Option #2 Synthetic Diamonds

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The name DeBeers is often synonymous with diamonds, as this South African company controlled the world’s supply of diamonds through the late 1990s as at one point and made 90% plus of its profits off gemstone diamonds (Train 1979). DeBeers was responsible for 80% of the world’s diamond supply and 45% of production (McAdams & Reavis, 2018). But, much has changed in the past two decades as movies like Blood Diamond showed how the diamond industry and the crookedness that has gone with it, helped spark a decade plus long civil war that resulted in the displacement of approximately half of Sierra Leone’s population and the death of an estimated 50,000 Sierra Leoneans (Voors, 2017). DeBeers also took several other hits in the 1990’s as Autralia’s Argyle diamond mine terminated its contract with DeBeers, the rise of Canada as a diamond producer and the dissolution of the Soviet Union which had a contract with DeBeers as well.

Disturbed by this information and/or in search of a cheaper alternative, consumers have also looked to laboratory grown diamonds to satisfy their needs. As people bought more and more synthetic diamonds through the late 90s and early 2000s, DeBeers saw its market share drop – as of 2007 DeBeers still produced 40% of diamonds on the market, but was only selling 45% of the market share.

This leads to some questions – what is DeBeers’ strategy, how effective are past and current strategies, what should DeBeers do to restore to its former glory, and for the consumer out there, what should you purchase?

**DeBeer’s Current Strategies**

Previously known as a company which controlled the world’s supply of diamonds, the U.S consulting firm Bain and Company insisted that there was a better way. Under their direction, DeBeers made a shift on 1998 toward an emphasis on profitability through differentiation. No longer did they buy diamonds on the open market; they only sold their own diamonds. With this new strategy in place, DeBeers had to build up their relationship with their suppliers in a program they would call the “Suppler of Choice” program. DeBeers was to be seen as the diamond supplier of choice, with specific stone packages based on marketing and sales data and the Forevermark logo which guaranteed that a diamond etched with it is “natural, ethically traded and non-treated” (Voors et al, 2017). DeBeers also chose diamond suppliers who were good at marketing the product rather than those who were manufacturing or financial powerhouses as had been done in the past. Furthermore, DeBeers tried to repair their reputation by changing their Central Selling Organization to the Diamond Trading Company.

DeBeers then entered the brick and mortar business by opening up retail stores in 2001. Six years later, they had 22 stores across the United States, Middle East, Asia and Europe. In order to sell in the United States again, DeBeers had to settle a price setting lawsuit from the 1990s. This was done in 2005 by the company, which was now also privately owned after being on the Johannesburg Stock Exchange since 1893. In the late 2000s, DeBeers also enter sorting and valuing partnerships with both the Botswana and Nambian governments.

In regards to the emergence of synthetic diamonds, DeBeers supplied machinery that could distinguish between the two stones to gem labs and spent 17 million dollars on differentiation research (Rossingh, 2007). DeBeers also ran an advertising campaign that focused on the supposed benefits that their business brings to Southern Africa, such as “access to employment opportunities, schools for its children, and access to anti-HIV drugs for its mine workers” (Voors et al, 2017).

Finally, in May of 2018, DeBeers decided to join the synthetic industry with the announcement of its first synthetic diamond store and the claim that they can sell lab-grown diamonds at a fraction of the going rate (Burden & Biesheuvel, 2018).

**A Critique of DeBeers’ Strategies**

Using PESTEL analysis, we can see how issues with DeBeers past strategy came to be. From a political perspective, DeBeers was operating inside countries with little to no political stability and high levels of corruption. Because of this and their trade practices, foreign trade policies weren’t always favorable and restrictions were put in place, much like we saw in the case of the United States. DeBeers gave little care in regards to social ramifications either as safety, health, age and cultural barriers were ignored. Legal factors, specifically consumer protection laws, caused the company hardship too. It could also be argued that DeBeers was behind the technological curve as the company could have jumped into the synthetic diamond industry much sooner.

