



The De Beers Diamond Story: Are Diamonds Forever?

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The international diamond industry is rich in history and intrigue, compelling to both historians and economists alike. De Beers not only controls the sale of roughly two-thirds of the world's rough (uncut) diamonds, it also lays claim to one of the advertising community's best campaign slogans of the century, "A Diamond Is Forever". Combining near monopoly distribution with a monolithic advertising slogan has elevated the De Beers brand to mythical proportions. The emergence of new diamond supplies coupled with increased public scrutiny of the diamond industry and escalating marketing expenses are challenging DeBeers' traditional market dominance of the diamond trade.

DE BEERS - THE DIAMOND COMPANY

According to "The Advertising Century", a special edition of *Advertising Age* (1999), the number one rated advertising slogan of the 20th century was De Beers' memorable "A Diamond Is Forever". Conceived by N.W. Ayer in 1948 this simple four-word proclamation has survived over 50 years of social, cultural and economic upheaval to remain a potent example of the power of persuasion. In the United States and around the world, the beneficiary of this powerful slogan and the controlling force behind the most successful and enduring cartel organization in history is one and the same - De Beers.

De Beers/Centenary controls a producer's cartel that operates as a quantity-fixing entity by setting production quotas for each member. During the early part of the twentieth century much of the diamond cartel's strength rested with De Beers' control of the South African mines. Today the source of power no longer comes from rough diamond production alone but from a sophisticated network of production, marketing, sales, and promotion arrangements all administered by De Beers. This is their story...the story of De Beers.

HISTORICAL FOUNDATIONS OF THE CARTEL

Throughout the 20th century De Beers has developed and nurtured the belief that diamonds are precious, invaluable symbols of romance. It can be argued that every attitude consumers hold today concerning diamonds exists due to the persistent efforts of De Beers.

Since the late 1800's De Beers has regulated both the industrial and gemstone diamond markets and has effectively maintained an illusion of diamond scarcity. Through monitoring of the supply of diamonds throughout the world, De Beers has introduced and maintained an unprecedented degree of price stability for a surprisingly common mineral—compressed carbon. The unique degree of price stability found in the diamond market lies within the cartel's tight control over the world's supply of diamonds. De Beers' operating strategy has been pure and simple: to restrict the number of diamonds released into the market in any given year and to perpetuate the myth that diamonds are scarce and should therefore command high prices. To this end De Beers functions much

like any other cartel. What makes the diamond cartel different from any other organization of this type is their demonstrated ability to continuously sustain the cartel's goal of price control and the cartel's astounding degree of market control. In essence, De Beers controls both the supply side and demand side of the diamond market, raising prices at their own discretion while convincing consumers to purchase and treasure the "rare" gemstones.

De Beers spends approximately \$200 million a year to promote diamonds and diamond jewelry. Because they control nearly 75% of the rough diamond market (the demand for which is derived from the demand for diamond jewelry) they are the primary beneficiaries of their marketing endeavors. Advertisements claiming "A Diamond Is Forever" are not only stimulating consumer demand they are also subtly reinforcing the immortality of De Beers. One could claim "De Beers Is Forever" as well.

DE BEERS' CONTROL OF DIAMOND PRODUCTION AND PRICES

Price control through administration of a producer's cartel

It is interesting to note that diamond prices have little or no relation to the cost of extraction (production). The same mining process or effort is just as likely to unearth gem quality stones as cheaper industrial stones. Moreover, there is no shortage of rough diamonds throughout the world. Given these industry facts, it quickly becomes apparent how De Beers has skillfully woven the illusion of scarcity by controlling the supply of diamonds and successfully implementing a marketing strategy based upon uniformly high prices and nurturing the perception of value based upon scarcity. Uniform prices are needed to maintain industry stability and to facilitate channel administration and loyalty. To achieve this marketing objective De Beers' founders knew that the cartel would need to control each step within the distribution channel and convince all members (miners, cutters, polishers, wholesalers) that a stable, smoothly functioning single-channel system was in everyone's best interest.

The table below shows average or 'normal' price markups on gemstones along the channel of distribution. A diamond that may cost \$60 to mine can end up costing a consumer \$552 at their local jewelry store. Business cycles and individual commercial practices may positively or negatively influence these figures. Gemstone quality (the 4 C's: a combination of carat weight, clarity, color and cut), which also plays a significant role in pricing, was not specifically considered; note that "average" values are cited.

