

Cisco and Blue Nile



Background

In 1998, Blue Nile co-founder and CEO Mark Vadon was in the market for a diamond engagement ring. His initial search at various bricks-and-mortar retailers proved both frustrating and disappointing. Turned off by high-pressure sales approaches and lack of knowledgeable sales assistance, he decided to go a different—and fairly unconventional—route. He opted to buy his fiancée's ring at www.internetdiamonds.com. The site's low-pressure sales environment and powerful educational component instantly put him at ease.

Sensing that www.internetdiamonds.com's retail concept could be expanded profitably, Vadon wrote a business plan, secured \$6 million in venture funding, and acquired the business in May 1999. A few months later, he relaunched the business as www.bluenile.com, now a leading jewelry retail and educational site.

The Challenge

Knowing from personal experience that consumers must feel confident and at ease when making a multi-thousand-dollar purchase online, Vadon wanted to show visitors first and foremost that Blue Nile's site was a safe place to do

business. He also wanted to demonstrate that the site could be a powerful educational tool by offering a step-by-step process for selecting gemstones.

CONSUMERS ARE MORE WILLING TO BUY BIG-TICKET ITEMS ONLINE TODAY. BLUE NILE TAPPED THAT MARKET BY OFFERING HIGH QUALITY DIAMONDS OVER THE INTERNET AND ACHIEVED SALES OF \$10.1 MILLION FOR THE FIRST QUARTER OF 2000, UP FROM \$200,000 IN AVERAGE MONTHLY SALES THE YEAR BEFORE—WHICH ALSO HAPPENED TO BE ITS FIRST YEAR IN BUSINESS.

EXECUTIVE SUMMARY

BACKGROUND

In 1998, Blue Nile co-founder and CEO Mark Vadon opted to buy his fiancée's ring at www.internetdiamonds.com. Sensing that this retail concept could be expanded profitably, Vadon wrote a business plan, secured \$6 million in venture funding, and acquired the business in May 1999. A few months later, he relaunched the business as www.bluenile.com, now a leading jewelry retail and educational site.

CHALLENGE

Knowing from personal experience that consumers must feel confident and at ease when making a multi-thousand-dollar purchase online, Vadon wanted to show visitors first and foremost that Blue Nile's site was a safe place to do business. He also wanted to demonstrate that the site could be a powerful educational tool to help with the step-by-step process of selecting gemstones.

SOLUTION

The site's online tutorial guides customers through the diamond selection process, emphasizing buyer education rather than pushing sales. Easy-to-read content and an accessible site design put visitors at ease, while security measures designed to insulate the transaction and shipping processes convey that Blue Nile is willing to go the extra mile to make customers comfortable both during and after transactions.

RESULTS

Still in its first year of operation, Seattle-based Blue Nile receives correspondence from hundreds of customers each month. Approximately 97% of that feedback is overwhelmingly positive. The site achieved sales of \$10.1 million for the first quarter of 2000, up from \$200,000 in average monthly sales the year before.

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That was the challenge from the customer perspective, but there was a unique challenge on the selling side for Blue Nile, as well. Today, statistics show that consumers are more willing to buy big-ticket items such as fine jewelry, appliances and automobiles online. The market for such purchases has become so robust that there is a site—www.luxuryfinder.com—dedicated to helping consumers find luxury items on the Web. But, even though consumers are more willing to buy online, selling expensive items remains a complicated endeavor, according to Robert Labatt, Internet retail strategies research director for GartnerGroup. "It's absolutely a growing market, with a couple of qualifiers," he says. "If the item is high-touch and high-trust, you're going to have a tough time."

Labatt also notes that the ability to physically handle the product is an important aspect of the high cost purchase. Establishing trust without human contact or customer history can be tricky. As a result, online retailers need to devote their energies

to re-creating the physical shopping experience, particularly when it comes to customer service and product interaction. They must also focus on building their brands to earn consumer confidence, according to Labatt. The challenge is to offer a combination of trust, service and security that lets customers commit to an item without ever having touched the product or shaken hands with a salesperson.

The Solution

Blue Nile overcomes these challenges in numerous ways. The site's online tutorial guides customers through the diamond selection process, placing the emphasis on buyer education rather than pushing for the sale. Easy-to-read content and an accessible site design put visitors at ease, while security measures designed to insulate the transaction and shipping processes indicate that Blue Nile is willing to go the extra mile to make customers comfortable both during, and after, their transactions.

