



De Beers SA

A Diamond is Forever

As the meeting concluded and Gareth Perry left the expansive conference room of De Beers SA in Johannesburg he had a lot to think about. The company had recently settled its litigation with the US anti-trust courts and was free to begin selling rough diamonds directly to customers in the United States.

The US retail diamond market was worth approximately \$28.7 billion in 2002. Traditionally De Beers had served this market indirectly through its network of resellers, polishers and merchants. This strategy had been complemented by De Beers marketing efforts using its famous 'A Diamond is Forever' tag line. This combination had allowed De Beers to circumvent the regulation imposed on it by the anti-trust regulation. But now, with the major lawsuit settled the company was free to operate directly in the United States.

Perry had been the international marketing director for De Beers SA for several years and had never faced such a challenge before. Should the company continue its strategy as the marketer for the whole diamond industry and stimulate US demand in this manner or should it examine new channels to market for its rough diamonds.

Background

The long history of De Beers began back in 1859 when the first reports surfaced of diamonds being found in the Kimberley region of South Africa's Northern Cape. The rush to this area increased when the 83.5 carat "Star of Africa" was discovered in 1869¹.

One of the people drawn to this area was a 17 year-old Englishman, Cecil Rhodes. Rhodes came to South Africa in a time when permits for diamond mining were restricted to individual claims with caps on how many claims one person could own. Rhodes initial foray into business was to buy an ice-making machine and sell ice to the miners working under the hot South African sun. With the profits Rhodes began to buy up mining rights.

In 1871 the brothers Johannes Nicholas and Diederik Arnoldus de Beer sold their farm which they had bought in 1860 for £50, to Dunell Ebdon & Co for £6,300. This farm was to be the site of both the De Beers mine and the famous Kimberley mine. Rhodes acquired the farm in the late 1870's.

The breakthrough for Rhodes came in 1876 when all restrictions on the number of claims that could be owned by an individual were dropped, and the chaos of 3,600 individual claims was reduced to 98 syndicated holdings by 1880. Of the original 3,600, Rhodes was reported to own one third by the time the restrictions were lifted.

However, much of the rich mining area around Kimberley was owned by Barney Barnato another Englishman who had come to South Africa after a failed career as a vaudeville comedian. Both Rhodes and Barnato set out to dominate the diamond industry by trying to buy up all the shares that came onto the market. Their struggle for control of the only other independent company, 'The French Company' (Compagnie Francais des Mines de Diamant du Cap), was acute, until Barnato merged all his diamond interests in the Kimberley Central Diamond Mining Company and became the owner of the French company. Rhodes, through the

¹ The original 'Star' was sold in 1870 for 500 sheep, ten head of cattle and a horse. Today it is worth an estimated \$10 million

backing of the Rothschilds managed to buy one-fifth of the company. Both parties ramped up production from their interests to destructive levels until, in 1888, Barnato capitulated and agreed to merge the Barnato Diamond Mining Company with Rhodes' interests to form De Beers Consolidated Mines Ltd.

Rhodes continued to acquire diamond mines throughout southern Africa and used much of the profits to develop a political career. By 1889 he had become the head administrator of the British South Africa Company, which was charged with controlling what is now known as Zimbabwe and Zambia, and also with developing new territory north of these regions. As a consequence of having control of these countries, Rhodes also controlled much of the global diamond supply.

After Rhodes death in 1902, De Beers continued to dominate the mining and supply of rough diamonds. However South Africa was also a large supplier of the world's gold. As a result, a new company, Anglo-American Corporation was created to exploit the gold mining potential of the Rand region. Anglo-American began to buy shares in the De Beers Company which had become a public company in 1893. By 1926 the company was the largest single shareholder in De Beers and its chairman, Sir Ernest Oppenheimer was elected to the board of De Beers.

A Central Selling Organization

In 1930 Sir Ernest, who had become chairman the year before, incorporated the Diamond Corporation Limited to constitute a producers' co-operative including the major 'outside' (or non-De Beers) producers. This was in accordance with his belief that “Only by limiting the quantity of diamonds put on the market, in accordance with the demand, and by selling through one channel, can the stability of the diamond trade be maintained.”

This new single channel marketing structure eventually came to be known as the Central Selling Organization (CSO). It was later renamed the Diamond Trading Company (DTC).

