Blue Nile Case

Group D

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Industry Analysis: Dominant Economic Features

Definition of Jewelry Retailing Industry & Nonstore Retailer Subsector

According to the United States Census Bureau, the Jewelry Retailing Industry (NAICS code 448310) "comprises establishments primarily engaged in retailing one or more of the following items: (1) new jewelry (except costume jewelry); (2) new sterling and plated silverware; and (3) new watches and clocks. Also included are establishments retailing these new products in combination with lapidary work and/or repair services" (United States Census Bureau Jewelry Industry Definition, 2008).

While Blue Nile competes in the larger Jewelry Retailing Industry, it also competes in the narrower Nonstore Retailers (Subsector 454) category because of the e-commerce component of the business model. The United States Census Bureau comments that "industries in the Nonstore Retailers subsector retail merchandise using methods, such as the broadcasting of infomercials, the broadcasting and publishing of direct-response advertising, the publishing of paper and electronic catalogs, door-to-door solicitation, in-home demonstration, selling from portable stalls and distribution through vending machines. Establishments in this subsector include mail-order houses, vending machine operators, home delivery sales, door-to-door sales, party plan sales, electronic shopping, and sales through portable stalls (e.g., street vendors, except food). Establishments engaged in the direct sale (i.e., nonstore) of products, such as home heating oil dealers and newspaper delivery service providers are included in this subsector" (United States Census Bureau, Nonstore Industry Definition 2008). To fully understand the factors that weigh on Blue Nile's competitiveness, both the larger Jewelry Retailing Industry and Nonstore Retailers subsector must be considered.

Market Size, Growth Rate, and Industry Life Cycle

According to research provided by Thompson, author of the Blue Nile case, in 2006, jewelry in the United States was an estimated $55-60 billion industry as annual sales of diamond jewelry were in the $30-$35 billion range, with diamond engagement rings accounting for sales of $4-$5 billion (Thompson 2007). In terms of the U.S. Jewelry industry, "according to the U.S. Department of Commerce data, total U.S. jewelry sales, including watches and fashion jewelry, were $59 billion in 2005, up from $57 billion in 2004" (Thompson 2007). Research indicates the U.S. jewelry market had grown at a compound annual growth rate of 5.7 percent over the last 25 years (Thompson 2007). This fact suggests that the jewelry industry is in the early maturity and slowing growth phase of the product life cycle as growth rates have become consistent and predictable. Recently, "jewelry sales in the United States grew by 4.6 percent in 2002, 2.9 percent in 2003, 8.0 percent in 2004, and 2.7 percent in 2005 [with sales] forecast to grow 6.0 percent in 2006" (Thompson 2007). The conclusions drawn from this recent trend is that, while there is still growth, in many instances, the growth patterns have become lower than the 25 year average and are not exponentially high. To reiterate this point, Appendix A contains industry ratios from 2007 and 2002 that suggest that the Jewelry Store Industry has seen increased sales and employees which suggests the market continues to grow – even if at a slower rate. Most likely the industry is in the early maturity and slowing growth stage; however, to illustrate why an industry that has been around for a considerable amount of time continues to grow, Appendix B, which outlines the Nonstore Retailer industry ratios from 2007 and 2002, highlights the exponential growth in online retailing. The ratios reflect exponential growth in sales and the ability to cut costs by scaling back on the number of employees. Like many other industries, e-commerce stimulated the viability of the Jewelry Retailing industry by providing it with new life and paving the way for firms such as Blue Nile to emerge as the market continued to expand with a new way of commerce. According to the United States Census Bureau, "the number of establishments in [the Electronic Shopping Industry, NAICS code 454111] increased 155% between 2002 and 2007" (United States Census Bureau Nonstore Retailers Hot Report, 2007). In fact, "Jewelry e-tailers sold approximately $340 million worth of engagement rings in 2005 [with] online sales of other types of rings and jewelry items [totaling] another $2 billion in 2005" (Thompson 2007). Specifically "a majority of those sales were said to be to men, chiefly because they were more amenable than women to shopping for jewelry online" with lower prices as "the primary appeal of buying diamonds and jewelry online" (Thompson 2007). The industry tends to have pulsating sales during holiday seasons such as Valentine's Day, Mother's Day, and Christmas.

Scope of Competitive Rivalry

Established in 1999, a few years before the tech bubble burst, Blue Nile has become the world's largest online retailer of certified diamonds and fine jewelry, with sales of $251.6 million in 2006 which is up from $169.2 million in 2004. Approximately "72 percent of Blue Nile's 2005 revenues involved sales of engagement rings" priced around $5,600 with "management believ[ing] that the company's market share of online sales of engagement rings exceeded 50 percent and that its 2005 share of the overall engagement ring market in the United States was approximately 3.2 percent" (Thompson 2007). In terms of competition, "Blue Nile was larger than the next three largest online jewelers combined" winning many accolades for its dedication to lower prices and high quality. Accounting for "18 percent of Blue Nile's 2005 sales," jewelry other than diamonds was considered "to present significant growth opportunities because satisfied buyers of Blue Nile engagement rings would likely consider Blue Nile in their future purchases of diamond jewelry”; they also viewed the 10 percent of 2005’s revenues coming from jewelry not containing diamonds as “important because they helped develop both trial and repeat purchase opportunities” (Thompson 2007).

Coupling the long history behind the Jewelry Retailing industry with new e-commerce methods of conducting business, competition is viewed as fierce in the diamond and fine jewelry retail market and “intensely competitive, with sales highly fragmented among locally owned jewelry stores (34 percent); retail jewelry store chains with 100+ stores (13 percent); numerous chain department stores (12 percent); online retailers that sold fine jewelry and online auction sites (4 percent); television shopping retailers (4 percent); mass merchants, such as discount superstores and wholesale clubs whose merchandise offerings included fine jewelry (10 percent); and all other retailers, such as general merchandise and clothing stores and catalog retailers (23 percent)” (Thompson 2007). This is further supported when “the Jewelry Board of Trade estimated that there were some 24,500 specialty jewelry firms in the United States in 2005, down from 26,750 specialty jewelry retailers in 1999; however, the number of stores operated by specialty jewelry retailers increased by about 700 stores over the same period, reflecting a continuing industry trend toward consolidation; the five largest specialty jewelry retailers in the United States had increased their collective share from about 18 percent to about 24 percent of specialty jewelry sales since 1999” even though independent jewelers “accounted for about 70 percent of the sales made by specialty jewelry retailers” (Thompson 2007). These facts indicate that while the industry is highly fragmented into small companies right now, the industry continues to mature and consolidate; subsequently giving larger firms more market share. Blue Nile specifically competes with online jewelers Diamonds.com, Whiteflash.com, Ice.com, and JamesAllen.com who compete mainly in the United States as well as globally in addition to a countless amount of other brick and mortar jewelers scattered throughout local communities. As indicated by Blue Nile's previous attempt to penetrate foreign markets based on volume of consumer spending on jewelry, the extent to which consumers in a country were adopting online purchasing, the competitive landscape, and other factors, global penetration hasn't been fully executed. Blue Nile generated combined sales of only $3.3 million in 2005. If firms involved in jewelry sales want to remain competitive and viable in the long-term, they will eventually have to fully transition to allow for increased global market share. At one point, the race for global market share will no longer be an option for long term viability.

