Debeers case study pov

Education

DeBeers Consolidated Mines Limited (DBCM) occupies a major presence in the diamond industry. Discoveries of diamonds in the late 1800s were pioneered in South Africa, in which DeBeers held a heavy monopoly over. Since then, they have cultivated an impressive track record andleadershipposition. The Central Selling Organization (CSO) controls and regulates the flow and sale of rough diamonds, and was acquired by DeBeers in the 1930s. Due to a stable economy both locally and internationally, DBCM was the world's largest producer and distributor of diamonds in late 1998.

However, just before the turn of the century, globalizationand developments in international markets had affected all industries of business. This enlarged economy attracted and enabled emerging and junior companies to increase mining competition. Demand for this area of commerce became subject to volatility due to market expansion, in addition to the fact that continued existence of such a market was solely linked to disposable consumer income. Problem: The problem at hand concerns the degree of control over rough diamonds and the industry.

With increasing market placeholder and pressures from emerging competitors and the attention brought to regulating environmental impact of diamond mines, DeBeers needed to secure their place in the industry and do it without losing significant margins of profit or resources. By 1999, DeBeers Consolidated had a notorious name and major domination of the rough diamond market, with over half of the world's rough diamonds mined by DBCM, several joint ventures with non-competitors, unparalleled knowledge and assets, and control of over 70 percent of all diamond sales worldwide.

DeBeers needed to differentiate themselves from new entrants as well as establish a secure route of long-term control over their precious commodity. Cause: As previously mentioned, the turn of the century experienced increasing globalization of the marketplace for not only diamonds, but also all other commodities. This had both positive and negative effects on business. Centralizing focus on the aspects that raised concern were the unfamiliar position of vulnerability in a market DeBeers had dominated for years, as well as the demolition of barriers to entry that existed prior to the market expansion.

Remarkably, the aging diamond industry actually produced increases in the prices and value associated with diamonds. Clever promotional and marketing campaigns were the major source of both domestic (U. S.) and international success in the sincerity andsymbolismof what a diamond represented – love. Though DeBeers essentially pioneered the entirecultureand reputation of the diamond, the legwork was already done for emerging and junior companies trying to get in on the train of success and profit that DeBeers had trekked alone on for nearly a century.

Uncertainty of demand with such an increase in possible demand location made for rising concern over the control DeBeers had been used to.

Alternative Solutions

1. The first solution is to continue with what they are doing presently. Without suffering significant losses and without any real singular threats in the realm of competition, DeBeers could exist and continue to be the dominating presence in the diamond industry with their extensive track record and what one asset that no company or amount

of time could take away from them – their name. The brand of DeBeers has been generated over years through being in business as the industry leader, through upholding the position of premier diamond resourcer both in domestic and international markets, and for coining the creation and reputation of what the diamond represents is infallible. Continuing on this road with their secured allies, assets and realm of control is more than enough to keep their company a household name.

2. The second solution is to simply repeat history. In the past, when presented with a threat like that of the discovery of mines in Siberia, DBCM dipped into their comfortable cushion of finances and bought up all inventory from Russia. This way, DeBeers kept relatively complete control over the diamonds, and swiftly eliminated any possibility of an environmental industry threat toward their future profits, resources or market share. To be straightforward, DBCM decided to follow a motto of “ rather than compete, make sure to make threats obsolete. ” Along the same lines, DeBeers also has a history of making alliances for their monopolistic enefit. In the event of mining resources in Botswana, Africa, government 15 percent share was made in DeBeers in 1969. The government licenses that DBCM had compiled over time gave them necessary access and authority to set mining firms in a country where mining availability was plentiful, but availability of entry and control like that of what DeBeers had generated, was not.
3. The third solution is to liquidate those assets or areas of the company where industry benefit was incomparable to the kind of revenue that the retail and raw diamond sectors brought in. For example, we will

turn to what the present economies of countries where DeBeers has a hand in the market, and what the future of those economies looks to be. Asia, China specifically, has a stable economy with the potential for continuous growth, and a future of prosperity where the DeBeers marketing campaigns could be highly successful. With a consumer-base that is likely to have the disposable income to spend on commodities like diamonds, it may be wiser to concentrate efforts in Asia.

On the other hand, both the present and future state of the euro is volatile. With such a great deal of uncertainty, it may be conducive in the long run to pull out of the European market, or at least in areas of the market where the future of currency is vulnerable to a decline in value. Decision: The best alternative solution would be the third, to move away from markets where the economic state is either currently or heading towards instability, and to move toward those markets where the state of the economy is growing with promise for future stability.

In comparison to the other alternatives, the third is more practical. Because uncertainty and volatility are the very aspects causing concern over the best course of action to be taken, the third solution actually takes action and implements both the opportunity for high risk and high reward. Pulling out of a market is not a move that DeBeers is used to, however, finding themselves in a sinking economy where losses could be more detrimental the longer they try to hold on could cause a major financial upset.

Similarly, acquiring inventory or means of control over resources or markets does not necessarily mean the facilitation of revenue. Though giving up

market control in one country would mean freeing up space for competitors to gain control and so forth, profit, DeBeers can focus their energy on generating revenue in growing economies, and making their presence in those financially-stable countries that much stronger.

Action Plan

Stakeholders, specifically shareholders who may have been originally attracted to invest in DeBeers due to their massive scope of control over the diamond industry, may not be welcoming to the idea of forfeiting control in some markets, however if they choose to stay on board, a year or two of focused campaigning and profit-generating in countries with growing economies can give them peace of mind. One way of keeping those control-driven shareholders on board with the idea is to share financial forecasts.

Breaking the plan down into parts where stakeholders can visually see where costs will be cut, where assets will be allocated, and where revenues will be made could facilitate trust andloyaltyto the go with this third alternative solution. Assembling a team to do just this would be the first step in assuring stakeholders that it would be in their best interest to keep with DeBeers. This team would also be responsible for detailing DBCM’s annual 10K so as to keep financial stakeholders in the know of capital-related progress.

Success would be determined by not only profit margins, but visualization of presence in these growing markets. If DeBeers has the ability to build more locations that generate community recognition and acceptance, it will show that planned focus in concentrated areas can be beneficial.

References

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