The main purpose of this organization was to stimulate and control the demand for diamonds of which almost 80% of the supply was under De Beers control. De Beers mined the rough diamonds which it in turn consolidated in a central sorting exchange in London. Other rough diamonds from other sources could be brought to the exchange and sold to a select few customers which were known as 'sightholders'² at non-negotiable prices. These sightholders would then either sell on the diamonds on cut, polish and set the diamonds for sale as jewelry or for industrial purposes See (Exhibit 1). This arrangement was successful in controlling the pricing of diamonds through manipulation of the supply and demand arrangement.

However during the 1930's when demand for diamonds was at an all-time low following the Depression De Beers cut 90% of its production.

The Birth of a Tagline

Ernest's son, Harry, who was on the board of the company, opted to visit the US to investigate the possibility of creating a pilot consumer advertising campaign. Until now diamonds had been the sole privilege of the rich and Harry wanted to investigate the possibility of creating a mass market appeal. Despite opposition from other directors who felt that advertising diamonds would somehow cheapen them, Harry went to the US in 1939.

After meeting with many of the top advertising agencies, Harry engaged with N.W Ayer who had the novel concept of researching why people bought diamonds. Until then De Beers had considered that 'high fashion' was the key reason for the purchase of diamonds. To this end, in 1934, the company engaged Chanel to design diamond jewelry; a move that flopped.

NW Ayer's research concluded that fashion was not the key reason for a diamond purchase but rather it was because they were a symbol of love. The original campaign (see Exhibit 2) developed by Ayer was centered on this concept and has been the same ever since.

² The term 'sightholders' comes from the ability these customers have to viewing or 'sighting' the diamonds they have purchased ten times a year

However it was not until 1947 that a young copywriter called Frances Gerety working for NW Ayer penned the famous tagline “A Diamond is Forever”. (See Exhibit 3)

This arrangement of CSO continued from the 40’s through to the 90’s with De Beers effectively becoming the advertising client for the whole industry. It is this ‘anti-trust’ arrangement that led De Beers being banned from carrying out business in the United States; an injunction that remained in force until the middle of 2004 when De Beers agreed to pay a \$10 million fine for price fixing.

Harry’s son, Nicky Oppenheimer became Chairman of De Beers in 1997 (See Exhibit 4). In 2001 the company was taken private in a Management Buy-in and de-listed from the Johannesburg Stock Exchange. The new share structure is shown in Exhibit 5.

In 2003 the Group had sales of \$5.5 billion resulting in operating income of \$676 million. The Oppenheimer family is worth an estimated \$4.5 billion and its head, Nicky is reported to be Africa’s richest man.

Market Development

The Industry’s First Marketer

In order to stimulate demand for diamonds De Beers positioned itself as the marketer for the whole industry. Starting from its engagement with NW Ayer in the late 1930’s the company has continually developed and refined its marketing effort to a more refined audience. Following NW Ayer’s research focusing on the ‘symbol of love’ De Beers’ strategies included;

- writing (or re-writing) scenes for Hollywood movies that injected diamonds into romantic relationships between men and women
- giving diamonds to movie stars to use as symbols of indestructible love
- placing celebrity stories and photographs in magazines and newspapers to reinforce the link between diamonds and romance

- using fashion designers to talk on radio programs about the “trend towards diamonds”
- commissioning artists like Picasso, Dali, and Dufy to paint pictures for advertisements, conveying the idea that diamonds were unique works of art

Following these initial campaigns demand for diamonds increased by 55% and 80% of engagements in the United States were consecrated by diamonds. NW Ayer recalled that the campaign marked “a new form of advertising which has been widely imitated ever since. There was no direct sale to be made. There was no brand name to be impressed on the public mind. There was simply an idea — the eternal emotional value surrounding the diamond”

In 1963 the company engaged J. Walter Thompson a leading global agency to assist in the development of the marketing and advertising plans. These agencies worked with the DTC to understand the buying rationale for diamonds and to create campaigns based on these rationales coupled with the projected availability of diamonds at the time.

The Modern-Day Marketer

Marketing research garnered by the DTC over the past sixty years indicates that the decision to purchase a diamond is not often made spontaneously. More specifically, the lead time on most diamond purchases is 9-18 months. The key factor in this decision is to provide consumers with a strong rationale for purchasing diamond jewelry. To attract consumers to its luxury brand, DTC advertising campaigns have focused on two key areas.

The ‘Occasion Purchase’ – This campaign has been aimed at the male target market. Traditional occasions such as engagements have long been rationales for diamond purchases. Ironically this has resulted in a dearth of larger carat diamonds and a glut of smaller stones. This has led the DTC to develop the ‘three stone anniversary ring’, using the tag line “For your past, present and future”.³ (See Exhibit 6). The DTC has performed significant marketing research around this purchase. For example, the Company has performed specific sample testing to track the trends in anniversary announcements and to project their impact on the diamond business.

