DeBeers Diamond Dilemma

Marketing Finals

UCSD Extension, Fall 2013

Table of Contents

[1. Introduction 3](#_Toc374185772)

[2. Porters 5 Forces 3](#_Toc374185773)

[1.1 Bargaining Power of Suppliers 4](#_Toc374185774)

[1.2 Bargaining Power of Customers 4](#_Toc374185775)

[1.3 Threat of Substitute Products 4](#_Toc374185776)

[1.4 Threats on new Entrants 5](#_Toc374185777)

[1.5 Competitive Rivalry 5](#_Toc374185778)

[3. Customer Segmentation 6](#_Toc374185779)

[4. Analysis of DeBeers Branding Efforts 8](#_Toc374185780)

[4.1 Ideas for some more diamond branding 8](#_Toc374185781)

[5. 4P Mix for DeBeers Synthetic diamonds 9](#_Toc374185782)

[5.1 Product 9](#_Toc374185783)

[5.2 Price 10](#_Toc374185784)

[5.3 Placement 10](#_Toc374185785)

[5.4 Promotion 10](#_Toc374185786)

[5.5 Collaborators 11](#_Toc374185787)

[6 Contextual Analysis 12](#_Toc374185788)

[6.1 Political 12](#_Toc374185789)

[6.2 Socio-Economic 12](#_Toc374185790)

[6.3 Legal 12](#_Toc374185791)

[6.4 Technological 13](#_Toc374185792)

[7 References 14](#_Toc374185793)

# Introduction

DeBeers is the world’s largest diamond mining and trading company in the world. At one time it controlled 45% of the world’s production and sold over 80% of all diamonds. It used monopolistic practices and using their massive size and control of the market, financially punished smaller miners and retailers who tried break away from the DeBeers “empire”. DeBeers purchased over 80% of all mined diamonds, controlled most of the diamond cutting and polishing industry and was able to artificially control the supply and prices of diamonds by being able to limit the amount of diamonds in the market at any time. However over the years due to Government oversight, the advent of synthetic diamonds and other reasons this monopoly of DeBeers is under threat. Due to all of this the diamond industry in under disruption and it will be interesting to see how DeBeers responds to the multiple threats it faces.

# Porters 5 Forces

Porters 5 forces is an analysis methodology first thought of by Prof. Michael Porter. The forces describe the pressure on a business and where power lies in a business situation. It describes what businesses’ strengths are and what weaknesses are. It describes the threats it faces from competitors, collaborators like vendors etc. A pictorial description for Porters 5 forces is given below. The actual forces would be different depending upon the industry being analyzed.



## Bargaining Power of Suppliers

As seen in the case study the diamond industry is getting more vertical which means that what was previously separate companies doing separate parts of the industry for e.g., mining, polishing and cutting to jewelry stores like Tiffany’s is being changed by companies like Tiffany’s buying mines and mining companies like Aber diamond buying stakes in retailers like Harry Winston. As a result mines where able to directly reach the retailers without having to go through DeBeers and were able to negotiate better prices. Also with other collaborations like between Alrosa, a Russian producer with Lev Leviev, a manufacturer of polished stones DeBeers pool of suppliers was reducing thereby increasing the negotiating power of its remaining suppliers.

## Bargaining Power of Customers

DeBeers has two types of customers that affect its business, retailer who buy from diamonds from them and the end customer who buys diamonds from the retailers. Due to the above mentioned verticalization of the diamond industry the retailers have bought stakes in mines and mining companies. As a result of cutting out the middle man in the industry which was DeBeers, retailers like Tiffany’s can get diamonds at a cheaper price. As for end customers synthetic diamonds which are exactly like natural diamonds provide a cheaper more eco-friendly alternative to buying natural diamonds.

