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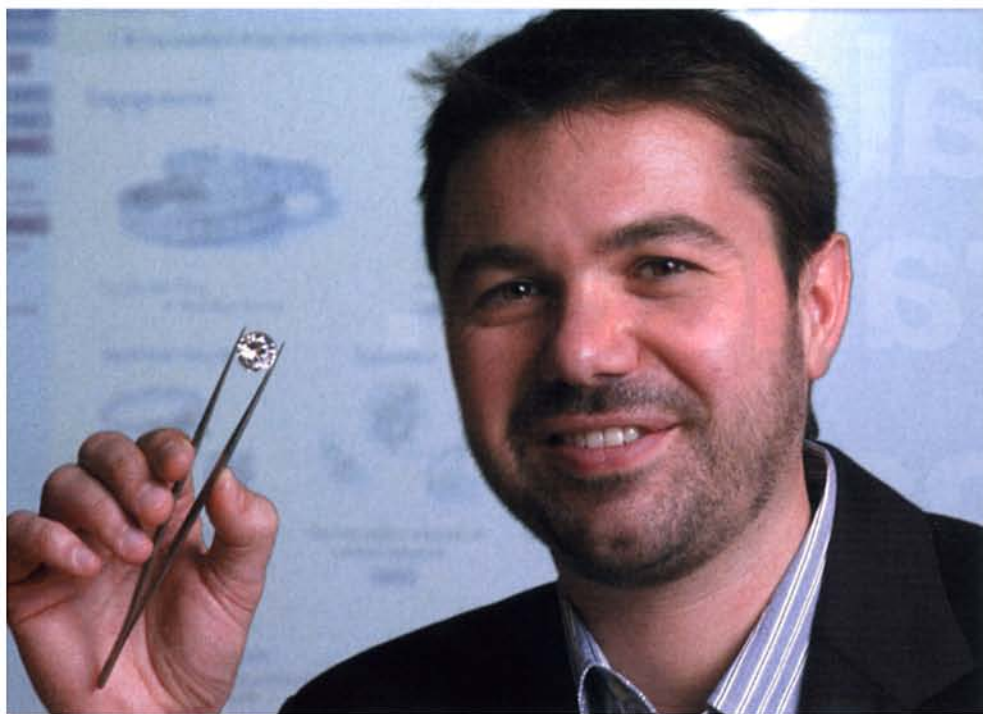
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By Lori Hinton

# An E-commerce Jewel

*By focusing on consumer needs Blue Nile has developed a major market for selling jewelry on the Web.*



BARBARA KINNEY

**UPON** arrival at Blue Nile's corporate headquarters, prepare to get buzzed through high-security doors. Walk the hallways and catch a whiff of the freshly painted blue walls, an outrageous view of Puget Sound, and some serious servers. Hear bits and pieces of engaging conversations about heartfelt wedding engagements and see the young CEO round the corner in Texas.

One can't help but wonder, what is this place? A new, high-tech enterprise in a high-rent space or a laid-back, sensitive, people place? It appears to be a marriage of both.

A company of contrasts, Blue Nile is a multimillion-dollar empire that's revolutionizing the way men all over the country are spending some serious cash. What are they buying? One of the biggest and most emotional purchases of their

lives: engagement rings.

A source of terror for most men ready to take the plunge, buying an engagement ring is normally anything but fun.

"Ask any guy about it; it's a tough experience," reflects Blue Nile founder and CEO Mark Vadon. "You don't know what you're doing, you don't have enough information, and it's a huge purchase." And you most certainly want to please.

According to Vadon, most men dread the

**Blue Nile founder and CEO Mark Vadon had crystal clear vision when he realized that diamonds and jewelry could sell online.**

thought of walking into a jewelry store at all.

"When you do, you feel like the more questions you ask, the more vulnerable you are," he explains. "And you know people are working on commission."

One of Vadon's favorite analogies came from a man who said buying an engagement ring is like the combination of buying a used car and lingerie for your girlfriend — you're embarrassed by the entire thing and you somehow feel very stupid.

"So here we are knowing little to nothing about jewelry, meanwhile making one of the most important purchases of our lives!" exclaims Vadon.

But Blue Nile is working to fix all that, making the pondering of a proposal a much less intimidating process.

"We're all about taking everything that's wrong with buying jewelry — a broken consumer experience — and fixing it," Vadon nods.

## A TARGET AUDIENCE

With engagement rings running about \$5,000 on average, these are not your ordinary "Add to cart" or "Go to checkout" Internet keystrokes.

Many people have a hard time believing that customers would pay thousands of dollars on such an emotional purchase sight unseen.

"We aren't for everybody," Vadon admits. But with the niche market the company has carved, Blue Nile is "big enough" to have served more than 40,000 couples so far.

After just four years in business, Blue Nile is the largest Internet seller of jewelry in the world. Vadon's company is 110 employees strong, has seen profits for the past five quarters, and expects to pull in more than \$120 million in revenue this year.

Part of their success is due directly to the





dead-on hit of Blue Nile's target market.

Technically, Blue Nile's key customers are well-educated, higher-income males ages 25 through 34. In fact 28 percent of them boast postgraduate degrees. In other words, these guys do their homework.

"They are often doctors, lawyers, or engineers," says Vadon. "They like facts, numbers, and are very analytical."

