



Blue Nile Inc.

Education. Guidance. Diamonds and Fine Jewelry.

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Executive Summary

Blue Nile is the largest online retailer of diamonds in the United States. The company offers more than 60,000 diamonds on its website. Blue Nile targets men to come shop to its site for engagement rings. The national average for an engagement ring is \$3,200 but Blue Nile exceeds this number by having a \$5,600 average price¹. Using the B2C EC model with no physical stores, no intermediaries and offering products four times cheaper than rivals, Blue Nile has proven to be a successful online retailer.

Blue Nile is directly competing with both online diamonds retailers and physical stores diamonds retailers. Physical stores selling diamonds have tried to persuade customers that buying a diamond is an exciting experience that can only be realized in stores (and not online). They have emphasized the idea of seeing, touching and comparing diamonds that is exclusively possible in a store. Blue Nile has many dangerous competitors such as Tiffany and Co, Diamonds.com, and Zale Jewelers Stores.

After doing some research on Blue Nile, I thought about different ways the company could improve its online business. I observed some opportunities for the company that could be developed to raise their competitiveness in the diamond retailing sector. Blue Nile is not yet a well recognized brand in the United States. The company could raise its brand awareness through advertising for instance. The company mainly sells rings. It could expand its business by offering more diverse diamonds products such as sunglasses, purses, wallets, etc...

Few years ago, many people believed that jewelers will never be able to sell any products online because of the difficulty to assess the virtual jewelry. Many companies have proven them wrong and Blue Nile is a successful example. By adopting a differentiated strategy, Blue Nile has become the largest online diamond retailer around the United States.

¹ www.ickonline.com

History

Everything started in 1999, when Mark Vadon, a consultant at Bain and Co. went to a Tiffany and Co. store in San Francisco, looking for an engagement ring for his future fiancée. He was a casual man wearing casual cloth. Vadon said that Tiffany and Co. salesperson ignored him and did not help him finding a ring because he did not look like a potential and interesting customer. After this unpleasant experience, Vadon decided to buy a ring online at InternetDiamonds.com. Being impressed by his online experience and very interested by this uncommon business model (selling diamonds online) Vadon bought the company in 1999 and renamed it Blue Nile. Vadon realized at this time the potential of creating an online diamond jewelry store. Over the years, Blue Nile became a successful pure-play online retailer by primarily selling diamonds engagement rings.

Blue Nile's Current & Future Profile

Blue Nile started in 1999 with a huge campaign to promote its company. The company mainly used the television and the Internet to advertise their products and services. Attracting customers to buy a diamond online without seeing and touching it was a real challenge for Blue Nile. The company succeeded over the years by offering an outstanding website presenting their products and also by providing an outstanding customer service. In 2007, its sales reached \$319 millions, a 27% increase compared to 2006². For eight consecutive years, Forbes has made Blue Nile its favorite online jeweler. While some online jewelries businesses shut down, Blue Nile flourished his business by offering more luxury products such as rubies, sapphires, watches and also by expanding their business to international markets.

² 2007 Profiles. Beres, Glen, National Jeweler, May 2007, Vol.101

Blue Nile core business is selling engagement rings. The national average for an engagement ring is \$3,200 but Blue Nile exceeds this number by having a \$5,600 average price³. Using the B2C EC model with no physical stores, no intermediaries and offering products four times cheaper than rivals, Blue Nile has proven to be a successful online retailer.

Blue Nile SWOT Analysis

Strengths

1. Low Price

Blue Nile has a unique warehouse in Seattle and employed 115 employees. The company sells exclusively jewelries online. This strategy allows it to reduce considerably its operating expenses that occur with physical stores. Furthermore by avoiding those costs, Blue Nile can charge customers 20 to 35% less than traditional retailers when they are purchasing diamonds. Blue Nile offers very competitive price accompanying with a great customer service.

2. First Company to offer Customization

Blue Nile was one of the first companies to offer a service that allow customers to customize an engagement ring. With *Build Your Own Ring* option, customers can choose the shape, the clarity, the size, and the color of the diamond. Blue Nile has access to 7,000 loose diamonds and can ship the final product within 48 hours.

3. Category-Killer

Blue Nile is an expert in selling diamonds. It sells a wide assortment of different diamonds but it also provides information on their website about the 4 C's: cut, color, clarity, and carat.

³ www.ickonline.com

The customer might not have the in-store experience but it can access to a wide range of information that could not be available in store.

