rates globally, and expand to those countries accordingly.

One major global threat for Blue Nile is the lack of adoption of online purchasing. Many countries have not yet advanced to the American consumer habits. Developed countries are continuing to adopt this as they have realized the efficiency, effectiveness and overall convenience. Lack of consumer confidence for high-value online purchases may continue to follow Blue Nile as it expands internationally until it has built a reputation in each foreign country of operations, which may delay return on investment for international expansion programs.

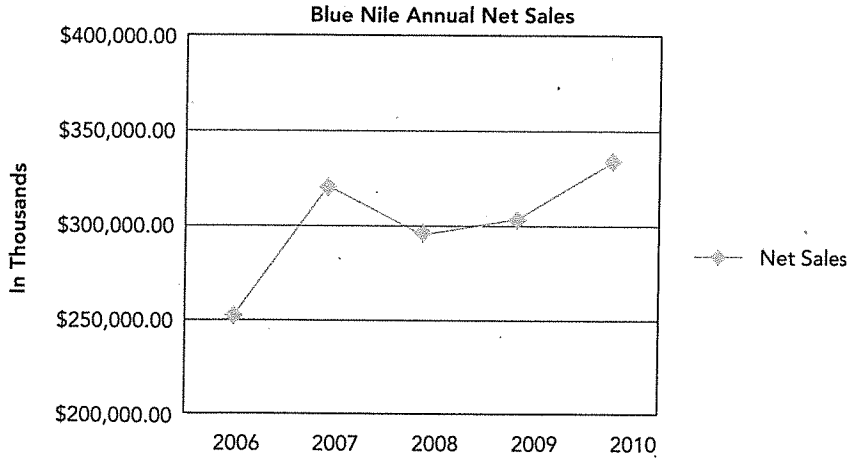
Many consumers in developing nations do not have reliable access to the internet. Blue Nile currently has no way to tap the buying power of these would-be customers. Sending huge sums of money and receiving valuable goods when they clear customs is a risk many people are not willing to take, knowing its ramifications. Many countries around the world are corrupt, and thus one cannot be sure that the product has reached the customer safely.

Blue Nile's Finances

Net sales have been strong each year for Blue Nile since 2006, except in 2008 when the financial crisis impacted the company's performance, as seen in Exhibit 1. Sales have grown by $81.3 million since 2006, a 32% increase. Growth was most substantial in 2007 (26.9%) due to the huge increase in demand for diamond and fine jewelry products ordered through the website. International sales contributed significantly to the surge in demand in 2007, with an increase of 104.8%, due mainly to the new product offerings and the ability of U.K. and Canadian customers to purchase in their local currency[42]. Sales decreased by 7.5% in 2008, primarily due to the sluggish economy, which negatively impacted the popularity of luxury goods, and due to the increase in diamond prices worldwide[43]. In 2009, sales rebounded slightly with an increase of 2.3%, due mostly to an increase of 20% in Q4 year-over-year. The increase in Q4 is attributed to the boost in international sales, which represented 1.9% of the 2.3% total growth, as a result of the new website enhancements and the ability to purchase in 22 other foreign currencies[44].

In 2010, sales returned to double digit growth with an increase of 10.2%. Both US sales and International sales grew considerably with 7.7% and 30.4%, respectively, due mainly to a better economy, which led to increased

Exhibit 1 Blue Nile Net Sales 2006-2010 (In Thousands)



Year	2006	2007	2008	2009	2010
Net Sales	$ 251,587.00	$ 319,264.00	$ 295,329.00	$ 302,134.00	$ 332,889.00
Growth		26.90%	-7.50%	2.30%	10.18%

Source: All data in Exhibits 1-8 come from the 2010 Blue Nile Annual Report.

consumer spending. Marketing spending, better brand recognition, and the favorable exchange rate of foreign currencies against the US dollar contributed to the strong sales in Q4, which reached an all-time record of $114.8 million[45]. However, although Q1, Q2, Q4 numbers are growing annually due to events such as Valentine's Day, Mother's Day, Christmas and New Year, Q3 continues to present a challenge due to the lack of a special holiday or event.

Net income levels from 2006 to 2010 tracked the performance of net sales, but were more severe as seen in Exhibits 2 and 3. Net income increased by 33.64% in 2007, 10.06% in 2009, and 10.48% in 2010, but decreased by -33.39% in 2008. Not including the decrease in earnings during the financial meltdown, the net income numbers are considered healthy for a company that was started 12 years ago.

Gross profit has grown similar to net sales from 2006-2010 as can be seen in Exhibit 4. However, the most telling difference is in year 2009, where it outpaced net sales growth with an increase of 8.91%. The growth was a result of cost savings achieved with regards to sourcing and selling products, which increased the gross profit margin from 20.2% to 21.6% as can be seen in Exhibit 4. Blue Nile's increasing gross profit margin is a good sign for the company since it shows strict financial management, and an emphasis on the bottom line.

