Blue nile study questions

Life

Marking Scheme Mid Semester Exams Lecturers: Anthony Oboe Spool and Robert Amok-LIndsay Section A (40 Marks) Provide Short and concise answers 1 Explain the term sustainable competitive advantage and why it is so Important to a winning business strategy. (5 marks) Suggested Answer A company achieves sustainable competitive advantage when an attractive number or buyers prefer its products/services over those of rivals and when the basis for this preference can be maintained over time.

Competitive advantage could stem from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. (3 marks) Sustainable competitive advantage is necessary for a firm to win in the market place. It is required for a strategy to deliver on strategic and financial objectives (2 marks) 2. Using examples briefly explain and state the Importance of each of the following a) Strategic vision Strategic vision represents the destination that management seeks to take a firm.

Ford's vision " A car in every garage" Importance Give the organization a sense of direction Inform company personnel and other stakeholders what management wants Its business to look like Spur company personnel to action Provide managers with a reference point to (2. 5 marks for explanation and any 2 points mentioned as importance of strategic vision) b) Strategic mission Strategic mission of a firm focuses on its present business purpose. Strategic mission highlight the present products and services, types of customers served and how it intends to do that.

Examples Beacon Books: " To inspire and equip business executives and entrepreneurs with essential information and knowledge they require for professional and personal growth" Google: " To organize the world's information and make it universally accessible and useful" Importance: It focuses the business by identifying the boundaries of the current business It distinguishes a firm from others and gives it an identity of its own. (2. 5 marks) (5 marks) 3. Explain the meaning and significance of each of the following: a. Strategic group mapping A strategic group is a cluster of firms in an industry with similar competitive approaches and market positions. Strategic group mapping entails plotting firms in n industry on a two-variable map using pairs of these differentiating characteristics e. G. Product line breadth, distribution channel use, geographic coverage, price, quality etc. It helps firms to know their positions in the industry versus their rivals It helps firms to know which competitors to focus on in their quest to make strategic moves It helps them to know which positions in the market or industry are attractive to players in the market. 2. 5 marks for explanation of strategic group mapping and any of the above points mentioned) b.) The bargaining power of suppliers Bargaining power of suppliers defines the extent to which suppliers of inputs to competing firms in an industry are able to dictate the price, quality, quantity and even timing of supplies to these firms. The bargaining power of suppliers has an impact on the cost, profitability and a firm's ability to satisfy its customers and for that matter its competitiveness. Powerful 4.

Identify and briefly explain any two of the factors that influence the strength or intensity of competitive rivalry among an industry member firms. (5 marks) Factors Competitors are active in making fresh moves to improve market standing and easiness performance Slow market growth Number of rivals increases and rivals are of equal size and competitive capability Buyer costs to switch brands are low Industry conditions tempt rivals to use price cuts or other competitive weapons to boost volume e. . Perishable or seasonal A successful strategic move carries a big payoff Outsiders acquire weak firms in the industry and use their resources to transform new firms into major market contenders (5 marks for any two of the above factors mentioned and explained) 5... Identify and briefly explain any two factors that lead to strong bargaining power on the part of suppliers. (5 marks)

Industry members incur high costs in switching their purchases to alternative suppliers Needed inputs are in short supply Supplier provides a differentiated input that enhances the quality of performance of sellers' products or is a valuable part of sellers' production process There are only a few suppliers of a specific input Some suppliers threaten to integrate forward (5 marks for any two of the above factors mentioned and explained) strength and leverage of buyers. 5 marks) Buyer switching costs to competing brands or substitutes are low Buyers are large and can demand concessions Large-volume purchases by buyers are important to sellers Buyer demand is weak or declining Only a few buyers exists Identity of buyer adds prestige to seller's list of customers Quantity and quality of information available to buyers improves Buyers have ability to postpone purchases until later Buyers threaten to integrate backward (5 marks for any two of the above factors mentioned and discussed) 7.