Weaknesses

1. Blue Nile does not offer the Physical Store Experience

Customers shopping online are not able to see and touch the diamonds they purchase. Buying a diamond is an investment. Online diamonds are usually sold at a cheaper price and some customers take the risk to buy diamonds without having seen and touched the product to benefit the lower cost. The majority of purchases made on Blue Nile website are below \$5,000⁴. Customers seem to be more comfortable buying a pricy diamond at local stores or famous stores, such as Tiffany's, than buying online from a relatively new and not so well-known retailer, such as Blue Nile. To encourage customers to buy with confidence, Blue Nile offers a 30-day money-back guarantee.

2. Brand Awareness

Blue Nile is definitely a growing and healthy company but it has to raise its profile. Blue Nile is well-known in San Francisco and Seattle areas but has not yet a national recognition. This gives a considerable advantage to its well-known competitors such as Tiffany that have a strong brand awareness and attract more customers. Blue Nile needs to find ways to promote its brand; advertising could be one solution.

Opportunities

1. Offering more Fashion Jewelries to Attract Women Shoppers

The site offers a lot of different jewelries such as necklaces, bracelets, earrings, and rings. It should consider the opportunity of expanding their target market to women and to offer more everyday life accessories such as purses, sunglasses, glasses, wallets, etc...

⁴ <http://www.reuters.com/article/pressRelease/idUS77829+16-Jan-2009+BW20090116>

2. Going Global

Two warehouses have opened recently in the world: one in Canada and one in United Kingdom. They have adopted the same strategy as in the USA by selling online diamonds, especially engagement rings. The European market is growing and could become an interesting place to do business for Blue Nile.

Threats

1. Competition

Competition is the biggest threat to Blue Nile. Local stores selling high-end jewelries are direct competitors to the company. Tiffany and Co. is one of the most dangerous competitors since it also targets men and sells engagement rings. Some online jewelries retailers are also dangerous competitors, such as diamonds.com, ice.com, and ashford.com.

Blue Nile Unique Sales Strategies

Blue Nile offers more than 60,000 certified diamonds on its site. This makes it the largest online retailer of diamonds in the United States. Internet magazine listed Blue Nile as the web leader in the Jewelry category for 2007.⁵ Blue Nile targets mainly the men to come shop to its site for engagement rings.

1. A Clear, User-Friendly and full of good Photography Website

Blue Nile's website is extremely easy to navigate and extremely clear, which encourages customers to buy. The company offers a very interactive e-catalog with a virtual shopping cart to buy diamonds and other jewelries. Something that I really liked on their website is that they do not use a technical jargon when describing the products. They use plain English and they give the right amount of information at each description. Every consumer is free to push

⁵ <http://www.wikipedia.com/bluenileinc>

its research deeper and deeper. S/he just needs to click and continue reading the information provided. Blue Nile has also a very useful search engine that allows the customer to sort out the diamonds listed, to narrow or expand the search, and it also gives complete details about the diamonds selected.

2. Best Diamonds' Price

The key success to Blue Nile is their margins. Common retail stores selling jewelries usually mark up their diamonds 50% or more to cover expenses such as managing inventory, rent, and commissions. Blue Nile does not have those costs since it is a virtual company. The company usually takes a 20 to 30% mark up on its sales. For instance, you could go on Blue Nile website and find a pair of diamond/silver earrings for \$90 and you could find an engagement ring for \$6,000. They offer a large variety of diamonds with a wide range of prices.

3. A wide Assortment of Diamonds and an opportunity for Customization

Blue Nile sells a lot of different jewelries including necklaces, bracelets, earrings, rings, bridal sets, etc... It offers all kind of different diamonds and it also offers rubies and sapphires.

Customers can get the opportunity to get their jewelry the way they want it by customizing it. "Build Your Own Ring" is a service offered by Blue Nile that allows customers to choose the shape, the clarity, the size, and the color of the diamond. Blue Nile has access to 7,000 loose diamonds and can ship the final product within 48 hours.

4. Targeting Men and No Judgment about Appearances

Blue Nile found that men are about as fond of walking into a jewelry store as they are of sitting in a dentist's chair.⁶ The company targets men and advertize their products and

⁶ <http://www.businessweek.com/ebiz/005/ec0509.htm>

services through television channels such as ESPN or TNT. They try to provide a maximum of useful information to help the men easily find what they want. An interesting aspect of selling online is that it is open to everybody. Not only wealthy people are nicely welcome online. Selling online allows to get rid of the snobbism that certain stores can have. The company cannot and do not judge people by the way they look like to offer them a specific diamond and to provide them with good customer services.