³ Examples of the TV campaigns for both areas can be viewed at www.adiamondisforever.com/asadvertised.html

Celebrating Women – This campaign has been aimed at both men and women. Firstly, the ‘Celebrate Her’ campaign has focused on men buying jewelry to celebrate their partners and. The print campaign is humorous with distribution in upscale men’s magazines. (See Exhibit 7). The TV slots were shown during NFL games in the run up to Christmas. Secondly, a campaign focused on empowering women to buy themselves jewelry has been developed. The idea that a ‘right-hand’ ring should be bought to celebrate a major achievement not only creates a new rationale for the purchase but also expands the target market to include single or divorced women who have traditionally not been a focus of the advertising. (See Exhibit 8)

In addition to the new advertising the DTC has remained true to its origins with the continued promotion of diamonds to the elite ensuring diamonds are promoted to the right clientele and represented by people who personify the brand values that the company is trying to exude. The company created a division, the Diamond Information Center (DIC) that handles the placement of diamond jewelry with celebrities at high exposure events such as the Oscars, Fashion Week and the Grand Prix series.

Acting as the marketer for the whole industry has been extremely successful for De Beers. While market share for rough diamond sales has dropped from 80% to 60% the company still has the power to garner significant returns from its industry advertising efforts.

Competitive Environment

The key market for De Beers is rough diamonds. A market that was valued at \$8.1 billion in 2002⁴. In the same year the DTC generated turnover of \$5.15 billion⁵; a market share of 63%. On the supply side the company now controls around 50% of production. As new diamond mines are brought on stream other competitors have emerged in recent years from around the world.

⁴ Company website

⁵ De Beers Annual Report 2002

Rio Tinto Ltd

Rio Tinto's diamond mining interests include the Diavik Diamond Mine in Canada, the long-established Argyle Diamond Mine in Australia and the new Murowa Diamond Mine in Zimbabwe. Through its 100% ownership of Argyle, Rio Tinto produces nearly a quarter of world diamonds by volume. In 2002 the company formed Rio Tinto Diamonds which was created to provide a sales and marketing service to diamond mines in the Rio Tinto group, similar to the DTC's arrangement with De Beers.

Rio Tinto has a 60% ownership of the Diavik Mine in the Northwest Territories of Canada. The remainder of the mine is held by Aber Diamond Mines Ltd. Although Diavik is a relatively new mine it (it first produced diamonds in 2003) is already producing 5% of the world's diamond supply.⁶

The company has full ownership of the Argyll diamond mine in Western Australia. This mine has been producing diamonds since 1986. Originally diamonds from the Argyll mines were sold through an arrangement with De Beers. However this ended in 1996 when the company created its own sales office in Antwerp. This mine is considered the world's main source for rare colored diamonds. Around 90% of Argyll's production is destined for the Indian diamond market. The third mine in Rio Tinto's portfolio is the Murowa Diamond Mine in Zimbabwe of which it owns 78%. This is a very new mine and only came on stream in October 2004.

Rio Tinto Ltd is headquartered in London, England and employs 29,000 people. Its other interests include iron ore, aluminum and copper.

BHP Billiton

The jewel in BHP Billiton's diamond crown is the EKATI diamond mine in the Northwest Territories of Canada. This mine alone is expected to produce almost 4% of all rough diamond production by weight in 2005.⁷

⁶ Rio Tinto Corporate information

⁷ Source: Tacy Consultants

BHP Billiton is headquartered in Melbourne, Australia and employs 35,000. Aside from diamonds the company also has significant interests in oil, gas, liquefied natural gas, nickel and silver.

Synthetic Diamonds

Synthetic diamonds have been manufactured since the 1950's. These diamonds are often referred to as HPHT (High Pressure, High Temperature) diamonds. These diamonds are formed when carbon is subjected to the type of conditions under which natural diamonds are formed over thousands of years. Gem-like diamonds can be formed under this process however the primary use of synthetic diamonds have been in industrial applications. It is forecast that HPHT diamonds represent less than 3% of global gem diamond sales.⁸

Supplier of Choice: An Alternate Channel Strategy

As market share has fallen at De Beers the company has sought outside help to turn things around. In April 1999 the company engaged Bain & Co to undertake a review of its strategy. The result was a significant *volte face* by the diamond company. While the company would continue in the short term to promote diamonds through its DTC advertising efforts, four major long term changes were announced under the umbrella of a new 'Supplier of Choice' strategy.