Using examples explain the difference between a core competence, and a distinctive competence. A core competence is a well-performed internal activity central to a company's competitiveness and profitability. It tends to relate to a firm's ability to perform activities that are critical for success in an industry e. G. A better after-sale service capability A distinctive competence is a competitively valuable activity a company performs better than its rivals.

For example Toast's low cost, high quality manufacturing of automobiles " Lean Production" is far superior to that of other automakers, (5 marks for explanation and establishing the difference between core competence and distinctive competence) 8. What is benchmarking and why is it a strategically important analytical tool? (5 marks) Benchmark focuses on cross-company comparisons of how certain activities are reformed and costs associated with these activities. It looks at things such as purchase of materials, management of inventories, getting new products to the market and so on. 2 marks) Identify best and most efficient means of performing various value chain activities Learn what is the best way to perform a particular activity from those companies who have demonstrated that they are " best-in-industry' or " best-in-world" at performing the activity Learn what other firms do to perform an activity at lower cost Figure out what actions to take to improve a company's own cost competitiveness (3 marks for NY 2 points identified and explained) Section B (80 marks 1 . Analyze the competitive forces confronting Blue Nile and other online retail jeweler's.

Do a five-forces analysis to support your answer. State the relative strength of each competitive force. Below is a representative five-forces model of competition for the online Jewelry business: Rivalry among online Jeweler's?

a moderate to strong competitive force that is likely to intensify in the years ahead. Students should conclude that rivalry among Blue Nile and other online Jeweler's is normal to moderate, but it is likely to grow ore intense (owing to the success that Blue Nile is enjoying).

Rivalry is centered on such factors as Price and value delivered to customers Selection and breadth/variety of product offerings Ability to customize and customization options The caliber and trustworthiness of the information/guidance provided to online shoppers (educational information, in-depth product information, access to professional grading reports, and so on) Image/reputation Customer service User friendliness of web site? search functionality, ease of browsing through all the selections, finding and understanding the information provided, etc.

Refund and return policies Advertising and promotion? Much of the advertising/promotion is being done online, but the online Jewelry business is not one that is a heavy user of TV, radio, and newspaper advertising on a regular basis. Word-of-mouth is a fairly big factor Most online Jewelry competitors pursued either a differentiation strategy to try to set themselves apart or else tried to attract shoppers via the appeal of very low prices (which entailed employing a low-cost strategy).

Some rivals focused their efforts narrowly on particular Jewelry items/product categories while others had broad reduce lines. Several factors were working to affect rivalry among industry participants: All rivals seem to be actively and busily trying to attract Jewelry shoppers to their websites, partly via online advertising and promotional initiatives (including search engine listings)? fresh strategic initiatives on the part of various rivals heightens rivalry. Low switching costs on the part of buyers? it is simple for people shopping for jewelry online to locate and visit competitor web sites.

Rivalry decreases when the rate of market growth rises? sales of Jewelry online seem o be growing briskly (with the sales increases coming at the expense of brick-and mortar Jewelry retailers). There is reason to suspect that the online Jewelry segment of the overall retail Jewelry industry is in its infancy (an emerging business or industry in its own right); hence, online sales of Jewelry are likely to grow faster than sales of Jewelry in general? a condition which will act to contain rivalry among online jeweler's.

Rivalry increases when one or more rivals are dissatisfied with their market position and launch moves to bolster their standing at the expense of rivals. A case can be Dade that Blue Nile and most all of its online rivals are " dissatisfied" and thus are likely to make further moves to bolster their market standing, image, and sales. Rivalry increases as the product offerings of rivals become more standardized? many of the online Jeweler's seems to be offering shopper many of the same things? wide selection, customization, educational information, access to grading reports, and so on.

We see the differentiation among online Jewelry rivals as growing smaller/ weaker, not larger/stronger? with the possible exception of reputation/image, where Blue Nile seems to be the standout leader. Threat of entry? a moderate to strong competitive force Blue Niles success and growing reputation will almost certainly draw more competitors into online Jewelry sales. The barriers to entry into the online segment of the Jewelry industry are moderately The costs of developing a Web site.

