

De beers and u.s. antitrust law essay

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1. Briefly explain why some governments are concerned with monopolies.

Monopoly, means that a firm is sole seller of a product without any close substitutes, controls over the prices the firms charge. Government sometime grants a monopoly because doing so is viewed not only to be in the public interest, but also to encourage it with price incentives. However, monopolies fail to meet their resource allocation efficiently, producing less than the socially desirable quantities of output and charging prices above marginal cost. Thus, this inefficiency of monopoly causes the quantity sold to fall short of social needs. In order to handle the problems, policymakers in the government regulate the behavior of monopolies and try to make monopolized industries more competitive

2. How does De Beers maintain its monopoly power? In previous years De Beers owned a key resource for diamond production - mines.

The monopoly's power stemmed from the company's ability to collect the world's rough diamonds and send them out again, anonymously and bereft of origin. Because of turmoil which the company was facing on all fronts: illegal flow of diamonds from Sierra Leone and Angola, Russia's diamond fiefdoms, etc; the formerly closely-held corporation had to undergo some rapid changes. Today De Beers maintains its monopoly power through marketing activities such as active advertising, e. g. the millennial campaign which was the company's first attempt to brand gems, to sell a " De Beers diamond" rather than a regular diamond.

De Beers tries to remove substitutes for its product and to make it unique in order to increase its market power. The possible substitutes for diamonds

can be emeralds, rubies and sapphires. If people view them as diamond's substitute, De Beer's market power will be relatively little. On the other hand, if the company tries to increase the price for its product, some people can switch to other gemstones.

That's why De Beer's makes so much effort to distinguish its product from any others and to support its image of a scarce and unique product. De Beers supports a symbiotic relationship between production and sales. The formation of a single marketing channel contributed to the diamonds price increase. In the past two and a half decades, rough diamonds have outperformed commodities such as gold, oil, and aluminum. Also the diamond prices have been more stable when compared with other commodities. 3.

De Beers claims that its monopoly power benefits consumers. How? De Beers claims that its market power benefits consumers because by supporting the scarce amount of diamonds and actively advertising it as a unique product De Beers fulfils customers emotional, rather than practical needs. Diamonds are unique and admired by many people. They have a store of value which doesn't decrease as the time passes by. Purchasing diamonds people can experience a sense of a luxury life as well as nice memories from the occasion on which these gemstones were bought. Besides, De Beers occupies a special place in the economy of South Africa, and of many other African countries.

The company creates jobs, pays taxes, invests in infrastructure, reconstruction and development, as well as brings social goods and benefits. The capital realized by the company in the diamond fields was often lost to

the emerging South Africa. De Beers promotes the economical development of the African continent and contributes to the decrease of gap between the developed countries and the third world. 4. What are the future challenges for De Beers? How should the company react to those challenges? The time has come for De Beers to make new movements. Although De Beers' control of the world's rough diamond production dropped from 80% to 60%, the company continued to follow its traditional business model, which was creaking badly due to stockpile of diamonds.

The cost of these excess diamonds had destroyed De Beers' shareholder value with returns as only a fraction of the very large profit pool it had created over ten years. As a result, the company's stock price was understated even though De Beers had brand name power with a strong slogan. During the 111 years of its existence, De Beers spent less than 1% of sales revenue on advertising and they did not advertise its own products. This caused the brand name had shied away.

De Beers contemplates an innovative branding strategy and started to emphasize their name in advertisements. This movement has brought great effect to both customers and De Beers. Especially, De Beers got out of its financial problems. Customers were willing to pay a 15% retail premium on jewelry bearing the De Beers name, and customers were waiting in a line to purchase diamonds on sale. De Beers created their own style of uniqueness which increased the demand for its product. There might be possibilities to extend the business creating a luxury store or high-end fashion accessories.

The main challenges for the company now are the flow of diamonds and increase of its production from other countries (for example, Russia, Australia), the development of new technology which can increase the quality of diamonds produced by other companies and, therefore, increase competition in this industry as well as substitutes for De Beers diamonds. The best way for De Beers to overcome these challenges is to support its brand name of a unique diamonds producer. Since there is a large demand for De Beers' diamonds and good advertizing opportunities the company can really do it. However, if De Beers is going to make branding a success, then it has to move to the American market where it was not represented officially.

The American customers used to buy De Beers diamonds on the foreign markets (London). If De Beers enters the market it will have to face the American antitrust law and pay fines. If the potential gains from entering the American market are bigger than expenses measured in terms of fines than De Beers should be legally represented on the American market. (In fact, the company really entered the US market later) Further scattering of De Beers' ownership can also be dangerous for a company. De Beers should prevent the increase of its stock share owned by American investors.

For instance, it can establish special company's policies concerning issue of new shares.