Traditionally De Beers had operated with murky contract arrangements where transactions were often concluded with mere oral agreements or other backroom deals. As a result the whole diamond industry had developed a reputation for price-fixing and other shady agreements. It would be important for De Beers to clear up these perceptions if it was to take part in a new, competitive diamond market. The first tenet of the new strategy was the formalizing of a written contract process between De Beers and its sightholders.

Secondly, the whole diamond industry in recent years had suffered from the problem of 'conflict diamonds'. These were diamonds that were smuggled out of war-torn areas of Africa with the proceeds of the sale often going to support guerrilla armies and dictatorships in areas such as

⁸ Source: Tacy Consultants

Sierra Leone and Angola. This new strategy introduced 'best practices' which forbid the purchase of such diamonds. Any sightholder found purchasing such supply would be shut out from the De Beers stock. Similarly De Beers would no longer step in to be the buyer of last resort for diamonds. Traditionally De Beers had mopped up any excess supply in the market that threatened to lower prices. Much of this excess supply came from these war-torn areas which De Beers had purchased to protect its position. The company was now refusing to do this and was prepared to cut production at its own mines to compensate for this increase in supply.

De Beers and LVMH

The third major tenet was the sale of the De Beers brand name. The rights to the brand were placed with a company, De Beers LV, which is a joint venture with LVMH, the luxury goods company. This detachment of the brand name from the day-to-day business of selling rough diamonds was seen as an attempt to re-position De Beers as a luxury brand that may be extended beyond diamonds. Undoubtedly the US represented a significant proportion of this luxury goods market (See Exhibit 9) which was a key factor in De Beers wishing to enter and grow this market. As a total of consumer purchases diamonds linger around 1% of total purchases where other luxury goods represent 10% of purchases⁹.

The aim of the joint venture was to focus on creating retail stores in major cities around the world. These stores would not only promote diamond jewelry bearing the De Beers name but would also extend the brand into other fashion items such as handbags, silks and other accessories.

De Beers LV began its retail operations with the opening of a flagship store in London in October 2002. However the opening was beset with problems with the initial launch date postponed due to lack of diamonds. The retail stores are very much the public face of De Beers which is not always welcome. When the London store finally opened it was attacked by protesters who covered the advertising posters with a picture of a Botswanian bushmen and the

⁹ Source: Euromonitor

slogan ‘Bushmen are not forever’ (See Exhibit 10). This protest was aimed at De Beers’ alleged involvement in clearing the bushmen off their land to make way for diamond mines.

Retail sales at the London store have been poor primarily due to the War in Iraq and a global recession.

The joint venture has since proceeded to three retail stores in Tokyo with a New York store at 55th and 5th Avenue planned for 2005. The New York store will be in the vicinity of Tiffany’s, Cartier and Van Cleef & Arpels.

New Sightholders

The final piece of the strategy was perhaps the most dramatic. De Beers was no longer happy to be the marketer of the whole industry. Rather than focusing on controlling supply and ‘price-fixing’ the company wanted to increase demand for diamonds. Only those diamantaires that spent significantly to promote and distribute diamonds would be permitted to be sightholders. The DTC would provide marketing assistance and consultancy to these sightholders in an effort to spread the cost of promoting diamonds around the world.

The key rationale for the change in channel strategy was the drive to increase diamonds as a portion of luxury goods purchases.

DTC on the Internet

As a support channel to the marketing efforts of the DTC the company has invested heavily in the development of an Internet presence for the promotion of diamonds in the US. Market research has found that in the luxury market, the Internet plays a major part in the purchasing decision (See Exhibit 11).

The company has developed **www.adiamondisforever.com** as the initial site for the promotion of diamonds and diamond jewelry. The site is used in promotional literature both by the DTC and by sightholders of De Beers. The site clarifies issues such as the “Four C’s” and the different types of diamond design that are available. It is more informational in nature than other

manufacturer's sites and takes a 'non-biased' view of the diamond experience. In addition the DTC is prohibited from direct selling on its website.

A design gallery is available that allows the customer to design online engagement and anniversary rings. The Design Gallery was developed as a means of showcasing manufacturer designs. Research had shown that the more designs a woman sees, the more likely she is to accelerate/start the diamond purchase process. It is set up like a high-level catalogue, the Design Gallery is a Manufacturer subsidized (i.e. they pay a fee to participate) searchable catalogue. The site highlights jewelry design by a number of different designers but does not promote the De Beers stores, which is not permitted under the joint venture agreement. Initial indications are that the website has been extremely successful (See Exhibit 12) with traffic growing at around 15% per year.