Blue Nile has no long-term debt. The company only has lease obligations that it needs to pay every year. The lease obligations decreased from $880,000 in 2007 to $748,000 in 2010[46]. Long-term debt to equity ratio is effectively zero as a result, and even if we include lease obligations then it is minimal with a value of 0.01, meaning that equity can cover the remaining debt obligations.

Cash at the company is generated mostly through ongoing operations. The increase in cash from 2009 is a result of an increase in accounts payable and the tax benefits received from the execution of stock options. Investing activities also increased the cash amount with the expiration of short-term investment maturity dates. In addition, a slight increase can be attributed to the financing activities coming from the profits of the stock option execution.[47]

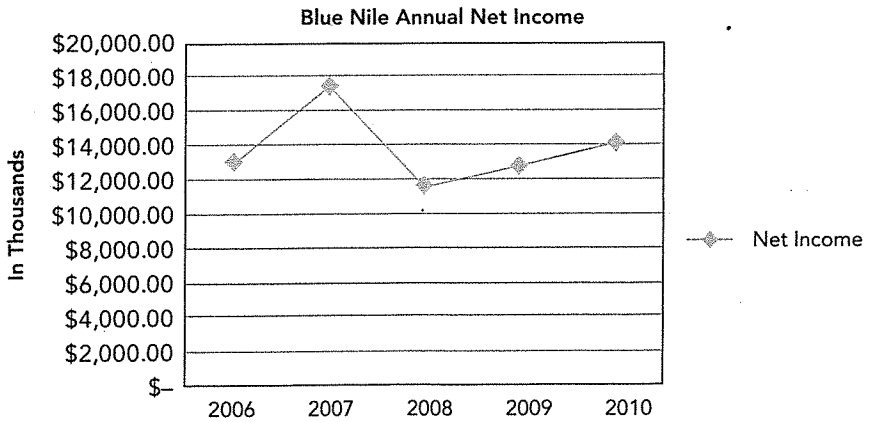
In 2011, Blue Nile had only $79 million in cash. In 2008 the company purchased back 1.6 million shares of stock ($66.5 million) in order to increase consumer confidence in the stock and because Blue Nile's management team believed the stock was being undervalued.

Blue Nile acquires the majority of its inventory on a just-in-time basis. Moreover, the company is successful in growing cash because its uses for it are minimal such as improving the website and maintaining facilities and warehouses.[48]

Marketing

Blue Nile's marketing strengths include: its use of technology to enhance customer experience, its dedication to

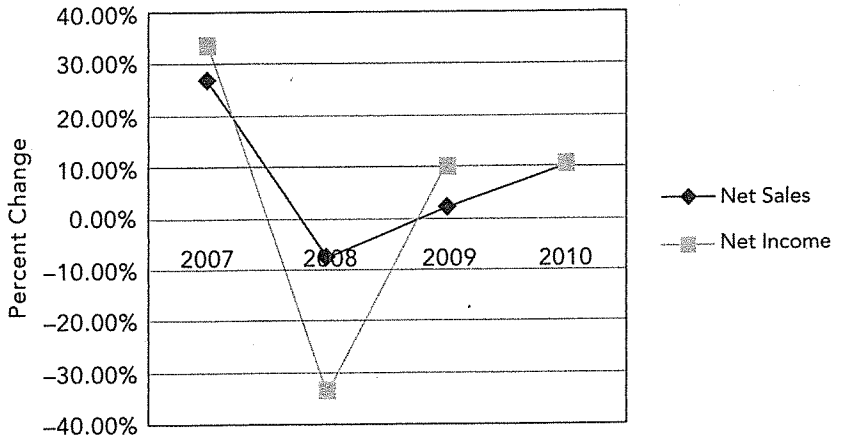
Exhibit 2 Blue Nile Net Income 2006-2010 (In Thousands)



Year	2006	2007	2008	2009	2010
Net Income	$ 13,064.00	$ 17,459.00	$ 11,630.00	$ 12,800.00	$ 14,142.00
Growth		33.64%	-33.39%	10.06%	10.48%

Source: All data in Exhibits 1-8 come from the 2010 Blue Nile Annual Report.

Exhibit 3 Blue Nile Net Sales vs. Net Income (Percentage change)



Growth	2007	2008	2009	2010
Net Sales	26.90%	-7.50%	2.30%	10.18%
Net income	33.64%	-33.39%	10.06%	10.48%

Source: All data in Exhibits 1-8 come from the 2010 Blue Nile Annual Report.

Exhibit 4 Gross Profit Margin and Operating Margin

Year	2006	2007	2008	2009	2010
Gross Profit Margin	20.2%	20.4%	20.3%	21.6%	21.6%
Operating Margin	6.600%	7.00%	5.400%	6.400%	6.400%

making the diamond-buying-process as easy and hassle-free as possible, and its ability to capture market share in spite of the recession.