Number of Buyers & Supply/Demand Conditions

Market demand is fragmented among many buyers who have the ability to choose a multitude of jewelry retailers. Most buyers do not have bargaining power because of large volume purchases; however, they have bargaining power because of the considerable amount of competition. Because high-quality diamonds and other precious gems are rare to find, there is little surplus of the capacity which allows for prices and profit margins relatively high; however, online jewelers such as Blue Nile are forcing industry change by leveraging supply chain efficiencies and lean costs to lower prices and squeeze profit margins. As it stands now, although short supplies of precious gems originally created a sellers' market, the industry is extremely overcrowded with competitors which allows for buyers to leverage bargaining power. As firms such as Blue Nile transition the industry into competing on price, buyers benefit and sellers lose the ability to maintain higher profit margins.

Degree of Vertical Integration

Despite Blue Nile receiving inventory from suppliers, utilizing independent third-party jewelers for setting and sizing, and shipping fine jewelry products via FedEx, the firm maintains a partial degree of vertical integration since the consumers can sometimes send the diamond to Blue Nile bench jewelers for setting and sizing assembly. Blue Nile also handles its own marketing, maintains its own call center and customer service, and provides other support services. This degree of vertical integration is also commonplace among immediate rivals such as JamesAllen.com, which maintains "an expert staff [that] answer[s] questions via phone or e-mail," and Diamonds.com, which maintains a staff of "expert gemologists trained at the world's leading gemological laboratories" (Thompson 2007). Most competitors operate in multiple stages of the industry as Blue Nile is often involved with the manufacturing and retailing of the jewelry.

Blue Nile enjoys a competitive advantage over rivals by being partially integrated because the firm can sell comparable-quality diamonds, gemstones, and fine jewelry pieces at lower prices than local jewelers because Blue Nile doesn't purchase diamonds until a customer places an order. This practice allows the firm to minimize the costs associated with carrying large inventories and limits its risk of potential markdowns.

Ease of Entry/Exit

The ease of entry into the Jewelry Industry is extremely low because of the high degree of knowledge required for success. While Online Retailers such as Blue Nile can enjoy some slight advantages in entering because of the minimal amount of resources they need to carry, there is a considerable amount of knowledge of diamond quality and processes such as setting and sizing that a new entrant would need for success. The competition is also fierce. While there are not as many firms that can leverage resources to keep new entrants out, the number of competitors is enough to eliminate a new entrant's viability should they not possess the proper skills. The existing competition, usually established brands, can leverage resources for promotional tactics. The ease of exit for Jeweler Retailers, like any business, is also difficult because these firms have employees that will need to be terminated. There are also stores in which they sell goods, and expensive resources, jewelry, that would need liquidated. For Online Jewelers such as Blue Nile, the ease of exit is considerably more amicable since these firms often carry very little of their products until an order is placed and subsequently use fewer employees and warehouse space which allows them to exit much easier.

Technology Innovation

Because the evolution of technology gave birth to firms such as Blue Nile in the first place, it is inevitable that continued exponential growth of technology will continue to impact the industry. Currently technology has changed the distribution model of the industry by enabling jewelry retailers such as Blue Nile to control their inventories and by allowing end-consumers to customize their diamond purchases. In both of these examples, costs are lowered and prices are reduced which will continue to be an emerging trend. While prices will never be reduced to commodity levels, the industry will most likely continue to utilize sophisticated tracking and e-commerce applications to allow retailers more control over their inventories and consumers more ability to customize their purchases with high quality diamonds and lower prices. Blue Nile's "supply chain savings gave it a significant pricing advantage…with a markup of about 33 percent over cost" compared to Zale's 100 percent markup over cost and Tiffany's 125 percent markup over cost; in addition, Blue Nile's lean operating costs resulted from conducting operations "via a combination of proprietary and licensed technologies" for functions such as "financial reporting, inventory management, order fulfillment, and merchandising" (Thompson

2007). In addition, the technological advantage for Blue Nile allowed the firm to "readily test shopper response to new diamond and gemstone offerings and to efficiently add promising new merchandise to its overall assortment of fine jewelry" (Thompson 2007). As technology advances, the equipment in the facilities will needed upgraded but the actual number of facilities in the industry will most likely diminish because of more efficient practices. While many industry members, particularly local independent jewelers, do not need to have the most updated technology, the industry will eventually demand that members upgrade or perish to more efficient competition that can offer new higher quality products at much lower prices.

Product Characteristics

As part of the business model, Blue Nile offers high-quality diamonds and fine jewelry at competitively attractive prices as well as new product offerings including both customized and noncustomized jewelry items. While many firms like Blue Nile claim to offer unique products that are often customized, the jewelry retailing industry more or less judges products based on the five C's: carat, clarity, color, cut, and cut grade. With heightened competition, it becomes increasingly difficult to differentiate jewelry beyond those five elements. Many firms such as Blue Nile utilize experts such as the Gemological Institute of America and the American Gem Society Laboratories to grade the product; however, not much is done beyond increasing quality and personal customization to differentiate products. With this copy-cat approach continuing to be adopted by competitors, it becomes clear that the market is maturing and that price will become an even more important point of differentiation. Blue Nile's strongest point of differentiation is in the firm's ability to carry lean costs, develop supply chain efficiencies, and ultimately cut costs considerably below competition. The industry essentially has little product innovation and long product lifecycles (a diamond lasts forever as the saying goes). There is little need for R&D because there are few if any ways to differentiate a diamond beyond the basic quality.