So how did Blue Nile find this niche?

"I was the market," Vadon explains. "I was customer zero, so it was easy for me to understand exactly what our customers are thinking."

In 1999, the Harvard grad was living in San Francisco after earning his master's from Stanford. Working as a strategy consultant for Bain & Company, Vadon was buying businesses and selling advice. Vadon also had his mind on a more personal venture: marriage. Looking to get engaged, he started his search for a ring at none other than the women's drool capital of retail stores, Tiffany & Co.

The nervous 29-year-old walked in the door knowing nothing about diamond rings. While he was in the market to spend a pretty penny, his Birkenstock-clad appearance didn't send that signal to the salespeople and Vadon had trouble even being waited on. When a saleswoman finally came to help him, Vadon was shown two rings at two completely different price points.

"She said, 'This one is \$12,000 and this



**"We want to build a cult brand, something where the customers are crazy about it, like Krispy Kreme or Saturn."**

— Mark Vadon

one is \$17,000,' and I couldn't even tell the difference between the two!" recalls Vadon. So he innocently asked which one she recommended, and she simply replied, "Buy whichever one speaks to you."

Immediately the irritation set in, and the only thing that spoke to Vadon was something more like the words "I'm outta here."

"This was more money than I spent on my car, and when I bought my car I knew everything about it," says Vadon. "Here, I knew absolutely nothing, so I folded up my tent and walked out."

#### INSPIRATION BY FRUSTRATION

This experienced sparked an idea. Somewhat desperate and definitely disturbed by his options, Vadon went online to look for a website that might help educate him on diamonds and the ring-buying process.

"I was looking for a CarPoint.com for diamonds. And at the time I didn't imagine I could find a site to actually buy the ring online," he says.

But Vadon came across a Sea-Tac-area company called Internet Diamonds, which had a tremendous amount of information — enough to sell him, anyway. He purchased a diamond.

A month later Vadon was in Seattle on business. Curious to see the store he had bought from, he stopped in as he was near-

ing the airport.

"I met the

owner, Doug Williams, and he was a fun guy, so I took him out to dinner," reflects Vadon. He liked what Williams had to say about his growing diamond Web venture, and by the end of dinner Vadon had outlined on a napkin how he was going to buy Williams' business.

"After a grand total of only 12 hours in Seattle, I had decided to move and buy a business," he says. Vadon began what is now Blue Nile in May of 1999, just weeks later.

Despite Vadon's 'in' to the Internet, he went about building a business in a rather methodical manner, including taking the name Blue Nile.

The name was developed by a San Francisco branding and marketing company that found focus groups remembered the mysterious Blue Nile name better than most others. While Vadon didn't like it at first, he was won over by how well the name tested when used by focus groups.

"It evokes a classic feeling," says Vadon. "People say it reminds them of black and white movies like 'Casablanca' and other traditional things like Sinatra. This same traditional sense fits with our style of engagement rings being timeless items."

Still it wasn't all roses. After spending a year as a media darling, the Internet meltdown in 2001 put a few flaws in Blue Nile's image. Vadon says that in the space of a three-week period, the company went from being able to do nothing wrong to being able to do nothing right.

"But we weathered that storm and came out standing," Vadon says.

#### OTHER REDEEMING GEMS

Besides focusing on a niche market, Blue Nile's business plan has a few more gems to offer. According to Vadon, the biggest reasons for the company's success are high quality, value, and the customer experience.

Blue Nile jewelry costs, on average, 20 to 40 percent less than its retail counterparts. And because Blue Nile exists online only, it has lower overhead and can undercut the competition. It's also faster, with 99.9 per-





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cent of its orders being shipped on time.

"At first we were this little tiny company that brought something to the market in a new way," says Vadon. "Now, on a dollar basis, Blue Nile has cornered 2.5 percent of the engagement rings sold in the U.S." But it's a lot more than numbers.

Blue Nile concentrates on customers. The company's mantra is "Education. Guidance. Diamonds and Fine Jewelry." In other words, they teach cut, color, clarity, and karat weight — all in a no-pressure environment.

"Someone said to me the reason why we are so successful is because we are not really trying to sell," Vadon confirms. To see for yourself, check out the unbiased customer ratings of Blue Nile at [www.bizrate.com](http://www.bizrate.com).

Buyers can be confident knowing the stones are certified and the rings fashion faux-pas-proof. Vadon says that Blue Nile edits the selection to offer "classic, enduring designs that are out to make [the buyer] look like a hero.

"We get men to feel like they've beaten the system and they become incredibly loyal, real advocates going around and telling their friends."

Apparently the ladies are also happy with Blue Nile, because Blue Nile employees have received everything from wedding invitations and flowers to baby photos and personal thank-you visits from couples honeymooning in town.

"It's like somehow we are involved in our customers' lives and it carries on," says Vadon. "I'm sure it's partly due to the dollars of the purchase, but we also get tied up in the emotion of the event."

And Vadon passionately believes Blue Nile can do for jewelry what Saturn did for cars. "Saturn was a reaction to women's frustration with buying cars, so they designed an entire brand around redoing the purchase experience."

And now look at the happy Saturn family.

"We want to build a cult brand," says Vadon with a smile. "Something where the customers are crazy about it, like Krispy Kreme or Saturn."

Lori Hinton is a Seattle-based freelance writer.

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