## Threat of Substitute Products

Synthetic diamonds or lab manufactured diamonds have been around since 1950’s but have never had a market in the jewelry industry. Most lab made diamonds are used for industrial purposes since the HPHT process used did not produce diamonds of jewelry quality. However in the last 10 years the CVD process has produced diamonds which are of the same quality as natural diamonds. The market share of different diamonds for different purposes is shown below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **GLOBAL DIAMOND SUPPLY BY APPLICATION** | |  |  |  |
|  |  |  |
|  |  |  |  |  |
|  | **Mine Production** | **Recycled** | **Synthetic** | **Comments** |
| **Jewelry** | 89% | 9% | 2% |  |
| **Hi Tech Industry (semiconductors)** | 0% | 0% | on demand | demand for this application is still very low |
| **Abrasive Application** | 2% | 0% | 98% |  |

Source: <http://www.kitco.com/ind/Zimnisky/2013-06-19-How-High-Quality-Synthetic-Diamonds-Will-Impact-the-Market.html>

As seen here as of now DeBeers does not need to worry about synthetic diamonds moving into the jewelry market since they only have 2% of the market share.

## Threats on new Entrants

The threat of new entrants in the mining business is relatively less. It is nearly impossible for someone who is not already part of the industry in some form to start a diamond mine. Since it is an extremely cost intensive business and requires political support in the country in which the mine is based makes it tough for a new comer to start. The main threat for DeBeers would come from retailers moving into the mining industry or by retailers and producers bypassing DeBeers and trading directly with each other.

## Competitive Rivalry

Competitive rivalry till now has not been very much for DeBeers since it had been able to control the diamond supply by buying 80% of all diamonds produced. However due to pressure from governments and also due to producers and retailers wanting to break this monopoly DeBeers now face stiff competition in the market. DeBeers has had to brand itself differently and provide diamonds of certain quality to its customers rather than customers having to buy whatever DeBeers gave them. It now has to price the diamonds as per the market rather than controlling the supply of diamonds as it previously did. It has had to increase marketing and become more customer focused in order to find a niche for itself in the market.

# Customer Segmentation

DeBeers being a diamond producer as well as a diamond retailer after purchasing jewelry chains in the US and elsewhere has essentially two types of customer, one is the jewelry chains like Tiffany’s who buy diamonds from DeBeers (B2B customers) and consumers who buy diamonds from DeBeers outlets itself (B2C customers). Since the final target is always the end user we focus on the B2C customers here. We divide our customers into age groups based on where they are in life. Since most people buy diamonds and expensive jewelry on specific occasions and these occasion define they type of diamond someone may buy and also how frequently they may buy one this seems a logical separation for segmenting the customers.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Young Couples** | **Married/Middle aged** | **Older Couples** | **Young Single Women (Right hand ring campaign to target this group)** |
| **Age** | 25-35 | 35-55 | 55-75 | 22-35 |
| **Income** | low-middle | middle - high | high | low-middle |
| **Frequency of Purchase** | low | medium | medium | high |
| **Type of Diamond (size)** | large (2-3 carats) | small | small | small |
| **Type of Setting** | rings | rings/pendants/earrings | pendants or rings | pendants, earrings |
| **Financing needed** | likely | not likely | no | no |
| **Repetition of Brand over lifetime if happy** | High | high | low | high |
| **Occasion specificity** | mostly marriage | anniversary, child birth, special birthdays | anniversary, birthdays | birthdays |
| **Focus on brand** | High | medium | low | high |
| **Likely to buy synthetic** | Low | medium | low | high |

By “Focus on Brand”, we mean how much are they likely to want a branded diamond for e.g.; like “hearts on fire” or something special which would differentiate them from other diamonds or show love and affection in a special way. This would be higher for wedding rings and less likely for other occasions. Single women would also be more likely to want something more specific to show their individuality. DeBeers has come out with the “Right Hand Ring” campaign to target this group. Also young couples are less likely to buy a synthetic diamond since the occasion of a wedding would be deemed too special for that and synthetic diamonds have not been able to reach sizes greater than 2 carats. Young women and married couples are more likely to buy synthetic diamonds but older couples again may not be interested due to set ideas and perceptions of diamonds.

# Analysis of DeBeers Branding Efforts

The diamond and jewelry industry was being faced dwindling profits and the main reason being that all the diamonds were the same or similar in the same settings. There was no individuality or any selling point that would make one diamond differ from the other. DeBeers then came up with diamond branding ideas like the “Millennium Diamond” which was a limited edition diamond engraved with the year 2000. Some of the other branding strategies they came out with were

* Women of the world raise your right hand: A campaign to encourage unmarried women to wear rings on their right hand.
* Celebrate Her campaign: To encourage man to gift diamonds on non-wedding occasions.