First, in regards to its use of technology, Blue Nile has been investing in introducing and perfecting online technology that enhances customer experience. For example, the Blue Nile App, which was launched in September of 2010, gives customers instant access to its inventory of 70,000 diamonds and allows a customer to customize a particular diamond or gem with the ideal setting "while standing at a rival's counter."[49]

Likewise, Blue Nile has also developed its own mobile site that caters to customers wishing to shop using their iPhone, iPod touch, and Android mobile devices. "The mobile version, launched in spring 2010, is smaller than the PC site in scope, with quick tabs to find diamonds, engagement rings, and other gift ideas. The company reports that more than 20% of its shoppers are using the mobile site."[50]

Finally, Blue Nile has done an excellent job of making its website educational, easy to navigate and a trusted advisor for potential diamond buyers. The company completely revamped its website in 2009 in order to include larger images, better zoom functionality and enhanced product filtering features.[51] The site also utilizes interactive search tools that few other online retailers can match.[52] The Build Your Own Ring® component of the site is extremely easy to use, while also being fun. Blue Nile provides step-by-step guidance on the components of the ring a person can personalize, and based on filling out specifications on shape, color, quality and size, builds the ideal ring right before its customers' eyes.

Next, another marketing strength for Blue Nile has been its ability to hone in on the obstacles that might deter a customer from making a jewelry purchase online, and then providing assurances against those barriers. Policies like these all work to build confidence in the online purchasing experience, which works in Blue Nile's favor:

1. Offering a 30-day money-back guarantee;[53]
2. Orders being shipped fully insured to the customer;
3. Providing grading reports for all certified diamonds and professional appraisals for diamond, gemstone, and pearl jewelry over $1,000.[54]

Finally, in spite of the trying economic environment, Blue Nile has been able to capture market share while many other jewelry sellers have had to close their doors. According to CEO Diane Irvine, the company saw U.S. sales growth of 23% year over year in November and December of 2009, while its competitors ranged from 12% growth to a 12% decline in the same timeframe.[55] In trying economic times, customers have valued the 20–40% reduced price found at Blue Nile in comparison to brick-and-mortar retailers.

Although Blue Nile has done a good job of anticipating and catering to the barriers that exist in purchasing an expensive piece of jewelry online, the fact still remains that Blue Nile operates with no storefront locations. This means that customers cannot physically touch and inspect their piece of jewelry before making purchase. There are traditionally minded members of the jewelry market that are not comfortable with this limitation and will not consider Blue Nile a viable alternative. It is also more difficult to develop a lasting, long-term relationship with the customer when the transaction lacks the face-to-face experience found at brick-and-mortar stores. Blue Nile's business is completely dependent on online or phone transactions, making it subject to the adjustment period consumers must go through in order to be comfortable with this purchasing experience.

Building on this weakness is the fact that Blue Nile's online traffic and site visits has been in decline. According to 2010 data from Compete.com, "Blue Nile saw its number of unique site visitors decrease year over year in the majority of months, while one of its main competitors, Tiffany's, saw its online traffic increase. Similarly, Compete.com reports that when viewing Blue Nile's unique visitor trend between 2007 and 2009, the company has seen a 36% decrease in unique visitors."[56]

Operations and Logistics

Blue Nile aims to offer a wide range of finished and partially customizable jewelry products to online shoppers, made from ethically sourced materials, via a convenient, hassle-free experience. The company looks to leverage its sourcing power to offer exclusive jewels to exclude competition and retain high selling prices, while maximizing profitability through implementation of just-in-time manufacturing tactics to minimize inventory costs.

Blue Nile employs a flexible manufacturing strategy in its operations. The company heavily advertises the ability to customize your desired product – "Build Your Own Ring®" is an example of how Blue Nile allows a customer to pick a diamond and an engagement ring setting, and get a unique product.[57] Blue Nile also offers a similar type of customization for earrings, pendants, and other jewelry items.

On the one hand, it seems as though the company would be utilizing an "intermittent job shop" approach. However, while the company does offer full customization, through a special order service, the "customization" service is basically allowing online shoppers to pick from a pre-determined list of jewels and settings. The jewels are listed from a Blue Nile database (maintained in partnership with its source providers), and the materials are prefabricated in mass production style to minimize cost.[58]

Using the same methods, Blue Nile makes both finished goods (non-customizable products for direct sale over the web) and customer-directed finished goods. By using the same supply chain and methods, Blue Nile is able to achieve rapid turnaround of "customized" products, adding value to the service offering.[59]

