De beers-strategy

Food & Diet

Part 1

De Beers has dominated the diamond market since its inception, from the very beginning De Beers has sought to monopolize the global diamond market. Until 1980’s De Beers monopoly in diamond business had persisted and it had enjoyed a market share of 80%.

De Beers had attained monopoly in the diamond business by dominating the value chain through its own marketing company called Central Sales Organization (CSO). Traditionally De Beers’s strategy was to buy all the raw diamonds that were produced by other mines, in order to purchase diamonds produced by other mines, De Beers had negotiated contracts with many mining companies making it a sole buyer of all the diamonds that were produced by these companies.

De Beers’s role as a buyer of last resort helped it to maintain a very large stockpile of diamonds which were sold exclusively through the CSO. CSO had developed a system of grading the raw unfinished diamonds based on their weight, color, cut and clarity. The grading process helped to create a brand guarantee which increased the value of the raw stones.

De Beers did a value addition to the cost of diamonds at 20-25% for those diamonds that were produced at its own mines or of those acquired form other mining companies. Further 10= 15% value was added to the cost of diamonds by CSO. This meant that a total of 40% value was attached to the diamond before it reached the whole-sellers. Because of its exceedingly large inventory De Beers could easily manipulate market prices. Other mining companies and whole-sellers feared De Beers and refrained from doing business outside the De Beers value chain because De Beers yielded the power to harm its suppliers and customers. If a mining company dealt directly with whole sellers CSO would punish the breach ofloyaltyby flooding the market with diamonds that were similar to the ones produced by he guilty mining company, by implying such techniques De Beers made sure that it continued to rule the diamond value chain.

In the traditional diamond value chain the whole sellers received only 5% profit. In the De Beers value chain the whole sellers were referred to as sight holders and the company had the power to choose its customers.

According to the traditional strategy De Beers sought to gain a horizontal monopoly which means that it was only interested in dominating the raw diamonds market. The economic conditions that developed after 1980's were unfavorable for De Beers and the company's global market share reduced to 55%. This happened when new diamond mines were discovered in Russia, Australia, and Canada. The mining companies which operated these mines could not be influenced by De Beers as a result an alternative value chain evolved and whole-sellers were able to purchase raw stones outside the De Beers value chain. The top management of De Beers realized hat it was time for an implementation of a new business strategy.

The new value chain strategy adopted by De Beers on recommendation of Bain and Company, seek to create a vertical monopoly for the De Beers brand. De Beers has implemented this strategy by establishing a joint venture with French jewelry retail chain LVMH. This move will enable De Beers to gain a monopoly of the consumer market.

Part 2

The new strategy has far reaching implications where competitive advantage is concerned. The overall intention of the new strategy is to gain a stronghold in the consumer market. The new strategy will take De Beers to new levels from being a market dominator of raw unfinished diamonds; the new strategy will help De Beers become a recognized name in consumer market. The new vertical marketing strategy will create a market for the unfinished raw diamonds produced by De Beers own mines and those acquired from partner mining companies.

The new strategy emphasizes on liquidation of the enormous stockpile thereby reducing the cost of carrying the excess inventory. This move will also create a surplus of funds which will be used in creation of retail chains.

The focus of the new strategy is to create a demand of diamond jewelry through advertising. Instead of the traditional advertising strategy that created a demand for wedding rings, the new advertising strategy seeks to make diamond a suitable gift for celebrating special moments in life such as anniversaries.

As a result of its stockpiling strategy the shares of the De Beers company were not achieving sufficient growth; the liquidation of the excessive inventory will help in enhancement of the company/s brand equity which will in turn fuel the rise of De Beers share price. The new strategy also seeks to make the new value chain more consumer friendly, so according to the new strategy sight holders were specially selected with an intention to make the entire value chain more marketing oriented. In order to achieve a desired marketing impact all members were required to adhere to a set of guidelines which were referred to a De Beers LV Best Practice Principles. Thus the new strategy offers a competitive advantage in many ways.

Part 3

De Beers's entry into the consumer market is a well justified move. The economic changes that came into effect after1980's had a profound negative impact on the company's global market shares. With the emergence of alternative value chains and various governments seeking to promote their mining products, De Beers was gradually loosing out to competition. A large mining company in Canada had acquired USA's leading luxury jewelry brand and Tiffany a similar luxury jewelry brand had acquired stakes in mining companies. Therefore a new trend was emerging where producers of raw diamond were directly marketing their products to the consumers.

Under such conditions it became necessary for De Beers to establish itself in the consumer market and thereby regain the falling market share.