The number of affluent households going online is growing (See Exhibit 13). This is a major reason for the push from De Beers to establish a persuasive, enjoyable diamond experience online. There remains the potential for the LVMH joint venture to develop an online store for the purchase of its jewelry. This would open De Beers to a wider market beyond the cities in which it locates a retail store. However there is the possibility that this may affect the value of the brand equity of a luxury item like De Beers.

Current Issues

De Beers was now facing the decision whether to directly enter the US diamond market. Gareth Perry realized he had many options available. He could continue with the successful efforts of the DTC in supporting the industry and rely on indirect sales to the US. Alternatively there was the potential to instigate a program similar to the Supplier of Choice scheme created in the rest of the world. This would share the marketing expense and ensure a steady demand for De Beers' diamonds. The Internet presence that the DTC had developed was producing good results and presented considerable growth opportunities for De Beers. Finally there was the retail option. De Beers could develop further its relationship with LVMH and expand the number of stores in the US. This would guarantee the channel to the customer as well as the promotion of the De Beers brand could be controlled. Perry took a long, deep breath.

Exhibit 1 The Diamond Pipeline (in \$US Billion) Source: Tacy Consultants

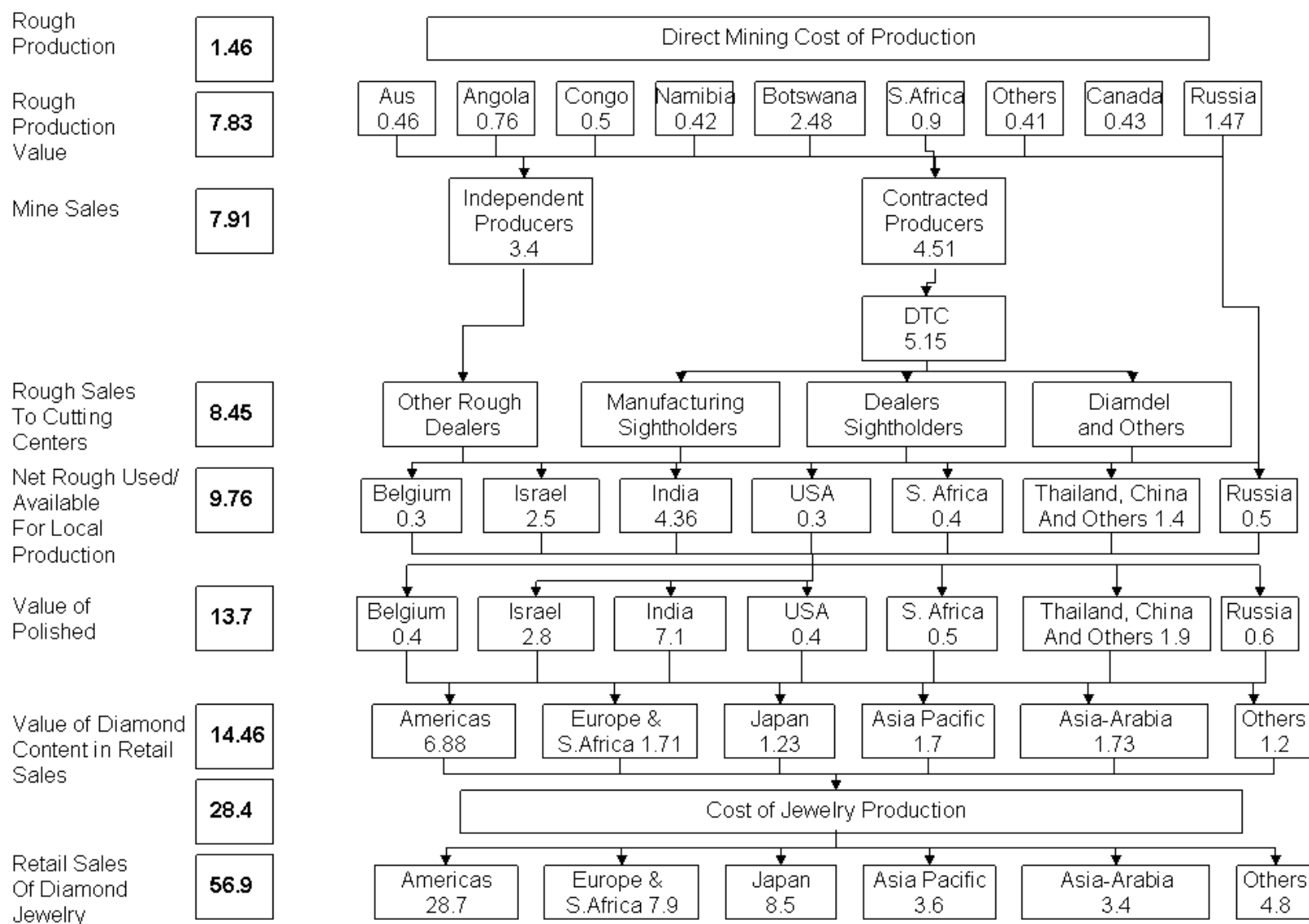


Exhibit 2 Early De Beers Advertisement (1939)