These campaigns have been successful in widening the DeBeers customer base and increasing sales.

Looking at these branding efforts and the very successful “Hearts of Fire” brand, it is clear that what works is to make people want the diamond and make the woman feel like only a diamond could be the right gift for certain occasions. Therefore I would keep the current branding efforts of DeBeers.

## Ideas for some more diamond branding

In order to keep its profits and sales up DeBeers needs to keep its customer base up. Some of the other demographics to target are teenage girls. With the advent of huge gifts and parties for sweet 16 birthdays a diamond branded for a girl turning 16 might be a success among the well-off parents.

Some of the other efforts DeBeers and other diamond manufacturers can make to increase the demand and adding new demographics are

* Adjust the brand of a diamond to mean more than just love between a man and woman.
* Brand diamonds so that a son can gift a diamond to his mother.
* Brand diamonds so that a father can gift to his daughter.

DeBeers can use colored diamonds and brand them as a specific color for a specific occasion. Since these diamonds are rare they would easily sell for a premium and branding with an occasion would allow DeBeers to be able to mark these diamonds up significantly. Also as people see others purchasing diamonds of a certain color for a certain occasion they would want that too and the market would pull the brand itself.

# 4P Mix for DeBeers Synthetic diamonds

Synthetic diamonds are diamonds made in a laboratory process which are very similar to diamonds found in nature but are much cheaper. The major downside is that in the laboratory as yet it is possible to make diamonds only lesser than 2 carats. However, most diamonds sold are lesser than this carat value so the market for synthetic diamonds can potentially be huge.

DeBeers has tried to resist the advent of synthetic diamonds in the jewelry industry due to obvious reasons. They have done this by trying to ensure that buyers are aware that what they are buying was made in a laboratory. On the other hand companies like Gemesis, makers of diamonds have tried to bust the aura of the rarity of the diamond.

DeBeers has already acquired a company called Element Six1 that makes synthetic diamonds although they are advertising them only for industrial application. My own take is that DeBeers must start thinking about getting into the synthetic diamond business in the jewelry line too, since a lot of people are getting more eco conscious and diamond mining is extremely destructive to natural habitats. Another reason is that diamond mining is mostly still done by poor people and poor countries and despite the profits made by the companies the people mining don’t see any improvement in their lives. Therefore, the argument made by diamond companies about betterment of communities is false.

Besides this diamonds are extending their usage and may soon be used as the base for microchips. This is a huge potential market and DeBeers should not miss out on it.

## Product

The product is lab manufactured diamonds of up to 2 carats. These diamonds are exactly the same in chemical composition as diamonds found in nature. The benefits of synthetic diamonds are

* Absolutely flawless since they are made in a lab.
* No possibility of getting a “blood diamond”.
* Eco friendly production process which does not require clearing of forests or natural habitats.
* Colored diamonds are much easier to make by adding impurities in the process. In nature colored diamonds are very rare and sell at exorbitant prices.

DeBeers strategy here should be use Element Six to make diamonds for the jewelry line. Since they already have the infrastructure to sell the diamonds they could use the same stores to sell synthetic diamonds.

## Price

The biggest benefit of a synthetic diamond is that it can be manufactured at a much lower price that natural diamonds. This is great for increasing the market and being able to add lower income people to the possible market. In general lab made diamonds sell for less than 1/10th the price of a natural diamond. DeBeers strategy here should be to sell the synthetic diamonds in the same stores they sell the natural diamonds. They could mark down the synthetic diamonds and make the difference in the natural diamonds. Allowing people to choose would be the best way to develop the market rather than restricting people’s choices which DeBeers has tried to do in the past.