Economies of Scale

Because Online Jewelers such as Blue Nile often carry very little inventory and focus more on cost savings and lean costs and supply chain efficiencies, there are few economies of scale that can be leveraged. In fact, because diamonds are not purchased until an order is placed, it is practically impossible for firms in the industry to purchase resources in mass quantities. While not every firm follows in the footsteps of Blue Nile, many jewelers still find that they cannot store mass amounts of precious diamonds, luxury goods, which are often very expensive. Economies of Scale do not apply in this particular case.

Learning and Experience Curve Effects

The industry has significant learning and experience curves because steep knowledge is requisite for success. First, firms need to understand the 5 C's so they know what to look for in purchasing quality diamonds and jewels. Without this knowledge, firms won't be able to offer consumers the quality product they desire. Second, industry firms need to develop partnerships with suppliers so that they can create efficiencies in their supply chain. By establishing partnerships, Blue Nile and others have been able to offer consumers customization options for minimal cost. Third, as technology continues to rapidly develop, firms need to utilize third party and proprietary software to operate with lean costs and efficient supply chains. These new advances in technology allow firms to leverage information flow to control inventories and reduce waste. While "mom and pop" local jewelers still exist in the current industry, online jewelers have increased the amount of learning and experience learning curves necessary for new entrants to be successful because these new entrants now have to suffer extra costs associated with managing the supply chain until they leverage the same software that makes lean costs possible. Many local firms continue to exist because of an established client base; however, as efficiencies continue to drive down cost, the viability of firms that do not continue to update their learning curves through increased technology and other methods may be in serious jeopardy as many of the online retailers are able to produce significant cost advantages from mastering technology.

Capacity Utilization

Because Blue Nile effectively utilizes an efficient supply chain and doesn't order inventory until after an order is placed, they do not have to worry about nearly the same amount of warehouse space as other firms such as Zale's and Tiffany's. As pointed out before, not incurring additional inventory costs and utilizing only the requisite amount of capacity allows firms in the industry such as Blue Nile to translate cost savings to consumers more so than other brick and mortar stores.

Industry Profitability

While profits continue to soar for Blue Nile and the diamond industry in the short run, the long term viability and profitability are in considerable question. Despite population growth and the positioning of diamonds and jewelry as an eternal gift of love, the alarming fact is that online retailers leverage lean costs and efficient supply chain management to drive down prices. In other words, growth rates have slowed down and the industry is now starting to compete on price. As seen across the board, when industries begin competing on price, margins are squeezed along with competition. As stated previously, the top five retailers have already gained more market share and could be starting to push others out which signify a maturing market. Add in technological barriers and the argument that the industry's long term profitability is in jeopardy becomes that much stronger as new entrants will be unable to enter. While the industry will continue maintaining solid profits in the short-run, the concern centers around the size of the profit margins in the long run because of the industry's rapid move toward maturity.

Competitive Analysis: Porter's Five Forces Model of Competition

Rivalry among competing sellers

As the rivalry between the competing sellers in an industry is the strongest of Porter's five forces, the competition between Blue Nile and its rivals is no exception. The Primary competitors for Blue Nile involve the online market place and the major players including Diamonds.com, Whiteflash.com, Ice.com and JamesAllen.com. These primary competitors have specific goals in value offerings to their customers, and they all try to lobby for competitive advantage in these areas. The secondary competitors of Blue Nile and their online Jeweler include brick-and-mortar jewelers, or the local shops and large chains of the jewelry industry including Zale, Sterling, Tiffany and Helzberg. Needless to say there are not just a few rival competitors in the jewelry industry as a whole. Blue Nile has not yet built its reputation or brand awareness, especially in comparison to the big chain jewelers. Blue Nile has created some advantage or value offering in the areas of Product selection and quality, price, customer service and support, Website features and functionality, convenience and speed of delivery.

Potential New Entrants

In this industry, there used to be some extremely high barriers of entry including need for large amounts of capital, strong established brands, and limited resources in terms of grading reports and appraisals. There are many new resources and abilities now due to the internet for potential new entrants. Blue Nile took advantage of these resources when they started their company completely on the internet. This gives them the ability to use limited capital to start up, the ability to reach huge amounts of customers, and eliminate portions of the supply chain to keep costs down. One of the biggest advantages that Blue Nile has utilized is the ability to keep inventory costs extremely low due to the fact that they only purchase merchandise when it is ordered by the customer. Blue Nile does not have to pay for their supplies for 46 days after the initial purchase while the product reaches the customer in 3-5 days. This gives them a huge advantage in cash flow, which any online jewelry retailer can also utilize. Many of the brick-and-mortar jewelers have already begun to incorporate websites to go along with their physical stores which gives them the ability to directly compete with Blue Nile and other online jewelers. At this point, there are not many requirements if someone wants to start up an online jewelry retailer, but Blue Nile does have a strong foothold in the market as long as they can continue to evolve and provide value to its customers.

Substitute Products

The competition from substitute products for jewelry retailers is not a very significant threat as there are some heavy switching costs with the purchase of substitutes. There are synthetic diamonds, manmade jewels, and jewelry alternatives such as these, but in our society, they are not very viable. In particular, engagement rings and wedding bands have a heavy social cost if they are not a real diamond, which outweighs the savings from buying a synthetic diamond. As Blue Nile concentrates a huge portion of their business to engagement and wedding rings, the threat of diamond substitutes continues to be irrelevant, which is a significant advantage to all jewelers.

Buyers

In this industry there is some buyer bargaining power since there are many competing and viable sources to purchase jewelry from. It is very easy to go down the street to the locally owned jewelry shop or big chain department store, and it is even easier to go to the next jewelry website on the list. This jockeying for market share is what keeps the pricing of jewelry competitive between jewelers, and now more than ever, it is price and quality that customers are looking for over any type of brand or designer jewelry. Blue Nile does offer a significant amount of quality at low leading prices which enables them to satisfy customers even over the established brand name stores that have been around for a long time.

Suppliers

The relationship that Blue Nile has with its suppliers provides them with several huge advantages as an online retailer. Blue Nile has exclusive partnerships with some suppliers which gives them the ability to showcase their products only their website. An exclusive partnership with an online retailer like this gives them the ability to display their products to their U.S. and international customers. This allows Blue Nile to sell to their customers without have to hold the actual merchandise until ordered by the customer. This also gives Blue Nile a huge advantage in terms of financial independence and available product offerings as well as lean pricing and profit margins.