*"For him the diamond dawns are set
In rings of beauty . . ."* —TROWBRIDGE

A YOUNG MAN just engaged is apt to share subconsciously the poet's state of mind. He perceives a world of unsuspected beauties—a future in which the Golden Age is reborn in one predestined couple. Unfortunately for lovers, such a mood, while excellent for the discovery of diamonds in the sky, does not always lead to comparable success on earth. There are many things a man must consider when undertaking one of his lifetime's most important purchases—his diamond engagement ring. . . . That with this symbol, he institutes a new dynasty which will bear his name beyond his generation. Once bestowed, it is imperishable. The woman he makes his wife will never relinquish it to meet more affluent circumstances. . . . Each man owes it to his future to give the most beautiful diamond he can buy. There are but a few simple rules for its selection. Go to a reliable jeweler. . . . Diamond prices vary with weight, color, quality, and cutting. This table will guard you from dubious "bargains." Many jewelers will be glad to assist you in the purchase of a handsome stone by extending payment over a period of months.

DE BEERS CONSOLIDATED MINES, LTD., AND ASSOCIATED COMPANIES

CURRENT PRICES OF QUALITY DIAMONDS			
<i>(Exact weights shown are infrequent. Fractional weights at relative prices.)</i>			
One-half carat, \$100 to \$200		One carat, \$325 to \$600	
Two carats (Square-cut)		(Brilliant) \$900 to \$1750	
Three carats (Marquise)	(Brilliant)	from \$1500	
Size alone does not determine diamond value. Purity, color and perfection of cutting affect the prices of diamonds, regardless of weight.			
These prices do not include tax and shipping.			
www.debeersgroup.com			

Exhibit 3 De Beers Magazine Advertisement (1952)

*a
Diamond
is forever*

The wishes from your heart
are echoed by your engagement
diamond in lovely, liquid
lights. And it will ever grow
more rich with meaning, more
cherished with its telling of the
joys and memories you share.

Because it will keep your
love a lifetime through, your
diamond, though it be modest
in price, should be chosen
with care. Remember, color,
cutting and clarity, as well as
carat weight, contribute to
a diamond's beauty and value.
A trusted jeweler will help
you find a stone of fitting
size and quality and style for
what you wish to spend.



Values of Love... painted for the De Beers Collection by Charles Reis

	1/4 carat (20 points) \$95 to \$145
	1/2 carat (40 points) \$210 to \$475
	1 carat (80 points) \$440 to \$1200
	2 carats (160 points) \$1200 to \$3750

These prices are for unmounted top grade engagement diamonds. They vary according to the qualities offered by different jewelers throughout the country in July, 1952. Exceptionally fine stones are higher priced. Add Federal tax. Exact weights shown are infrequent.

De Beers Consolidated Mines, Ltd.

