De beers and the global diamond industry

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Carbon was transformed into diamonds within kimberlite pipes, formed through volcanic activity that created high pressure and heat. Discoveries related to kimberlite pipes that found in South Africa a diamond rush developed in the 1870s. Cecil Rhodes got a monopoly as he owes pump necessary to drain water from the mines, and he receives ownership claims in many of his customers' mines. By 1880 he had created the De Beers mining company; by 1888 De Beers controlled 95 per cent of the world's diamonds. With the death of Rhodes De Beers comes in the control of Anglo American Corporation created by Ernest Oppenheimer.

The Oppenheimers created the " single chain marketing" system of shoveling all available stones to the clearing house. From the 1930s until the 1990s De Beers produced the major share of the world's diamonds, but its share fell gradually over time and by the 1980s, was less than 50 per cent. De Beers retained scarcity value of diamonds for sixty years, to do so company had to manipulate the market, prevent smuggling, buying and stockpiling of diamonds and quash all attempts at competition. De Beers finalized a joint venture with France's LVMH luxury goods group for selling diamonds as retail jewelry.

De Beers successfully managed the profits for consolidated mines and the global diamond industry for many decades, the company also succeeded in increasing consumer demand. Company's role and profitability got a break at the end of twentieth century when new diamond mining firms were selling their production on the open market rather than through De Beers' Central Selling Organization (CSO). Competitors were trying to come out of the value chain of De Beers. Some retailers were purchasing shares in new mines and purchased a retail chain.

Also an illicit trade in “ conflict diamonds” was supporting revolutionary groups and disrupting the market. The company has been watching its empire shrink at the mid-eighties when De Beers controlled 90 per cent of the diamond market. De Beers hired a leading consulting firm, Bain and company whose key recommendation “ was to ditch the role of buyer of last resort and reduce the unproductive stockpile b selling it to the market at the same time the company also contemplated a joint venture with France’s LVMH luxury goods corporation.

We do not support De Beer’s decision of entry into the retail jewelry business as due to this profitability diverted in new directions and profit margins was getting divided in major context. On the other hand if they focus on diamond mining, grading, sorting, wholesaling, cutting and polishing as this are the basics and root of the diamond business and remaining in within this can comply more amount of profit than in retail. Firms that specialize in cutting and polishing developed a highly skilled workforce; there was a tendency for these firms to cluster in specific cities or regions where these skilled workers could be found.

For many decades such, clusters had existed in Israel and India. These firms had to purchase from the De Beers’ wholesalers or risk being forever from De Beers’ value chain. The CSO sold rough diamonds to wholesalers; the CSO had the power to choose whom to sell, how much to sell and at what price. De Beers compiled boxed lots of diamonds containing a range of different quality stones, and this approach allowed De Beers to sell less desirable diamonds in the same box as top of the line gems. De Beers once controlled some 80 percent of the world supply of rough stones.

As recently as 198 it accounted for nearly two-third of supply. Today production from its own mines gives it a mere 45 per cent share. Only a contract to sell Russian stones lifts its overall market share to around 55 per cent. The jewelry retail sector had recently experienced several major changes, each of which might impact De Beers' strategy. New giant chains, especially Wal-Mart andCostco, had expanded their market share, and Wal-Mart stores were now the world's largest jewelry retailer. For the retail consumer of diamond jewelry, this market structure created an opportunity for long-term investment.

De Beers' control of the value chain, together with De Beers' market intervention to ensure stability and gradual escalation of prices meant that a retail customer was assured that such an investment would not decline in value. Lev Leviev began as a diamond cutter and polisher. Over time, he expanded this business until he became the world's largest firm in this activity. At that point, Leviev decided to challenge De Beers by creating an alternative agency for buying and selling rough stones. Leviev was able to promise job creation in local factories that he would build to cut and polish the domestic diamond production.

This promise of local investment and job creation gave Leviev a competitive advantage over De Beers, who were not able to make such promises. His first major direct purchase outside of the CSO occurred in Russia. With this model, Leviev extended his direct purchases to other countries, including Namibia. By the early years of the 21st century, governments with diamond mines were advertising publicly to attract cutting and polishing firms in order to create jobs, and to increase their tax base and export earnings.

On August 28, 2004, for example, the Botswana Export Development and Investment Authority (BEDIA) issue a request for consultants to undertake a study to determine the feasibility of developing value-added activities in Botswana's diamond industry. Thisadvertisementstated that the specific objectives of the study were: * To identify opportunities for establishing a jewelry sector, taking into account other precious and semi-precious stones. * To analyze the global and regional markets for the industries. * To perform a SWOT analysis and benchmark Botswana with competitors for the investment.

* To profile key diamond cutting and polishing, and jewelry companies and pinpoint key individuals within companies that play an important role in the site selection process. The strategy to create a new identity consisted of several related components. First, the new plan would end the stockpiling of diamonds, the strategy that had permitted De Beers to dominate for so many years. The extra cash that would be freed up by selling off the stockpile would be available to spend on marketing and the creation of a chain of retail stores.

Second, De Beers transformed its customer relationships, adopting a new " supplier of choice" program. De Beers reduced the number of De Beers' wholesale customers from 120 to 80, and was able to select those customers with the most cost-effective and successful value chains. De Beers now demanded greater disclosure of operations from all sight holders, and they were required to comply with De Beers' new Best Practice Principles. Price wars, new consumer fashions, the growing role of the internet, and the power of Wal-Mart—all these forces were bound to create opportunities and challenges.

For De Beers, the Bain solution was just one step in its continually evolving strategy to grow its profit within the global diamond industry. References James Surowiecki, “ The Diamond Market vs. The Free market, “ The New Yorker, July 31, 2000, p. 27, Francesco Guerrera, “ De Beers: All that Glitters is Not Sold, “ Financial Times July 11, 2000, p. 12 Special Report: The Diamond Cartel, “ The Economist, July 17, 2004, pp. 60-62 James Lamont, Geoff Dyer, “ Anglo’s initiative, “ Financial Times, August 8, 2002, p. 10 Charles Pretzlik, “ De Beers and LVMH to Open Jewellery Shops, “ Financial Times, January 14, 2001, p. 1