Blue Nile partners with FedEx for both shipping and returns of all of its products. By maintaining one carrier partnership, the company is able to reach economies of scale in shipping expenditures, and also take advantage of FedEx's international shipping capabilities (other carriers, such as UPS, or USPS, are more limited in their international shipping offers). Also, by partnering with FedEx, Blue Nile is able to take advantage of FedEx's best-in-class shipment tracking functions, which alleviates potential customer concerns about expensive online purchases being "lost in the mail."[60]

Although the majority of revenues for Blue Nile come from the sale of diamonds, it typically does not receive diamonds into inventory until an order is placed, following a just-in-time manufacturing strategy. Instead, Blue Nile partners with its diamond sources, many of them in an exclusive agreement, to provide up-to-date records of available diamond inventory. When a customer places an order for a particular diamond, Blue Nile in turn orders the specified diamond from its supplier, receives the stone, finishes the good, enters the product into inventory and ships to the customer.[61]

Financially, this puts the company in a strong position, since it does not have to maintain high inventory carrying costs for the diamonds, which can be valued at several hundred to several thousand dollars each. The company actually produces a positive cash flow of approximately 30-45 days, depending on its contract with a particular supplier.[62]

While partnering with a single distribution partner does provide economic and logistical benefits to the company, it also puts Blue Nile at some degree of risk. Although FedEx has yet to experience a strike by its

employees, its rival UPS faced this situation some years ago.[63] If the same situation should occur with FedEx, Blue Nile may be hard-pressed to quickly develop new distribution channels, both domestically and abroad.

In addition, there are also risks associated with Blue Nile's just-in-time inventory approach. First, this approach requires that Blue Nile establish and maintain a direct and accurate path of visibility to its suppliers' diamond inventory. Since many of its diamond suppliers are in less developed regions of the world, this is not an insignificant feat.[64]

Second, since the diamonds are not actually in the possession of Blue Nile at the time the customer places the order, it is possible that any type of geo-political disruption (natural disaster, governmental turmoil, etc.) could interrupt the flow of the customer's product, and require subsequent customer service follow-up and potential product replacement.

Despite these risks, Blue Nile's success in establishing exclusive sourcing agreements with diamond suppliers and cutters has yielded significant benefits, and is one source of competitive advantage for the organization. By negotiating directly with diamond suppliers and cutters, rather than operating through wholesalers, Blue Nile is able to reduce its diamond procurement costs by more than 20%, compared to other diamond retailers.[65] It is therefore able to offer lower prices than its competition, while simultaneously achieving higher profit margins on its products. Blue Nile's exclusive contracts do offer the company opportunities to be a "sole source" for particular diamond cuts or rare colors, although many diamond retailers have also followed this trend, and each major retailer appears to have its own "exclusive" diamonds.[66]

Human Resources and Ethics

Blue Nile employs 193 full-time workers, with 26 of these full-time positions listed at the executive level.[67] The company maintains employee testimonials on its website as part of its career section, with several comments from employees who have been with the organization for 10 years or more.[68] However, when looking for examples of Blue Nile employee satisfaction outside of the company's own website, the picture is not as rosy. The most common complaints pertain to employee development and retention. Unverified reports of hyper-control by senior management, instead of empowerment and distribution of responsibility to managerial staff, if true, may have a significant impact on Blue Nile's ability to attract and retain high-performance employees, and as a result, grow its business.[69] While the company has made a significant leap forward compared to other jewelry retailers, both brick-and-mortar and internet-based, if the company focuses exclusively on technology, and not on human talent development, it has little chance to continue its recent growth trends.

While Blue Nile has a significant section of its website devoted to its policies around the ethical sourcing of its diamonds and other materials, the company does not detail any of its policies regarding the handling of its own employees. There are no statements regarding employee diversity, the cultural environment, or employee training/advancement programs. Despite listing nine senior managers listed in the company's investor relations section of its website, not one of the nine is involved in Human Resource Management.[70] This absence, taken with the company's wordage from its corporate reports, paints a picture that suggests attention to human assets is limiting at Blue Nile, Inc.

Stuck in the Middle

Operating in a niche segment, Blue Nile is "stuck in the middle" of the diamond engagement ring market. It is not at the top end of the jewelry retail market, with the likes of Tiffany & Co. or DeBeers. It is neither at the low end of the market, with the likes of Amazon or Overstock.com. Blue Nile has found a strong growth market by providing high quality jewelry at discounted prices. Unfortunately, as the company increasingly grows its market share, competitors at the high end and the low end will look to squeeze into the middle niche that Blue Nile currently dominates. Tiffany & Co. and DeBeers have already begun to infuse their online presence with aspects of Blue Nile's approach. Amazon and Overstock.com are likely to look to add higher-priced jewels to their offerings, as broad market acceptance of purchasing jewelry online increases. Michael Porter states that the middle is the worst place to be. The challenge for Blue Nile is how to move up the ladder and become a "high end" diamond retailer—not an easy task for an "online only" retailer.

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