www.debeersgroup.com

Exhibit 4 De Beers SA Directorate Structure



Exhibit 5 De Beers Group Structure

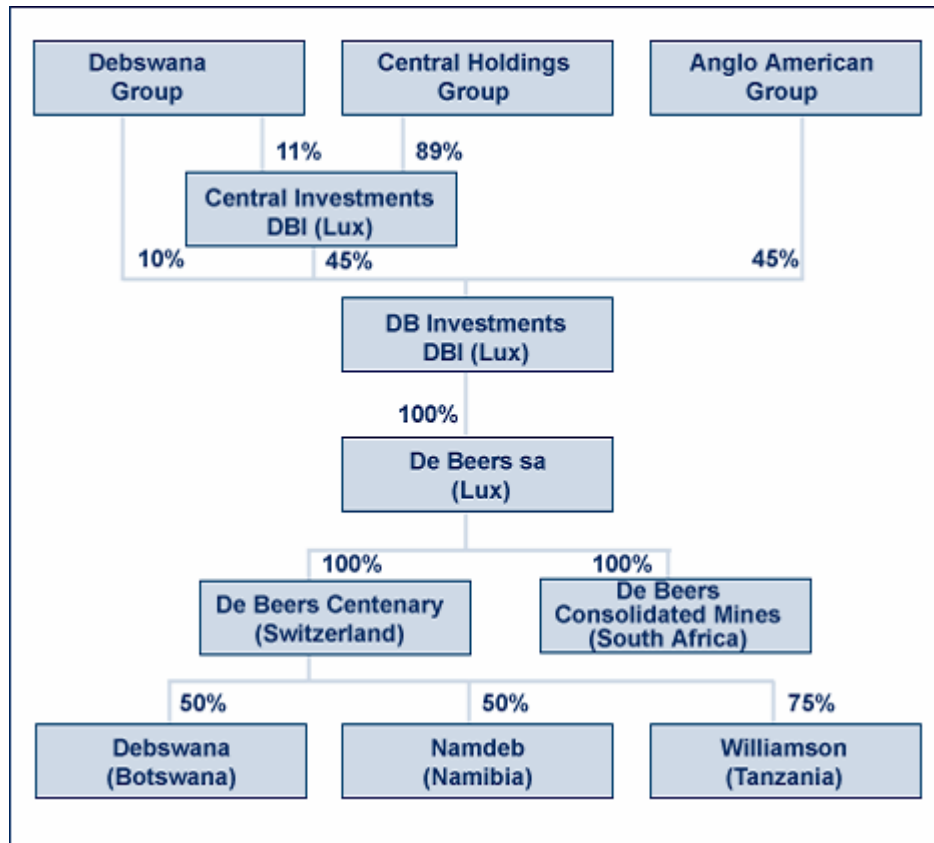


Exhibit 6 'Past, Present and Future' Advertisement



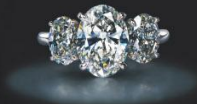
the tiny studio
without windows

the two-bedroom
apartment with
shag carpet

the four-bedroom
fixer-upper
we never fixed up

the five-bedroom
colonial in
the burbs

still just want to
be in the same
room together



The Three Stone Oval Ring
for your past, present and future.

Visit the Design Gallery at
adiamondisforever.com

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◇

A DIAMOND IS FOREVER

Exhibit 7 'Celebrate Her' Advertising



CARVE
THE TURKEY
ANY WAY
YOU DAMN
WELL PLEASE



A DIAMOND IS FOREVER

THE FOREVERMARK IS USED UNDER LICENSE.

WWW.ADIAMONDISFOREVER.COM

Exhibit 8 'Left Hand Ring' Advertising



**YOUR LEFT HAND LIVES FOR LOVE.
YOUR RIGHT HAND LIVES FOR THE
MOMENT. YOUR LEFT HAND WANTS TO
BE HELD. YOUR RIGHT HAND WANTS TO
BE HELD HIGH. WOMEN OF THE WORLD,
RAISE YOUR RIGHT HAND.**

THE NEW DIAMOND RIGHT HAND RING. MODERN VINTAGE, FLORAL, ROMANTIC AND CONTEMPORARY STYLES AT ADIAMONDISFOREVER.COM

Top right: ©2003 Gemma. Bottom right: ©2003 Universal Pacific. Top left: ©2003 Broadway. Bottom left: public domain.

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Exhibit 9 The Luxury Goods Market – Top 10 Countries (\$US billion) Source: Euromonitor