Industry and Competitive analysis

Industry Driving Forces

When conditions change in an industry because of these important forces, it requires that the customers, competitors, and suppliers in that industry have to adapt their actions. Driving forces are the underlying causes that change these conditions, and they have huge impacts on how the industry moves forward after a shift. These driving forces can be internal or external, and microeconomic or macroeconomic and can become more or less influential with time. With Blue Nile and the Jewelry industry there are three significant driving forces that need to be acknowledged: emerging internet capabilities and applications, growing buyer preferences for differentiated products instead of a commodity product, and changes in cost and efficiency.

With the internet practically, every industry now has emerging internet capabilities as a leading industry driving factor. Blue Nile has made having a presence on the web a necessity for anyone in the fine jewelry industry. For any industry, having a presence on the internet is critical for practically any retailer, supplier, or business even if it is simply to let people know who you are and how to get in contact with you. This driving force has changed the fine jewelry industry in terms of reaching customers, amassing product offerings, and controlling cash flow among others. In terms of reaching customers, there is not a single more efficient way to do so other than the internet. With Blue Nile and online jewelers, it gives them the ability to reach any single person who has internet access; the only hurdle is to get them to Blue Nile's website once on the internet. In amassing product offerings, these online jewelers do not have to carry inventory. They are able to display tens of thousands of choices, customizable pieces and even show multiple angles of what the finished piece will look like on your hand or around your neck. Without having to purchase inventory, cash is not needed until Blue Nile has to pay their suppliers more than a month after the transaction has already been completed. The internet has, without a doubt, changed the way jewelers conduct day to day business and long term business.

The second driving force we have concentrated on in the jewelry industry is the growing buyer preferences for differentiated products. In this case, customers with thousands of options continue to gain buying power and require more specialized products for the lowest possible prices. Jewelry is also included in the list of products that customers want to make unique and individualized. Differentiation is a huge driving force in the jewelry industry because every piece is viewed as a symbol of who you are, and differentiation gives consumers the ability to express their individuality. Blue Nile does a great job of letting the customers customize their jewelry, which is satisfying their wants and keeping their product and service offerings differentiated. Never before in the Jewelry industry has customizing an engagement ring in style and in price been as easy as it is today.

Finally, the third driving force that has drastically changed the way the jewelry industry works and functions has been the changes in cost and efficiency. It started with the business model of amazon.com, in that they do not have to stock inventory to provide an array of products to customers. This is a brand new model that is enabled with the capabilities of the internet, but it works because of the amazing way it keeps costs lean and absolutely manageable. This business model also is able to be employed because of the ability to have overnight shipping. This keeps customers happy by providing them with their products in a very timely manner, which with a higher priced purchase is very important. Blue Nile is very efficient because of the ability to receive its supplies and merchandise in a day or two, and then they can put the product together in a day and have it shipped in another day or two. This process is a window of three to five days where purchasing a ring at a brick-and-mortar store can take a week just for sizing. With the evolution of the jewelry industry moving toward internet retailing, cost and efficiency have also been changed and companies like Blue Nile have reaped the profits of this new business model.

Key Success Factors

Key success factors are essentially the skills and attributes that a firm in a particular industry must have for success. In the Jewelry industry, in particular the Online Jewelry subsector, the following are the main key success factors:

1. Quality control know-how
2. Supply chain management capabilities
3. Strong e-commerce capabilities – a user-friendly Web site and/or skills in using Internet technology applications to streamline internal operations
4. Ability to manufacture or assemble products that are customized to buyer specifications

While not all jewelers engage in e-commerce, the single most important key success factor for both forms of business is quality control know-how. In almost all cases, no consumer wants to purchase expensive jewelry, especially engagement rings, which have flaws. If a firm wants to be successful in selling jewelry, online or in-store, the business will absolutely have to insure quality in every single product that is purchased.

Expanding beyond the idea of quality control, supply chain management capabilities are often just as important because it directly impacts the quality of the end-product. To successfully sell jewelry, firms need to manage their supplies both in terms of quantity and quality to insure maximum efficiency. As Blue Nile's business model indicates, the industry is headed for a stronger focus on price competition which means firms need to be able to leverage all supply chain activities to a point where every step adds value and subsequently lower costs without losing quality.

As technology continues to increase, the need for strong e-commerce capabilities, particularly a user-friendly website, increases as well. While this is probably the single most important key success factor for online jewelry retailing, it currently doesn't rank as the top key success factor for the entire jewelry industry (many retailers are very small, local "mom and pop" stores that have minimal to no e-commerce capabilities). While the small retailers will more than likely continue to exist in the long run, the number of firms that will have to transition to e-commerce increases numerically. Feeding into the key success factors of quality control and supply chain management capabilities, a strong e-commerce system will allow for jewelers to offer reduced costs and subsequent value to the same quality product that they were already offering.

Finally, the last key success factor is the ability to manufacture or assemble products that are customized to buyer specifications. In the jewelry industry, customization has become increasingly more popular especially in the new millennium when personalization has developed into a strong trend. Even throughout the history of the industry, basic abilities such as sizing and setting as well as product attributes such as the 5 C's of diamonds and the color of the band have always been strong. Jewelry, specifically engagement rings, serves as a symbol of personalized love and, as such, need to reflect that in the eyes of the consumers. If a jeweler can't customize their product to meet the demands of the consumers, there is little chance that the firm will be successful.

Evaluating Company Resources and Capabilities: SWOT Analysis

SWOT Analysis

Strengths

- Cost advantage of rivals
    - Blue Nile is able to offer high-quality products at a price that is much lower than its competitors. Blue Nile is able to achieve a cost advantage through an economical

supply chain and lower operating costs. Since Blue Nile's suppliers do not need to send the products through wholesalers or brokers, no additional markups are incurred. Without the markups, Blue Nile is able to sell its products at a reduced priced in comparison to its rivals and still receive a reasonable profit. In addition, operating costs are low because Blue Nile has very few full-time employees working for them. Information technology systems conduct operations for the company. With management overseeing the operating systems by using third-party software, Blue Nile is able to decrease its selling, general, and administrative expenses due to the small amount of full-time employees.

- Good supply chain management capabilities
    - Along with having a supply chain that allows Blue Nile to bypass wholesale markups, Blue Nile's supply chain enables leading diamond and gem products to be available on their website. Customers are able to view certain products that are only offered through Blue Nile. Once a customer decides to place an order for a diamond or gem, Blue Nile can purchase the item from its suppliers and receive it within a day of the customer's purchase. This method of purchasing from Blue Nile's suppliers allows inventory carrying costs to decrease because Blue Nile is carrying as much inventory as is needed with minimal additional items stored as inventory.