5. Educating People on Diamonds: an Informative Website

Prospective customers can start by going to Blue Nile to learn about diamonds. The site offers the commonly known 4 Cs information about a diamond – color, cut, clarity and carat - but also information about the shape and certification of the diamond. Blue Nile wants to make the purchase of a diamond an easy and fun experience for the customer. The company offers educational pages such as types of jewelry, diamond characteristics, metal comparisons, etc... that help customers to find what they are looking for.

6. Outstanding Customer Service: Online Chats, 30-day money back guarantee, Financing options, etc...

Many customers might think that buying goods online, such as jewelries, is not as convenient as buying in a store. However, Blue Nile tries to serve its customers the best it can by offering different features on its website. In addition to educational pages, the company offers some unique characteristics to enhance the shopping experience of their customers on their site. When going to the website, you have several options: you can either browse the site on your own, or you can call a toll free number to get assistance on the phone, or you can email the company to get more information. Blue Nile also provides a online-live chat that allows customers to get assistance by instant messaging email with a customer service representative. At anytime during the shopping process, a customer can get assistance. Blue Nile also offers a 30-day money-back guarantee if the purchase does not fulfill the

expectations of the buyer. Blue Nile also offers some financing and insurance options to help their customer in the purchasing process and warranty. They have the "Bill me later" option with no interest up to 6 months.

7. Minimal inventory

Blue Nile has a unique relationship with its suppliers that allow him to pay for their supply of diamonds after a customer places an order. The company deals directly with original suppliers such as Thaingem.com. With this special relationship, the company does not need to hold a large amount of inventory in hand. It is also a great advantage for Blue Nile to limit any risk of potential markdowns. Retail jewelers often hold onto rings, bracelets, and pendants for as long as a year before selling them.⁷ According to Vadon, Blue Nile has a turnover of 5 to 6 times in a year. Blue Nile also buys diamonds directly from jewelry cutters in Israel rather than buying from wholesalers in New-York. This disintermediation is another advantage for the customer that can get diamonds for cheaper.

Blue Nile Competitors

Blue Nile is directly competing with diamonds retailers since it primarily sells diamonds. Physical stores in competition with Blue Nile have tried to persuade customers that buying a diamond is an exciting experience that can only be realized in stores. They have tried to prove that the price of the diamond is worse the unique and exclusive experience offered in store. As D. Sternblitz, the treasurer of Zale said "The Internet business serves a target customer looking for a commodity that's basically sold on price. There is still a large segment of the population that wants to come into a store and inspect the jewelry and wants the extra

⁷ <http://www.businessweek.com/ebiz/005/ec0509.htm>

services we provide like cleaning and repair." Blue Nile has many dangerous competitors such as Tiffany and Co.,

Diamonds.com, and Zale Jewelers Stores.

1. Tiffany and Co.

Tiffany and Co. has a strong brand awareness. The company founded in 1837 in New-York City has proven over the years its success of selling precious jewelries such as diamonds. The company has stores in all major cities around the world and satisfies million customers every year. Blue Nile has the advantage of having very competitive price but unfortunately the company is not as well-known as Tiffany and Co. Blue Nile does not yet possess the prestige and elegance that Tiffany has. Everybody knows the brand Tiffany and receiving a ring or any jewelry from one of its stores is definitely considered as very prestigious. The name by itself gives a lot.

2. Zale Jewelers Stores

Zale Corporation opens its first store in 1924 in Texas. The company is the second largest specialty retailer of fine jewelry in the United States⁸. The company has adopted a very influential slogan: The Diamond Store. It has over a thousand stores all over the United States. Like Tiffany and Co. they have a strong brand awareness (not as much as Tiffany though) that make them a very dangerous Blue Nile's competitor.

3. Diamonds.com

Diamonds.com was created in Las Vegas, NV in 2000. Like Blue Nile, many companies saw the opportunity to sell jewelries online. Many of them do not exist anymore. Diamonds.com

⁸ <http://en.wikipedia.org/wiki/Zale>

is very similar to Blue Nile. Diamonds.com is also an online diamond retailer. It offers many online services such as customization of engagement rings, free shipping, online and phone assistance, etc... It also wants its site to educate its customers by providing a lot of information about the cut, color, carat, and size of a diamond. However, when going to diamond.com site, it does not look as professional and elegant as Blue Nile does. Also, Blue Nile has one great advantage over diamonds.com: customers payments are securely processed by **PayPal** on Blue Nile. This security is not offered by diamonds.com, which gives a strong advantage to Blue Nile's customers that feel confident and safe when processing their purchase through PayPal.