The average Blue Nile sale is more than \$1,000 with the most expensive items topping \$100,000, so security and customer trust remain primary concerns—from the time a customer starts browsing the site until long after he or she has placed an order.

To put together the kind of site capable of delivering on all these customer requirements, Blue Nile engaged with suppliers they considered leaders in their fields. Sun Microsystems provided their Solaris operating system and servers, workstations, and storage equipment. Microsoft SQL servers manage separate environments for site testing, development and production. Oracle Financials enterprise applications and a Cisco Powered Network™ provider round out Blue Nile's network infrastructure.

A Cisco PIX™ firewall ensures that data is inspected before entering the Blue Nile network, and Cisco LocalDirector, a load-balancing tool, acts as a network traffic cop.

No matter how customers come to the site, in the final analysis what matters most is the quality of the product. Blue Nile asserts that its top priority is selling the highest-quality gemstones available on the market. Vadon says that the lowest-quality stones Blue Nile sells would rank among the best for just about any bricks-and-mortar retailer. The

company also offers a pre-selected assortment of premium diamonds, educates visitors on how best to buy diamonds—including a tutorial on the “four C's” (cut, color, clarity and carat weight)—and supplies a host of jewelry recommendations, all in an effort to ensure that customers are satisfied.

Blue Nile faces the same barriers as other e-commerce sites when it comes to consumers' persistent fears about making online credit card transactions. The purchase of an engagement ring—an item with high emotional weight—raises additional anxiety.

Consequently, while most of Blue Nile's fine jewelry purchases occur online, shoppers searching for the perfect diamond often buy over the phone—either because they have called to ask a question or because they prefer voice confirmation of the transaction.

Blue Nile executives are confident that, as time goes by, consumers will continue to become more comfortable with paying for goods online. But, for now, the company will continue to gobble up market share by focusing on the basics of retail.

Results

Still in its first year of operation, Seattle-based Blue Nile receives correspondence from hundreds of customers each month. Approximately 97% of that feedback is overwhelmingly positive. Blue Nile executives say that the largest source of its customers is referrals. The site achieved sales of \$10.1 million for the first quarter of 2000, up from \$200,000 in average monthly sales the year before—which was its first in business.

With an eye toward growth, Blue Nile is considering two additional Cisco products: CiscoSecure IDS, an intrusion detection system that monitors unauthorized entry and then reconfigures the network to prevent further compromises, and the Cisco Customer Interaction Suite™, a customer-service solution allowing service representatives to communicate live over the Web with customers. These enhancements will address two key customer demands: unbeatable security and the high level of customer service expected for the kind of financial investment a diamond purchase represents.

Despite all the attention Blue Nile pays to technology, CIO Bob Paquin says it's the company's sales strategy that drives its success. Here are some of Blue Nile's tips for making online sales of luxury items sparkle:

- The higher the price point of the product you sell, the more important it is to focus on establishing expert status with your customers.
- Don't look for opportunities to build a business just to take advantage of new technologies—let the business drive the technology, not vice versa.
- Select vendors that can meet your needs and can fill whatever skills gaps your organization might have.
- Pay close attention to little details; customers making large purchases are less likely to tolerate mistakes.
- Build a solid brand.

The last point is the culmination of all the others. And Blue Nile is well on its way to carving a highly respected niche. "In this very short time, to gain the reputation that we have is incredible," says Director of Customer Service Maureen Shea Fidler. "It's great to see that we're actually making a dent so early in our history."

For more on Blue Nile's security and network solutions, see www.cisco.com/go/security.



Corporate Headquarters
Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA
www.cisco.com
Tel: 408 526-4000
800 553-NETS (6387)
Fax: 408 526-4100

European Headquarters
Cisco Systems Europe
11, Rue Camille Desmoulins
92782 Issy Les Moulineaux
Cedex 9
France
www.cisco.com
Tel: 33 1 58 04 60 00
Fax: 33 1 58 04 61 00

Americas Headquarters
Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA
www.cisco.com
Tel: 408 526-7660
Fax: 408 527-0883

Asia Pacific Headquarters
Cisco Systems Australia, Pty., Ltd
Level 17, 99 Walker Street
North Sydney
NSW 2059 Australia
www.cisco.com
Tel: +61 2 8448 7100
Fax: +61 2 9957 4350

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