- Good customer service and satisfaction capabilities
    - Blue Nile offers educational information for customers on their website, so the customer fully understands the type of diamond or gem he or she is purchasing. This lessens the concerns of customers and increases their buying satisfaction. Even if the customers are unsure of the information offered on the website, Blue Nile has knowledgeable employees who can offer the customer additional help concerning their purchase. Customers are able to reach the highly trained staff via e-mail or the telephone where they will receive prompt service.

- Strong financial condition; ample financial resources to grow a business

- Over the span of five years, Blue Nile's sales have increased a dramatic 39%. This has, in turn, helped to increase gross profits and turn net losses into overall net profits. In the future, net sales are projected to increase even more. If net income continues to increase rapidly, Blue Nile should not have a problem allowing their business to grow even further.

Weaknesses

- Weak brand recognition
  - In comparison to Blue Nile's competitors, their brand name is not widely recognizable. Brands such as Zale and Tiffany will attract more customers due to the connection customers make between high quality and brand name recognition. Without a well known brand name, Blue Nile can lose out on potential sales because customers will not feel confident buying from a brand name they are not familiar with.

- Sales generated from only one market segment
  - Blue Nile is generating a majority of its sales from engagement rings, while products in other market segments are falling short in creating revenue. While it is important for Blue Nile to continue to market their high selling item, it is also imperative for them to put an additional emphasis on their other jewelry as well. Blue Nile is missing out on added sales benefits by simply relying on customers who buy engagement rings to eventually purchase their other items.

- Poor globalization
  - Blue Nile is only reaching out to certain countries such as the United Kingdom and Canada to produce additional sales, while other competitors, such as Overstock.com and Amazon.com, are able to reach customers on a more global basis. By choosing not to expand more internationally, Blue Nile is not giving its brand name much needed additional attention which could generate sales and net income.

Opportunities

- Increase in market demand
    - The U.S. jewelry market has continued to grow over the past 25 years. This is a good sign for Blue Nile who is a strong low cost provider in the market. This growth in market demand can aid Blue Nile in achieving additional sales and allow the company to stand out as a low cost provider.

- Serving additional customer groups or market segments
    - The jewelry market can attract women or men who want to buy jewelry for themselves or their partner. Blue Nile should continue to ensure customers that their products are high quality and that their services are reliable. Their products should be appealing to all customer groups and market segments.

- Entering into alliances or joint ventures to expand the firm's market coverage or boost its competitive capability
    - By creating an alliance or combining ventures with a brick and mortar company, Blue Nile's leery customers would be given a chance to see the product before they actually purchase it. This would reduce some of the concern customers have with purchasing a product online. With joint ventures, Blue Niles could increase its chances of receiving new customers and not just repeat customers who are already aware of Blue Nile's services and high quality products.

Threats

- Increasing intensity of competition among industry rivals
    - Rivals such as Diamonds.com and JamesAllen.com have continued to grow and gain publicity. Blue Nile's competitors have also been conducting some of the same strengths Blue Nile demonstrates such as a return policy and an expert staff. Blue Niles should continue to work successfully at separating itself from well known rivals.

- Entry of new competitors

  - While new competitors may not have a thorough analyses of their diamonds by the Gemological Institute of America or American Gem Society Laboratories, several companies, such as Amazon.com, are finding their way into the jewelry industry. Because Blue Nile is an online company, many other online purchasing companies are entering the market hoping to make a profit as well. Blue Nile should continue to stay focused on its strategy of high quality and low costs.

- Increase in cost of marketing efforts
  - Blue Nile's main effort for marketing involved advertising on web portals such as Yahoo! and America Online. However, with the increase in costs for buying keywords on Internet search engines, Blue Nile stepped down in its online marketing efforts. This will create a loss of potential customers for Blue Nile and will also diminish any hopes of having a more recognizable brand name.

Resource Based Theory

What strategies are maximizing the firm's performance?

Supply Chain Efficiency

Blue Nile's supply chain is the most essential part in the firm's performance. With the suppliers allowing Blue Nile to purchasing directly from them, they are avoiding any markup costs from wholesalers. They are also reducing their inventory carrying costs because Blue Nile is able to purchase items from suppliers after the customer has put in an order. Both of these advantages have allowed Blue Nile to be a successful low cost provider. With their supply chain savings, Blue Nile is able to sell their products at a cheaper price while still enjoying the benefits of a strong profit. Their supply chain also permits Blue Nile to show some of the supplier's leading gem and diamond products via Blue Nile's website. Customers can view these displays and get a better understanding of the item they are purchasing. This helps reduce customer's concerns with purchasing an item online. Customers will be more inclined to purchase from Blue Nile if they see that they offer products equal in quality to Blue Nile's rivals but cheaper in price.

Informative website with analysis by the Gemological Institute of America (GIA) or the American Gem Society Laboratories (AGSL)

In addition to having images readily available for customers to view, Blue Niles also provides educational information on their website which is backed by certification. This strategy also maximizes the firm's performance by alleviating shoppers' concerns of online purchasing. Buyers' concerns are especially strong when they are purchasing a high quality item, such as a diamond engagement ring. The information on the website is easy for customers to understand even if they are not familiar with the characteristics of diamonds and gems. Even if a customer is unsure of the information provided, they also have the option of speaking with a highly trained customer service representative who will assist them in making the best purchasing decision. Grading reports of the products are conducted by the GIA as well as the AGSL. These two laboratories are highly regarded in the diamond and gem market. The positive reputation of the GIA and the AGSL instills trust in the customers who are purchasing from Blue Nile for the first time.

Evaluating Company Resources and Competitive Capabilities: Strategic Cost Analysis

Porter's Value Chain Analysis

Blue Nile implemented a strategy that is rather effective in regards to drawing customers to their particular company rather than to one of their competitors. They do this by first, offering some of the highest quality diamonds and jewelry for a price that is lower than their competitors. Secondly, they not only sell diamonds and fine jewelry but they provide their customers with an abundance of useful information to assist them in their search and purchasing process. By following this strategy closely, this will make their current and potential customers feel comfortable with Blue Nile and purchasing their products over the internet.

The supply chain of Blue Nile offers relatively low operating costs. It is with these low operating costs that Blue Nile is able to be the more affordable jeweler to sell these high quality diamonds and gems. Obviously, one big advantage of being an online retailer is that they are able to cut out the wholesaler; they speak directly with their supplier and actually have very little inventory because they do not actually buy the supplier's goods until someone places an order for a specific product. Blue Nile only purchases a very small amount of finished products, whether that is pendants, earrings, bracelets, wedding bands, etc. It is obvious the suppliers and Blue Nile have formed a relationship because certain suppliers have allowed Blue Nile to sign a multi-year agreement that will allow only Blue Nile to sell specific types of diamonds. A contract like this gives Blue Nile a huge competitive advantage against its main competitors because anyone that would like those specific diamonds would have no choice but to go to Blue Nile for their purchase. It is also fascinating that suppliers make up more than fifty percent of the total supply of high end diamonds in North America.