Developing supply chain relationships Developing order fulfillment capability and achieving short delivery times Expenditures for advertising and promotion needed to draw visitors to a web site and build a trustworthy reputation/image. In addition, students should see that the pool of entry candidates is probably fairly rage? especially for brick-and-mortar retailers already in the Jewelry business. Hence, the entry threat in upcoming years should be viewed as fairly strong. There would seem to be ample opportunity for new entrants to gain a market foothold and to achieve a level of sales high to be profitable.

But the longer a company delays entry, the harder it will be to compete effectively against online Jeweler's like Blue Nile that have built a clientele and that have formidable images/reputations. Competition from substitute sellers of Jewelry? a very strong competitive force. Obviously, Jewelry shoppers have many other options for buying Jewelry than from online retailers. Traditional brick-and-mortar Jewelry retailers have the lion's share of the market and currently are the retailers of choice for the big majority of Jewelry shoppers. Hence, the competition that online Jeweler's face from other Jewelry retailers is quite formidable.

In addition, there are hordes of possible substitutes for Jewelry altogether (but most people are unlikely to see these alternatives as good substitutes). Consequently, students should conclude that substitutes for buying Jewelry online re a strong competitive force, given that Acceptable substitute sources for purchasing Jewelry are readily available and the prices charged by some of these substitute types of Jeweler's are reasonably competitive Buyer costs to switch to substitute types of Jewelry retailers are relatively low Many consumers are familiar with and comfortable with buying Jewelry from other than online Jewelry retailers.

The bargaining power and leverage of suppliers to the online Jewelry retailers and jeweler-supplier collaboration? a moderately strong competitive force, especially as encores the suppliers of diamonds/gems and other Jewelry items. Students should recognize that the suppliers of gems/diamonds/]leery items have considerable bargaining power and leverage in determining the prices and terms at which they will supply their products.

Yes, there are many alternative suppliers, and it would seem relatively easy for a it is doubtful that suppliers compete aggressively with one another on price? in other words, switching suppliers is unlikely to lead to acquiring a particular gem of particular quality at a lower price.

There is no evidence in the case that suppliers of monads/gems compete with one another on the basis of price (indeed, with the exception of Blue Nile and other online Jeweler's, there is little evidence that price competition is active in the market for fine Jewelry? that is, rival Jeweler's are not aggressively trying to compete with one another by selling a diamond of given cut, clarity, grade, etc. At a lower price than their rivals). Blue Niles lower prices stem from its lower costs of doing business, not from the fact that it obtains diamonds/ gems at lower prices than do traditional retail Jeweler's.

What is important for students to recognize here is that Blue Niles close elaboration with its diamond/gem suppliers has resulted in giving it a lower cost value chain as compared to traditional Main Street Jeweler's. The distinctive feature of Blue Niles supply chain was its arrangements with leading diamond and gem suppliers that allowed it to display the suppliers' diamonds and gems on its web site; some of these arrangement entailed multi-year agreements whereby designated diamonds of the suppliers were offered to online consumers only at Blue Niles websites.

Blue Niles suppliers represented more than half of the total supply of high-quality diamonds in the U. S. Blue Nile did not actually purchase a diamond or gem from these suppliers until an order was placed by a customer; this enabled Blue Nile to minimize the costs associated with carrying large inventories and limited its risk of potential mark-downs. Other online Jeweler's seem to have similar collaborative arrangements with their diamond/gem suppliers.

These collaborative arrangements offer a sizable cost advantage over Main Street Jeweler's? these cost- saving arrangements put added competitive pressure on traditional local Jeweler's because such collaboration (and the resulting lower cost business model) puts them t a cost disadvantage. The bargaining power and leverage of Jewelry shoppers? a weak competitive force Individuals have little power to bargain for a lower price on the Jewelry items they are looking to purchase (except perhaps in the case of very expensive items where some price haggling is often fairly normal).