## Placement

Instead of putting down synthetic diamonds DeBeers needs to embrace the market for them and try to develop it. While making sure people know the difference between natural and synthetic they could market the synthetic diamonds to certain groups of people

* Putting ads in Nature magazines showing that these diamonds have been made in an environment friendly way.
* TV and media ads showing that lower income people too can afford diamonds on their weddings.
* Using the recession to sell cheaper synthetic diamonds.
* Have a scheme where any profits from synthetic diamond sales would go towards the betterment of poor African communities which are mining for diamonds. This would go a long way in showing DeBeers in a better light and improve their image.

## Promotion

Promotion for synthetic diamonds should mostly be of a pull type where media advertisements and print campaigns are used in order to generate a demand. The target customer for these ads is young people about to get married and lower income people. What these ads need to focus on are

* **Eco friendly manufacturing of synthetic diamonds**: This will appeal to a growing pool of young people worried about the environment and effects of humans on earth. Even if they can afford natural diamonds they may want to purchase synthetic diamonds.
* **Lower Income people**: For a lot of people a 1 carat natural diamond would be out of reach yet everyone wants a diamond as an engagement ring. A synthetic diamond would be a great way to reach this market.
* **Ads in wedding magazines**: This would be a great way to start the promotion of wedding rings using synthetic diamonds. Highlighting the benefits of synthetic diamonds and promising a part of profits to charity would allow DeBeer’s to tap the charity instinct of people.
* **Branding of Synthetic diamonds**: A specific brand similar to “Hearts of fire” could be created which would only be synthetic diamonds. This would allow people buying these diamonds to not feel as if they are settling.

## Collaborators

DeBeers already has a wholly owned arm called Element Six which makes synthetic diamonds. They could also collaborate with other synthetic diamond manufacturers in order to buy their diamonds and sell them in DeBeers stores. Some of the other collaborators they could have are

* **NGO’s working on African diamond mining communities**: They could use these NGO’s to do charitable work from the sale of synthetic diamonds and make sure that this effort is properly advertised.
* **Collaborating with environmental groups**: Collaborating with environmental groups to show how the sale of synthetic diamonds saves forests and natural habitats.
* **Collaborating with diamond cutters**: DeBeers could collaborate with diamond cutters to come up with a specific innovative cut meant for these diamonds only. The flawlessness of synthetic diamonds could be advertised or used in these cuts.

# 6 Contextual Analysis

DeBeers being a diamond mining company and therefore having to use natural resources which are owned by a country has a lot of political, socio-economic and environmental factors affecting its business. Some of these are described below;

## 6.1 Political

Over time many countries who have large diamond production in their territories realized that even though most of the mining was being done in their countries, companies were shipping out the skilled work of cutting and manufacturing the diamonds to other countries. Therefore a large part of the profits were going outside the countries, hence they mandated that a certain percentage of diamonds must be cut in the country of production. This increases DeBeer’s costs since India was the cheapest place for cutting of diamonds due to many years of developing the skills needed.

## 6.2 Socio-Economic

It has also been observed that the communities involved in the mining do not even have adequate drinking water of electricity whereas companies like DeBeers are making huge profits. This has led to a lot of bad press for DeBeers where several organizations have claimed that just ensuring conflict-free diamonds is not enough. In any business where natural resources are being used it is common that the worker force would be local and in many cases poor. It is essential for companies that operate in this space to advertise every humanitarian effort they make. They must ensure that their living condition of their workers is improving. DeBeers lack of accountability in this regard has given them a lot of bad press.

## 6.3 Legal

Many countries have now become pro-active in making sure that the profits from diamond mining are shared more equitably with the people of the country. Therefore like Saudi Arabia in early 50’s forced western countries drilling for oil to get into partnerships with the government (Saudi-Aramco), African countries with diamond deposits like Namibia have forced DeBeers to start partnerships like Namdeb for mining diamonds in the Namib desert. These and other legal issues regarding the mining of diamonds have forced the way DeBeers does business.

## 6.4 Technological

Technological advances like synthetic diamonds have forced Debeers to think about diamonds in a different way and as a result DeBeers has started investing in the synthetic diamond industry. Synthetic diamonds may be far capturing a share of the jewelry market but in the future they may be the raw material of choice for semiconductors.

# 7 References

1. <http://www.debeersgroup.com/operations/element-six/>