Blue Nile implemented another cost saving strategy called lean operating systems. Although Blue Nile is one of the world's largest online retail jewelry stores, one would think that it would need thousands of employees to be able to function properly. However, that is not the case. In 2006, the company had only 146 employees with 133 of them working as full time contractors. Blue Nile runs off of a combination of technologies, propriety and licensed. Third party licensed systems managed and ran financial reporting, inventory management, order fulfillment and merchandising. With lean and low operating costs, Blue Nile's prices were 20 to 40% lower than local retail jewelers. Blue Nile cut prices of their products in the second quarter of 2006 to boost their sales, and they were successful. In the second quarter, sales increased by 30% which had been the highest sales increase in six quarters. Not only were sales up, but Blue Nile also sold items worth $100,000, $200,000 and in the next quarter $324,000. With an increase in demand for Blue Nile products, low selling, general and administrative costs, and efficient technology, Blue Nile has a competitive advantage against their competitors.

Being an online jewelry retailer has its advantages and disadvantages. One advantages is low inventory costs, while a disadvantage would be the lack of actually seeing what is purchased in person. Blue Nile is well aware of that concern for their customers, so that is why they have gone to great lengths to easily explain the 4 C’s (Carat, Color, Cut and Cut Grade), so they know the value of what they are buying. To give their customers some piece of mind, they provide them with a grading report that gives them information on what would suit their needs most financially and physically. The Gemological Institute of America (GIA) or the American Gem Society Laboratories (AGSL) teamed up with Blue Nile and analyzed and graded every loose diamond sold by Blue Nile. By having such reputable organizations such as GIA and AGSL, it should reassure the customer that they are receiving a high quality product and attract new customers.. According to Thompson, he stated that “these two laboratories, among the most respected laboratories in the diamond industry, were known for their consistency and unbiased diamond grading systems” (Thompson 2007).

A key factor to any company’s success is their Marketing strategy. Ultimately, their goal is to become a more recognizable brand, to produce more consumer traffic, obtain more customers, build a customer base, and encourage more than one purchase. A large portion of their marketing strategy was to ensure that their customers had a pleasant and positive experience while on Blue Nile’s website. They customized their website to be user-friendly so it would be easy to search and modify what the customer is looking for. In 2006, Blue Nile launched a diamond search tool that could search for Blue Nile’s collection with any of the twelve criteria: price, carat weight, cut, color, clarity, polish, symmetry, fluorescence, cutlet, diamond grading report, depth percentage and table percentage. Ultimately, their goal was to inform and allow their customers to be confident in their search, selection, and purchase. Blue Nile’s advertising expense in 2003 was $4.5 million, than raised to $6.5 million in 2004, than raised to $7.6 million in 2005 and finally in 2006 was at $9.7 million. Blue Nile decided to stop advertising on search engines such as Yahoo! and America Online. They tried to do some online and offline advertising, however, it did not make a huge impact. In 2005, Blue Nile decided to cut on its advertising costs which ultimately reduced some customer traffic to the website.

The final element in the value chain analysis is the customer service and support. Even though Blue Nile is an online company, this element is crucial. Located on their website, a phone number is shown in case a customer might need additional help that the website cannot provide for them. In the call center, there are highly trained and knowledgeable personnel. If the customer does not prefer to call or would just like to email the support personnel, they can also do that via e-mail. Other than being a dependable and trustworthy online retailer, Blue Nile prides itself in its order fulfillment operations. When a custom order comes in, the supplier sends the diamond to Blue Nile within one business day, and it is inspected to ensure it is the quality the customer is seeking. It is then assembled by Blue Nile Bench jewelers and inspected for quality again. Blue Nile has a 99.96% on time delivery rate but is aiming for 100%. Blue Nile also implements a 30-day return policy to non-personalized pieces of jewelry. This is great for the customer because if for some reason they are not satisfied with their purchase, they are not stuck with an unwanted piece of jewelry. With such an efficient delivery time and reasonable return policy, Blue Nile can ensure customer satisfaction.

Benchmarking Activities

As previously stated in the Porter's Value Chain Analysis, Blue Nile employs a brilliant strategy regarding their inventories. Blue Nile orders the diamonds based on the customer's purchase, and Blue Nile holds the item in their inventory for an extremely short time. Although they do not have a large inventory, they still obtain a small supply of finished jewelry. At years end in 2005 Blue Nile only spent $11.7 million while having about $203.2 million in sales. Zale's corporation at the end of year 2005 had $853.6 million in inventories when their total sales were only $2.4 billion. Tiffany's also had inventories that same year of about $1.06 billion while having $2.4 billion in sales. Even though Blue Nile is the front runner in saving on costs, they will always have the disadvantage of not being able to physically show their product to the customer prior to the order.

In 2005, a comparison of Blue Nile, Zale's Corporation and Tiffany and Co. was done in the area of selling, general and administrative expenses. It is evident that Blue Nile spends a little more than 25% less than Zale's who held a 41.2% of sales and Tiffany's who held 40.1% of sales compared to Blue Nile who only held 13.3% of sales. These low expenses can ultimately save Blue Nile's customers a considerable amount on their purchases.

As many people are aware, there is a significant mark up when it comes to buying jewelry from local retailers. Some companies such as Zale's Corporation have mark ups of 100% over cost, while Tiffany's have mark ups of 127% over cost which equals out to be a 56% gross profit margin. Blue Nile does mark up their prices, but they only mark them up 33% over cost resulting in a 22% gross profit margin in 2005. Blue Nile implemented a supply chain savings which gave them a considerable price advantage.

