

Advancing with e-Business

Berryd Opals

www.berrydopals.com.au



Trevor Berry

Advanced e-Business



The Business

Berryd Opals was established in 1999 by Trevor Berry to sell opals worldwide using the Internet. Targeting the US market, Berryd Opals sells direct from the miners of Coober Pedy and surrounding areas in South Australia in addition to opals mined and cut by Trevor himself.



The idea

Traditionally, the process of delivering opals to consumers involved a lengthy supply chain from the mines of South Australia to the cutting, jewellery setting and retailing stages. At each point there would be significant price mark-ups inflating the retail price for consumers. Furthermore, miners have been unhappy in the past with the prices they receive for quality opals due to the limited markets to which they have access.

Realising this, Trevor saw an opportunity to utilise the world market of the Internet and sell direct to the consumers on behalf of the miners. Without significant capital reserves, Trevor operates on a commission basis allowing him to offer products for sale without the large associated overheads of inventory. He purchases direct from the miners at field prices and sells the opals in package sizes and format (rough or cut) that will maximise profit for both himself and the miner.



International Trade

Trevor reports that Australia is the world's major producer of precious opal, accounting for 95 percent of natural opal production worldwide with 70 percent being mined in the opal fields of the Coober Pedy area. Consequently Berryd Opals export 90 percent of their opals, with their largest market being the U.S.A.

The use of e-commerce has enabled Berryd Opals access to markets previously limited by barriers to entry such as geographical distribution and capital requirements. Online shopping facilities and email communication eliminates the problems previously encountered due to international time zone differences including reliance on expensive telephone and facsimile transmission.

A member of the American Opal Society, Berryd Opals has developed a pervasive market promotion strategy through the use of the Internet. Through collaboration with the town of Coober Pedy, The Coober Pedy Times, and other Internet based opal retailers, the company has marketed itself to a position of international recognition.



The Investment

The total investment on the initial system setup was \$18,790. Development of the website by an external Information Technology (IT) consultant cost \$10,000 and registration of the domain name was \$200. The computer (\$3,500), printer (\$350), and scanner (\$120) completed the hardware requirements and the installation of an additional phone line was \$120. Establishing an office with furniture to support the system cost \$4,500.



Hurdles

The principle difficulty in auctioning precious stones with values at times in excess of \$150,000 is the time it takes for them to sell. Trevor has also found that he relies on many other people to work together in order for the business to run smoothly.

In the past Berryd Opals has experienced some serious credit card fraud attempts. Berryd Opals now present on the website security policy that they reserve the right to question the validity of cardholders if there appears to be something suspicious about the order or if the order originated from a high risk country.



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Results

Berryd Opals generated \$500,000 in revenue through its online store, auctions, and email requests. Exports accounted for \$450,000 of this amount and the total gross profit contribution was \$150,000. Trevor acknowledges that if the business had not utilised e-commerce, operating instead as a shopfront, the costs would have been considerable - approximating \$300,000 per annum. Therefore, by utilising the Internet for e-commerce, Berryd Opals has avoided costs of \$300,000 per annum.



Ongoing costs for the company in relation to e-commerce totalled \$16,058 in 2001. The website is hosted externally for \$1,200 and Internet access costs the company \$600 annually. The website is advertised through offline media for \$1,560 per year and maintained by Trevor himself.

Telephony and administration costs were \$2,400 each for the year, and bank charges and electronic payment system costs were \$1,000 and \$700 respectively. Capital expenditure was amortised over a period of four years at \$4,698 per annum.

Trevor's Internet based business has raised the profile of the small town of Coober Pedy and the opal industry in general. He has enabled the mining industry to gain better prices for their opals in addition to offering opals to the general public in various forms at wholesale prices.

Future



In its two years of operation Berryd Opals has grown faster than Trevor ever expected. Future plans involve further streamlining business processes with e-commerce and the recruitment of an additional staff member. Trevor is continually searching for new ways to market and expand the company's existing presence and is currently participating in marketing strategies with the international Opal Symposium.

Revenue and Costs

E-commerce Establishment Costs

		(\$)
Web development	10,000	
Domain name registration	200	
Telecommunications	120	
Office equipment	4,500	
Printer	350	
Hardware - computer	3,500	
Hardware - scanner	120	
Total Establishment Costs		18,790

Operating Benefit from E-commerce

		2001 (\$)
Revenue from E-commerce	500,000	
<i>Less: Direct Costs</i>	<i>(350,000)</i>	
Gross Profit from E-commerce		150,000
<i>Less: Ongoing E-commerce Costs</i>		
Amortisation of capital expenditure*	(4,698)	
Electronic payment systems	(700)	
Bank charges	(1,000)	
Printing	(300)	
Financing costs	(500)	
Internet Service Provider	(600)	
Professional services	(700)	
Website hosting	(1,200)	
Telephony	(2,400)	
Administration	(2,400)	
Advertising - offline	(1,560)	
Total Ongoing E-commerce Costs		(16,058)
Operating Benefit from E-commerce		133,942

* Note: Capital Expenditure was amortised over a four-year period

For further information on this case study please go to www.noie.gov.au