From the perspective of Porters Five Forces Model, DeBeers tried to control rivalry among existing competitors and the threat of new entrants by controlling the supply. This also gave them a lot of bargaining power over the price as they were one of the sole providers of diamonds. DeBeers would purchase the supply of producing countries at inflated prices to prevent this supply from hitting the market and they would also hold back much of their own diamonds to reduce supply available to consumers. This was not a successful model as their market share dropped by 20% while their stockpile of diamonds doubled. This issue became most apparent when Angolan rebels gained control of the country’s diamond supply, worth $1.2 billion and released it to the market. DeBeers would then buy these violently gained diamonds and others from countries such as the aforementioned Sierra Leone, Liberia and the Democratic Republic of Congo to maintain their stronghold on diamond circulation. This painted a poor social and ethical picture and is one of reasons mentioned earlier as to why people turned to synthetic diamonds as an alternative.

The shift in image and strategy in the early 2000s was one of necessity for DeBeers. Rather than a focus on supply, DeBeers hoped its competitive advantage would be through branding and marketing itself as an exclusive luxury item or status symbol, and to rid itself of sanctions in the European Union and United States. While this was a necessity to repair a tarnished image, not everyone is going to soon forget how DeBeers previously conducted business which seemingly took advantage of and negatively impacted the countries involved in the procure of natural diamonds.

When synthetic diamonds hit the market, DeBeers first attempted to competitively differentiate itself with the idea that people favor the age, history and natural nature of the diamond – that something grown in a laboratory is unnatural or unsightly. For example, in 2017 alone, DeBeers spent $140m promoting natural diamonds over their synthetic counterparts (McKay 2018). This was not all that successful, particularly since the means of getting natural diamonds was often unethical in nature and there is little to no physical differences between a natural and synthetic stone. In May of 2018, DeBeers announced their foray into the synthetic industry which has been met with great success. According to CEO Bruce Cleaver, DeBeers synthetic product has been so successful, that competing products had to cut prices by as much as 60% to compete (McKay 2019). Meanwhile, DeBeers continues to promote and sell natural diamonds in a sort of two pronged assault.

**Two Successful Strategies**

Perhaps one of the biggest blunders was DeBeers reluctance to adapt to change. DeBeers could have staved off much headache if the company entered the synthetic industry earlier. It seems as if DeBeers did not understand that many individuals care about price, and that the history of natural diamonds, which DeBeers tried to promote so much, often had negative connotations.

Another strategy would have been to avoid the purchasing of blood diamonds. While it makes sense to purchase them at the time under DeBeers’ control supply strategy, the negative publicity that followed these diamonds was just not worth the purchase. This holds true now more than ever, as companies have taken on greater moral, ethical and social agendas within the community. The fact that DeBeers purchased diamonds which helped fuel civil war in Angola, Sierra Leone, Liberia and the Democratic Republic of Congo, is not a fact that the millennial generation takes lightly.

**A Consumer’s Perspective**

As a consumer, I would purchase a synthetic diamond, most likely from the supplier that can give me the most bang for my buck. My significant other and I care little about where the diamond comes from, lab or from mines, but we do care about how my purchase would affect the world around us. Specifically, both of us would feel like the diamond is tarnished if it were a blood diamond. I also would be hesitant to buy a synthetic diamond from DeBeers, knowing their background, but would give it consideration since the company and the people who run it are very different from those of the 1990s and earlier.

**Conclusion**

As a company that is more than 120 years old, DeBeers has had to reinvent itself in order to stay relevant. Once in control of the world’s supply of diamonds, DeBeers saw its market share take a plunge with sanctions, changes in political regimes and negative publicity. Delisted from the stock exchange, DeBeers made a complete 180, by focusing on marketing to paint a picture of an exclusive and limited luxury brand that did right by the countries it operated and profited from. Resistant to, but not immune to change, DeBeers then entered the synthetic diamond market, which it once swore off. To remain as relevant as possible, DeBeers is both promoting the natural, unique, storied nature of its natural diamond line, while simultaneously pumping out what most would see as a competitor product – the cheaper lab grown synthetic diamond. In a market that is and has been in an upward trend, DeBeers seems to be hedging its bets which may perhaps choose to be the best strategy the company has recently chosen. Technology and innovation, much like the lab grown diamonds, is a sign of advancement. Those who wish to not be left behind embrace these advancements early.

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