Competitive Strength Assessment

A. An Unweighted Competitive Strength Assesment

Key Success Factor/Strength Measure	Strength Rating (Scale:1=Very Weak; 10=Very Strong) Blue Nile	Zale's	Tiffany's
Quality of diamonds	9	7	10
The ability to customize the product to buyers requests	10	6	8
Company Image	8	8	10
Unweighted Overall Strength Rating	**27**	**21**	**28**

B. A Weighted Competitive Strength Assesment

Strength Rating (Scale:1=Very Weak; 10=Very Strong)

			Blue Nile		Zale's		Tiffany's
Key Success Factor/Strength Measure	Importance Weight	Strength rating	Score	Strength rating	Score	Strength rating	Score
Quality of diamonds	0.40	9	3.6	7	2.8	10	4
The ability to customize the product to buyers requests	0.30	10	3	6	1.8	8	2.4
Company Image	0.30	8	2.4	8	2.4	10	3
Sum Importance of Weights	1.00						
Weighted Overall Strength Rating		27	**9**	21	**7**	28	**9.4**

In doing the competitive strength assessment, Blue Nile is rated against its main competitors, Zale Corporation and Tiffany's and Co. In this assessment, quality of diamonds held the most of the importance holding a .40 weight. The reason why this is most significant is because consumers who are buying jewelry, such as engagement rings, want to make sure they are getting their money's worth on the quality of the diamond. This is why you see the majority of jewelry being bought at stores that exclusively sell jewelry versus Kmart. Blue Nile received a strength rating of a 9. They are known for their quality of diamonds being reliable and reputable. They do a fantastic job at letting their consumers know about their high end products through their partnership with GIA, AGSL and their grading reports. Zale's company was given a rating of 7 because although they have very high quality diamonds they are not as well known for them like Tiffany's is. Tiffany and Co. were given a rating of 10 because they are the leading provider for engagement rings and are known for their diamond quality.

The ability to customize the product to the buyers request holds an importance weight of .3 because customers do not want to have the same piece of jewelry that their neighbor has down the street. It is important to the consumer to be able personalize their own jewelry. Blue Nile was given a rating of 10 because of their ability to build their own perfect engagement ring, earrings, etc. Zales was a given a rating of 6 because although it is possible for them to customize a ring, they still cannot compete with Blue Nile or Tiffany's customization abilities (Zales.com). Tiffany's was given a rating of 8 because although you can customize rings it is not the main draw for why a consumer is choosing to go there. People go to Tiffany's there for quality and the image of the company (Tiffany.com).

Company image is crucial in deciding where to purchase jewelry, which is why it holds an importance weight of .30. When a consumer is looking for a high end piece of jewelry, they are not going to go to the local no name brick and mortar jewelry store down the road They are going to go to store that is known for quality, prestige and their reliability. Blue Nile received an overall rating of 8 because although they are a great company, they are not as well known as Zale's and Tiffany's. Ultimately, this will hurt them in long run because they are missing out on business which they could have. Zale's also received a rating of 8 because their quality is not as high as Blue Nile's quality. Tiffany's received a rating of 10 because a large majority of the population has heard of this company and automatically knows that they are a high end jewelry store. That strength in brand awareness is hard to beat even if their product is comparable to competitors.

Regarding the weighted competitive strength assessment, Tiffany's holds the most weight with a rating of 9.4. Blue Nile is not far behind though with a rating of 9 and Zale's coming in with a rating of 7. Granted, there are other factors that could alter these results, but it seems that Blue Nile and Tiffany's are not that different when it comes to these 3 particular factors. Blue Nile could be equal with Tiffany's if not better if they received more brand recognition. They need to focus on advertising themselves more so they can compete better with Tiffany's and Zale's.

Financial Analysis

Blue Nile, Inc.
Selected Key Financial Ratios
Group D - Mason Shattuck

	FYE Jan. 3, 2007	FYE Jan. 2, 2006	FYE Jan. 1, 2005	FYE Dec. 31, 2003	FYE Dec. 31, 2002	FYE Dec. 31, 2001	Cumulative (01-07)	
Profitability Ratios	-	-	-	-	-	-	-	
Gross Profit Margin	20.20%	22.20%	22.20%	22.80%	25.10%	22.80%	22.55%	*Illustrates Average
Operating Profit Margin	6.50%	8.80%	8.70%	8.70%	5.00%	10.90%	4.46%	*Illustrates Average
Net Profit Margin	5.10%	6.40%	5.90%	20.90%	2.20%	15.10%	4.23%	*Illustrates Average
ROA	13.50%	11.30%	8.30%	43.20%	1.20%	35.40%	6.61%	*Illustrates Average
ROE	27.60%	16.10%	11.90%	99.00%	2.90%	13.00%	-	* See Footnote 1
EPS (Basic)	$0.79	$0.75	$0.80	$6.98	$0.49	$2.44	-	
Liquidity Ratios	-	-	-	-	-	-	-	
Current Ratio	1.56	2.38	2.78	1.53	n.a.	n.a.	-	
Quick Ratio	1.36	2.17	2.55	1.2	n.a.	n.a.	-	
Net Working Capital	$41,881	$76,869	$77,838	$16,663	$1,795	$9,021	-	
Leverage Ratios	-	-	-	-	-	-	-	
Total Debt-to-Assets	0.50%	0.60%	0.80%	1.80%	3.50%	40.60%	-	
Total Debt-to-Equity	1.40%	1.00%	1.20%	4.10%	2.00%	19.10%	-	*See Footnote 2
Activity Ratios	-	-	-	-	-	-	-	
Days In Inventory	26.57	27.17	27.49	37.44	35.04	64.34	-	
Inventory Turnover	13.73	13.43	13.27	9.74	10.41	5.67	-	
Average Collection Period	2.37	3.37	2.21	2.59	2.43	0.68	-	

1. Data from 01-03 is enitrely comprised of debt-based financing (Company in infancy)
2. Company holds zero Equity, completely finance via debt

Profitability Analysis

Gross Profit

Blue Nile (NILE) has shown consistently strong profitability ratios for the periods reported. From 2006-07, the company noted a 2% decrease, which may be cause for concern. 2007 showed the lowest GR ratio in six years. This is definitely an area for minor concern.

Operating Profit

NILE also posts decent operating profit margins. As with GP, OP decreased in 2007. This should also be a cause for a bit of concern. OP deals with margins excluding taxes and interest charges. The company will need to address this issue in the next fiscal year.

Net Profit

Profitability is key, and the company is profitable, but with decreasing margins. The company needs to focus on internal costs and SG&A expenses. While this is not an immediate threat, decreasing margins are never a good sign. If the company can gain control of its cost structure, margins should be able to reverse current trends.

Return on Assets

NILE has strong margins in this area. ROA has increased in the last three years, showing the company earns strong returns on all of its assets. All margins reported are 'healthy' and there is no cause for concern. The company noted negative ROA in its initial stages, but this is natural with a company in its infancy.