Individuals can, of course, choose to buy or not buy at the marked price but no one individual is usually in a position to enter into direct negotiations over the terms and conditions under which he or she will purchase a diamond ring or other Jewelry item from an online retailer. Any individual an certainly opt to buy from one retailer rather than another, but this does not equate to bargaining and exerting leverage.

Conclusions concerning the overall strength of competitive forces: Competitive pressures in online Jewelry retailing are strong but not overwhelming so (the best evidence for this is Blue Niles record of attracting new customers and growing its sales at a rapid clip? a convincing sign that it is able to successfully contend with the prevailing competitive forces). Currently, we see competition from substitute types of forces.

The entry of new competitors could also prove to be significant, if one or more f the new entrants have a well-recognized and trusted brand name and if such entrants opt to price their products competitively versus the prices charged by Blue Nile. Moreover, while competition is fairly strong, it is not so strong as to prevent companies like Blue Nile from being profitable. The online Jewelry retailing portion of the Jewelry industry is rather attractive from the standpoint of promising growth and attractive long-term profitability? Blue Nile is demonstrating that its business model and strategy are quite attractive.

This is the big reason why new entry can be expected. But online sales of fine Jewelry is likely to remain a relatively small fraction of total sales of fine Jewelry for years to come? traditional brick-and-mortar local jeweler's are not going to be driven out of business by online Jeweler's in the foreseeable future. (5 Marks for each point well discussed with the appropriate verdict or conclusion on each competitive force) 2. Do a SOOT analysis of Blue Nile. What are key conclusions you can draw about the its situation?

Blue Niles Resource Strengths and Competitive Assets the current market leader in the online retail Jewelry segment by a wide margin AAA teeter known brand name and reputation than rivals AAA first-rate strategy and business model AAA broad and attractive product line from customers to choose from AAA user-friendly web site with good search functionality and very good educational information A sizable and competitively potent cost advantage over traditional local Jewelry stores due to lean operating costs and a cost-effective supply chain Its collaborative partnership arrangements with important diamond/gem suppliers Good product customization and order fulfillment capabilities (core competencies) Blue Niles ability o grow sales with very little incremental capital investment Blue Niles Resource Weaknesses and Competitive Liabilities Limited brand name recognition? many shoppers for fine Jewelry have never heard of Blue Nile Limited financial resources relative to bigger and better-known retail Jewelry chains There is nothing proprietary about Blue Niles strategy and business model? both are subject to imitation by rivals Market Opportunities Geographic expansion? entry into the markets of foreign countries Lots of room to grow the business by attracting customers away from traditional local Jewelry stores in the U. S. ? Blue Nile still has such a relatively small market share of the total market for fine Jewelry in the U. S. That it can continue to employ its current strategy for many years. The more that the word spreads about Blue Niles attractive prices and quality the more it stands to steal away customers from traditional local Jeweler's.

Product line expansion External Threats to Blue Niles Future Well-Being The entry of more online Jewelry rivals that opt to employ much the same strategy and business model? especially if these new entrants should be retailers that have a brand name that is more widely recognized and trusted than Blue Niles. Diamond/ gem suppliers either become less willing for Blue Nile to display their inventories on Blue Niles web site or decide not to renew their multi-year agreements with Blue Nile whereby certain designated diamonds in their inventories are offered to online consumers only at Blue Niles websites. (Blue Niles suppliers represented more than half of the total supply of high-quality diamonds in the U. S. Untold numbers of people shopping for fine Jewelry are very leery of buying fine Jewel online and thus are not likely to ever be customers of Blue Nile Key Pointed and Conclusions Blue Niles strategy, business model, resource strengths, and competitive capabilities put it in a very strong market position to succeed in the online retail Jewelry business in the upcoming years? it is easy to understand why the company has been extremely successful in growing its sales over the past several years. Blue Nile would seem to have a sustainable cost advantage over traditional brick-and mortar retailers of fine Jewelry. Blue Nile has no resource weaknesses that make it highly vulnerable to competitive attack from local Jeweler's.