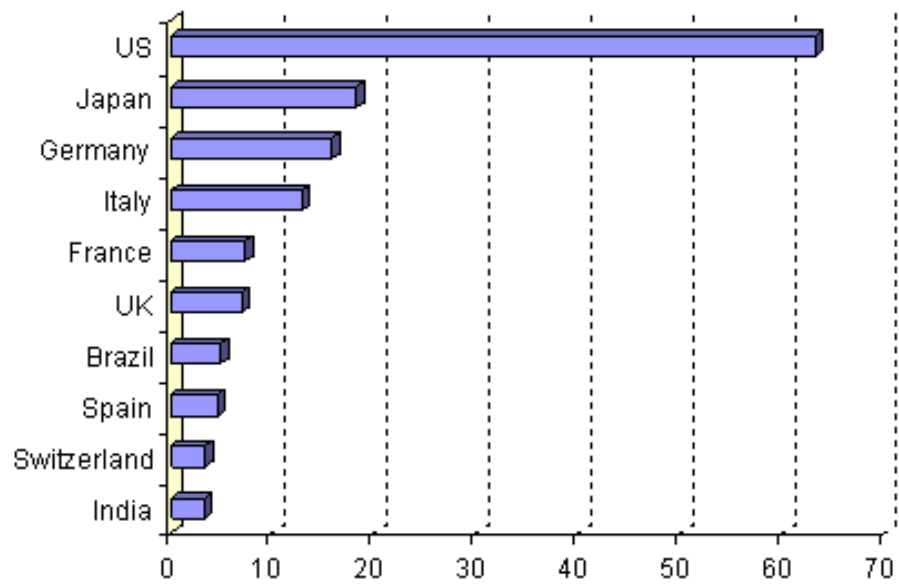


Exhibit 10 Protests Outside De Beers LV London store



Exhibit 11 Channels used in Luxury Purchasing Decision Source: Unity Marketing

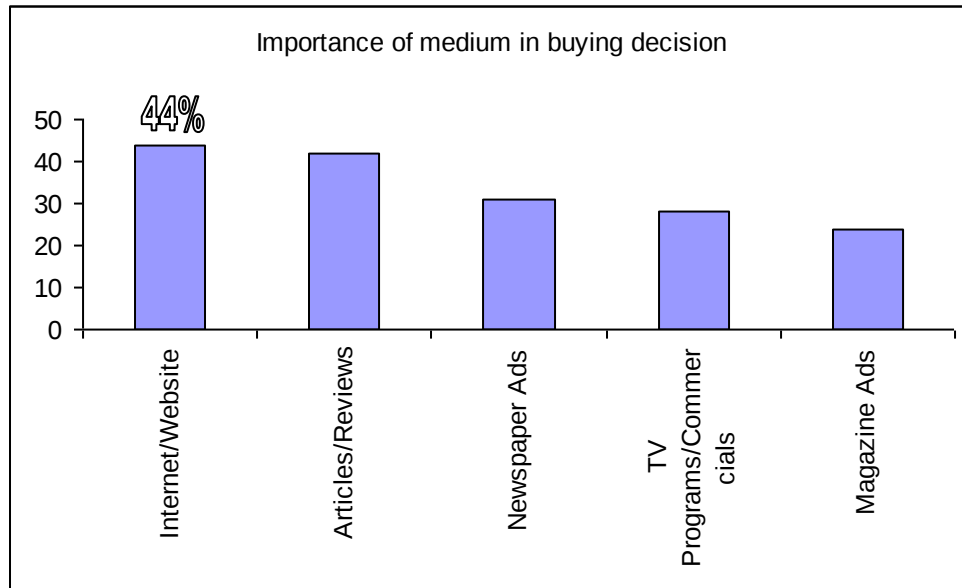


Exhibit 12 Unique Visitors Trend to ADIF.com Source: JWT

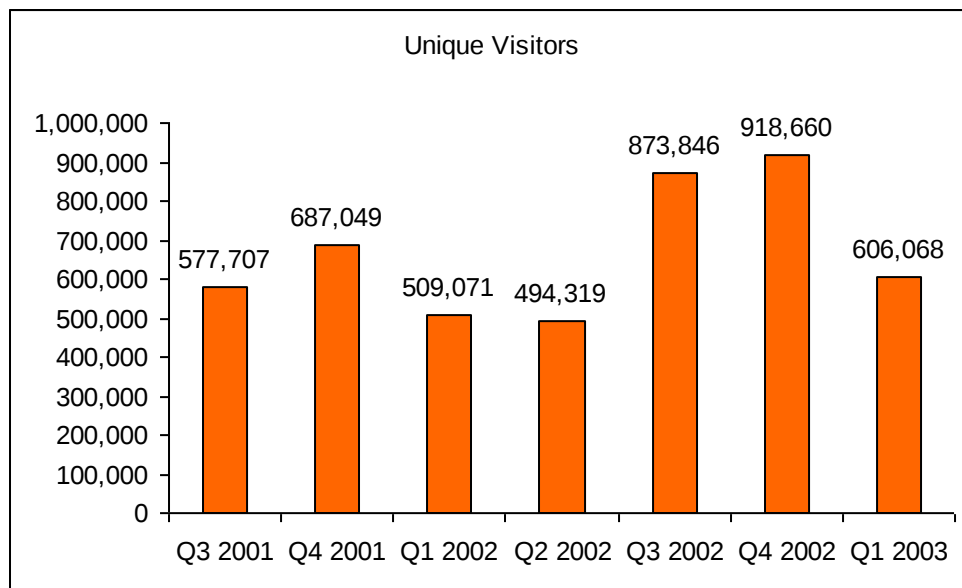


Exhibit 13 High Net Worth Households Online Source: Jupiter