Return on Equity

NILE also has delivered solid returns to its investors. The company has noted rapidly-growing ROE in the past three years. In 2007, the company noted a 27.6% ROE. This is stellar, and should have NILE shareholders very excited and optimistic.

Earnings Per Share (Basic)

NILE posts solid, but not stellar EPS. In the past three years, the company has not performed great regarding EPS. In 2005, the company posted $0.80/share earnings, followed by a decrease in 2006 to $0.75/share. This should cause concern. The company seemed to correct itself by recording $0.79/share earnings in 2007.

Overall Profitability Breakdown

NILE is a profitable company, and there are no major concerns that need to be addressed. The company needs to focus on improving margins and increasing earnings. If these two areas are improved, NILE will be even more attractive to outside investors seeking profitable returns.

Liquidity Analysis

Current Ratio

NILE has an issue with its most recent current ratio. The firm can still cover all liabilities roughly 1.5 times, but this number is a large drop from the 2.38 ratio posted in 2006. While these numbers aren't alarming, this presents a concern. The firm's liabilities are increasing disproportionately with the firm's assets. This can be attributed to many factors such as increasing capital expenditures, accelerated financing or new payment policies that the company may have implicated.

Quick Ratio

NILE posts similar numbers in regards to the aforementioned current ratio. Quick ratios remove the inclusion of inventories within the analysis. The company does not have a problem in regard s to inventory. The problem lies above with increasing liabilities. All quick ratios calculated almost identically follow all current ratios.

Net Working Capital

NWC decreased in 2007. This should not be cause for concern. The company may simply be expanding. While investors never like to see decreasing levels of capital, the number still remains positive. I believe there is no cause for concern here.

Leverage Ratios

Total Debt-to-Assets & Total Debt-to-Equity Ratios

These two ratios represent the true meaning of a ‘clean’ balance sheet. NILE recognizes miniscule ratios representing minute levels of debt; attracting many investors. In the last three years, the company has recognized debt-to-assets ratios of less than 1%. In the same time period, NILE shows debt-to-equity ratios of less than 2%. This shows relatively no threat of creditors controlling the company. This makes NILE a very attractive investment.

Activity Ratios

Days In Inventory

Almost as attractive as NILE’s debt ratios are the company’s activity ratios. When NILE first entered the market, there were numerous issues, but in the last three years, the company has held inventory for an average of roughly 27 days; a fairly strong number. The company has also improved this number each of the past four years.

Inventory Turnover Ratio

This is another strong point for the company. The company averages an ITR of 13 times per year. This is very strong.

Average Collection Period

Another strong point for the company is beautifully illustrated with its ACP ratio. The company collects on sales within three days. This is a very strong number. NILE basically encompasses to almost immediately collect on its sales. This is exceptional in regards to the policy the company uses in regards to how many days the company takes to pay suppliers. The company has a very good purchasing and collections agreement; which is a huge asset to NILE.

Issues and Recommendations

The first issue Blue Niles faces is its lack of marketing and advertising. To create a localized presence, Blue Nile should partner with a brick and mortar firm in some well known metropolitan areas. This will provide a local distributor along with internet presence and will provide Blue Nile with a store presence. Advertising also should not take place just in direct online channels because that is their turf. Blue Nile is primarily targeting men 20-40 years old as well as women 20-30 years old as a secondary target. Blue Nile needs to explore more common advertising in mediums such as television and magazines during vehicles aimed at luxury shopping. Blue Nile no long invests their money in advertising through internet search engines, so they could use these finances to instead advertise to men's magazines, ESPN, or television channels for women such as Lifetime and Oxygen. The television advertisements should be shown on a daily basis so customers will not miss the advertisement if they do not tune in on a certain day. This form of advertising could increase the company's brand recognition while not significantly hurting their budget because they would be using money previously invested in online keyword searches.

Another issue Blue Niles appears to lack in is expanding its global markets. Currently, their international efforts only reach out to the U.K. and Canada. Blue Nile should conduct marketing research into other potential global markets. Perhaps this would allow Blue Nile to discover why their presence in the U.K. went largely unnoticed. Blue Nile should focus on one country's market before taking on the entire globe. This way, once one international market has been penetrated, exploration of new markets can take place. Blue Nile can see what works with one international market and research other countries to find a market which is similar and will yield relatively the same results. Blue Nile needs to conduct marketing research to discover cultures in which engagement rings in particular have cultural significance. In addition, when going global, there are some factors that Blue Nile needs to be cautious about. Regulations with shipping such expensive items can sometimes hinder the efficiency process. Blue Nile needs to make sure that they are capable of still providing quick delivery of the jewelry even if it is 7-10 days, depending on the country. It is imperative for Blue Nile to have strong communication with other international business as well. For example, the website and customer service employees need to have the ability to communicate in German if they want to begin selling jewelry in Germany. If they do not attempt to go as global as possible, there will be some companies that will, and the foothold that Blue Nile has on the online market will diminish. Since Blue Nile's operating costs are so low due to the small amount of full time employees, Blue Nile should be able to have enough leverage with finances to hire more employees who could specialize in researching and implementing international markets.

The final issue for Blue Nile involves an increase in vertical integration. To leverage more control over quality, Blue Nile should consider increase integrating vertically. To do this, perhaps they can do all the sizing and setting of the diamonds in house. However, Blue Nile should not integrate to the point where they become a supplier, because they have an efficient supply system already. In order to make this increase in vertical integration possible, it would be helpful for Blue Nile to increase prices. Considering that Blue Nile's prices margins are 33% in comparison to other retailers that offer 100%, it would not hurt Blue Nile to increase their prices. This could help to offset additional costs with advertising, globalization, and vertical integration.

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Appendices

Appendix A

Industry Ratios (Jewelry Stores)	2007	2002
Total sales (Mil $)	29,282	23,304
Sales per establishment ($000)	1,061	814
Sales per employee ($)	188,371	156,666
Sales per $ of payroll ($)	7.01	6.69
Annual payroll per employee ($)	26,880	23,417
Employees per establishment	5.6	5.2
Sales per capita ($)	97	80
Establishments per million residents	91	99

Appendix B

Industry Ratios (Nonstore Retailers)	2007	2002
Total sales (Mil $)	81,452	24,057
Sales per establishment ($000)	5,811	4,376
Sales per employee ($)	641,530	471,259
Sales per $ of payroll ($)	16	14
Annual payroll per employee ($)	38,859	32,763
Employees per establishment	9.1	9.3
Sales per capita ($)	270	83
Establishments per million residents	46	19