Industry Analysis

Many companies have been affected by the current economic crisis. However, the diamond retailing sector is still growing. Online jewelers made up about \$2 billion of the industry \$45 billion in the US revenues in 2006⁹. In 2009, retailer would have to find innovative ways to convince consumers to part with their dollars and buy diamonds. "Retailers need to make sure that they have a good diversity of products in the more attainable price levels - people will be aiming lower", said Janowski, a diamond industry analyst. Diamonds are precious jewelries that can be passed on from generation to generation. They are a long term investment. People will still be interested in buying them but retailers would have to offer lower prices.

Online Diamond Retailers have influenced the local market such as the mom-and-pop jewelers on Main Street and the malls. The high-end retailers like Tiffany have been affected

⁹ Jewelry Heist, Mullaney, Business Week, 5/10/2006

only on the margins.¹⁰ The industry average of selling an engagement ring (with a diamond) is \$2,700. The average diamond sells for \$5,500 on Blue Nile¹¹, which is twice as much as the industry.

Short-term recommendation

Selling Women's Every-Day Life Accessories

Blue Nile could expand their business by offering not only bridal accessories such as engagement rings or wedding bands but everyday life accessories such as purses, wallets, sunglasses, etc... The company could keep their brand elegance by integrating diamonds into diverse kind of items, such as those listed above. Even if their main target is man, they could attract women by offering fashioned accessories.

Selling more Precious Stones: Not Only Diamonds

Blue Nile could start integrating more variety of jewelries through their business. As of now, they mainly sell diamonds, but they have some sapphires and rubies. It could be a good strategy to integrate different precious stones such as Amber, Amethyst, or other stones to attract more customers to their site. As Vadon, Blue Nile's founder said "I want to be the best in the world at one thing. I don't want to be half-assed at a lot of things." Blue Nile wants to conserve its category killer online store and to continue selling exclusively diamonds. However, I do believe that the company should consider bringing new varieties of jewelries to stay competitive over the years.

Long-term recommendation

Brand awareness

When first entering the market, Blue Nile spent a lot of money on advertizing its company

¹⁰ "When buying a Diamond starts with a Mouse." *The New York Times*, January 7, 2007.

¹¹ "When buying a Diamond starts with a Mouse." *The New York Times*, January 7, 2007.

through television, and the Internet. However, the company did not put as much effort and money in advertising these last few years. As a result, the company is not well-known around the United States as it could be. In 2005, it spent only 4% of revenue on advertizing (mainly through Google).¹² Blue Nile should consider advertising its company through the United States. Blue Nile does offer low prices diamonds but if a potential customer is not aware of the company's existence, sales could be missed. The company has a lot of dangerous competitors such as Tiffany. Tiffany stores can rely on brand recognition; however, Blue Nile is not as well recognized and cannot benefit of Tiffany's name advantage.

Exhibition of their collection

Blue Nile does not have any physical stores. Buying online makes it more difficult for customers to fully assess the jewelries. Buying a diamond or other jewelries can be a real experience. How many people visit Tiffany stores just to look closely at jewelries, to try them on, and to dream about having them? Blue Nile could organize regular-annual expositions of their jewelries to give information about their products, brand and services but also to attract new customers.

Opening Stores

The company could open physical stores in big cities and present their collection. Diamonds make people dream and when they sparkle front of their eyes, they get the real desire to buy them. Selling jewelries online is a tough challenge and I believe that opening stores in the future could highly benefit Blue Nile: it will spread out the brand's name and it will increase sales due to more exposition to potential customers.

Selling Overseas

Blue Nile is an online store and can benefit of this advantage by selling jewelries overseas.

¹² JCK, BlueNile, June 2007

As of now, the company sells to 25 countries overseas (including China, France, Germany, etc...). To better serve their customer, they could set up warehouses around the world and run their business locally.

Conclusion

Few years ago, many people believed that only certain kind of products such as books and CDs could be sold online. They thought that some products were too personal, too expensive, or too difficult to visualize to be sold on the Internet. Today, many companies have proven them wrong. Blue Nile is a successful company that became the largest online diamond retailer. They have succeeded in the virtual world by offering competitive prices to their customers. On average, Blue Nile charges 35% less for jewelry than offline competitors¹³. Their e-tailing business model has been successful. They took advantage of their low operating expenses to pass savings onto consumers and still make good profits. They also have successfully engaged virtually with their customers. Blue Nile treats its customers with great importance. The company has understood that word of mouth is a powerful tool to build their business and they work hard on making every customer happy. Blue Nile has proven over the years that they are an expert in the field by offering a very informative and interactive website. They have become one of the leaders the in diamond retailing sector.

¹³ Blue Nile's Real Sparkle. T. Mullaney, Business Week Online, 00077135, 6/8/2004

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