

CASE 2.1: EC APPLICATION BLUE NILE INC.: CHANGE AND ADAPTATION IN THE ONLINE JEWELRY INDUSTRY

Blue Nile Inc. (bluenile.com), a pure-play online e-tailer that specializes in diamonds and jewelry, capitalized on online diamond sales as a dot-com start-up in 1999. The company is a textbook case of how EC fundamentally changes the way that an industry conducts its business. For information about the company, see quotes.wsj.com/NILE/company-people.

Changing the Industry

Using the B2C EC model—eliminating the need for physical stores—Blue Nile was able to offer discounts of 35%, yet it became profitable in a short time. The critical success factors for the company included its ability to offer large discounts, a huge selection of diamonds online and provides more information about diamonds than its brick-and-mortar competitors. The combination of a 30-day 100% money-back guarantee and a comprehensive set of online tools like live chat, payment options, build-your-own engagement ring, gift ideas, and mobile applications (m.bluenile.com) helped the company win over customers.

In order to sell \$473 million in jewelry in 1 year, a traditional retail chain needs over 300 stores and over 3000 employees. Blue Nile does it with one 10,000-square-foot warehouse and 301 employees. The company also bypasses the industry's complex supply chain, in which a diamond may pass through five or more middlemen before reaching a retailer. Because they are a large buyer, they can deal directly with original suppliers.

The company became the eighth-largest specialty jewelry company in the United States and went public in 2004 (one of the most successful IPOs of that year). Blue Nile's sales reached \$129 million in 2003 and expanded to \$473 million in 2015 (a 367% increase over). Historically the company responded well to market changes; while sales fell during the economic downturn in 2008, in 2009 and 2010 the company rallied again with a 2.3% growth.

Adapting to the Market

Changes in the market and competition have kept Blue Nile on its toes. Noticing the company's success, other retailers have entered the space, using many of the same tools Blue Nile pioneered. This includes both general online retailers such as overstock.com and amazon.com, as well as direct online jewelry retailers such as jamesallen.com and abazias.com. Additionally, traditional brick-and-mortar retailers such as jared.com and tiffany.com are significantly expanding their online presence.

Additionally, changes in the market overall may have an effect on Blue Nile's prospects. One of the Company's primary markets is engagement rings. Demographic trends show that the rates of marriage in the United States are decreasing (Yarrow 2015), and this may be one of the reasons behind lower sales from the company. In the first quarter of 2016, engagement ring sales were down 7%, representing the loss of \$58 million (Tu 2016).

To combat these trends, Blue Nile is rethinking its pure-play model and is introducing the idea of "Retail-Reimagined" webrooms, hybrid physical/online presences in large retail markets (Blue Nile 2016). These webrooms seek to provide the same variety and customization options available online, while using a physical location to drive visits and customer confidence.

Sources: Based on Bloomberg (2004), Tu (2016), en.wikipedia.org/wiki/Blue_Nile_Company, and bluenile.com/about-blue-nile (both accessed December 2016).

Questions

1. Using the classification of EC (Section "The Electronic Commerce Field: Growth, Content, Classification, and a Brief History", Chap. 1), how would you classify the Blue Nile's business historically? Today?
2. In what ways is the company changing its industry?
3. What are the critical success factors of the company?
4. Competition between Blue Nile and Amazon.com will continue to increase. In your opinion, which one will win? (Visit their websites and see how they sell jewelry.)
5. Compare the following three sites: diamond.com, abazias.com, and bluenile.com.
6. Follow the performance of Blue Nile's stock since 2003 (symbol: NILE, go to money.cnn.com). Compare it to the performance of the total market and the averages of the industry. What is your conclusion?
7. Do you feel that the "Retail Reimagined" locations will be successful? Why?