Insert Table 1 here

Diamond output from De Beers' owned and operated mines constitutes only 43% of the total world value of rough diamonds. Since they are not the sole producers of rough stones in the world, De Beers has had to join forces with other major diamond producing organizations, forming the international diamond cartel. Together these producers including De Beers control approximately 75% of the world market for rough diamonds.

In a purely competitive market, each producer would seek out buyers for their output resulting in extreme price competition, a devaluation of diamonds, and a shattering of the illusion of scarcity. Rather than allow this scenario to take place, De Beers constructed an elaborate distribution scheme whereby all cartel producers are contracted to sell the majority of their entire output to a single marketing entity; the De Beers controlled Central Selling Organisation (CSO) (**Figure 1**). De Beers successfully convinced the producers that diamond supply must be regulated to maintain favorably high prices and profits. It should be noted also that De Beers and the CSO determine what these prices should be, thereby controlling the *profits* realized by member producers. Due to the United States' anti-trust laws concerning cartel arrangements that serve to monopolize a particular industry, De Beers and the CSO are prohibited from operating within the United States. They can, however, sell to American manufacturers and wholesalers from their London, U.K. headquarters.

The total rough diamond supply controlled by the CSO comes from the following sources:

- ◆ De Beers/Centenary owned mines.
- ◆ Outside suppliers contracted to the CSO (cartel members).
- ◆ Open market purchases via buying offices in Africa, Antwerp, and Tel Aviv (rough output purchases from countries that have not signed an agreement with De Beers).

De Beers also effects control over the supply of diamonds released onto the world market by adhering to a principle established by Cecil Rhodes (famous for establishing the Rhodes scholarship at Oxford) nearly a century ago: the number of diamonds brought to market in any given year should be approximately equal to the number of wedding engagements occurring in that year, equating supply with demand. To do this De Beers uses a stockpiling strategy also referred to as a buffer stock. This stockpile consists of *millions of carats* of rough diamonds valued at \$4 billion in 1999. In times of slack demand the company will increase their stockpile (withholding diamonds from consumers) to uphold prices. Should these stones be released onto the market prematurely the entire pricing strategy maintained by the CSO would collapse.

Insert Figure 1 here

Supply control through single-channel distribution

As the organizing body of the international producers cartel De Beers controls 75% of the world's rough diamond production. They also control the purchasing organization, the CSO, which determines prices. Along with the insistence on being the sole purchaser and price setter of rough stones, De Beers functions as the sole distributor of diamonds. As mentioned above, in any given year 75-80% of the world's diamonds pass through the CSO to cutters and brokers.

Diamond sales, known within the trade as "sights", are held ten times a year in London, United Kingdom; Lucerne, Switzerland; and Kimberley, South Africa. The

sales are limited to 160-200 privileged “sightholders” (primarily owners of diamond cutting factories in New York, Tel Aviv, Bombay, and Antwerp) who then sell to the rest of the diamond trade (**Figure 1**).

The sight dates for each year are formally announced during December of the prior year. Approximately a month to a month and a half before each sightdate the sightholders convey their diamond needs or preferences (quantity, quality) to the CSO which then attempts to match sightholders requests with their own needs. At the appointed time each sightholder is escorted individually into a room where each is presented with a plain brown shoebox filled with nondescript envelopes with rough diamonds. At this point no bargaining or negotiating is permitted; each sightholder simply leaves with their allotment of rough diamonds.

Dominance of the CSO: Sight rules

The economic success of all cartels depends highly upon strict adherence to the ‘rules of the cartel’ – written or unwritten. Perhaps no cartel in history has been able to extend their influence as broadly or for such an extensive period of time as the diamond cartel has. De Beers’ exercises control over the cartel through several unwritten, yet strictly administered rules concerning sightholder behavior. Clients who follow the rules are rewarded by consistent upgrades in the quality and quantity of rough stones in their boxes while those who circumvent them find progressively worse allocations and risk not being invited back to future sights. An excerpt of the CSO’s sight rules from Epstein (1982) is presented below:

Sight rules:

- 1) Sightholders may not question their quantity/quality allocation or the authority of the CSO executive in charge of making the allocation.
- 2) Sightholders may not question the price of their box.
- 3) Sightholders must take the entire box, regardless of its contents, or take nothing at all. Of the thousands of diamond classifications, only one-third to one-half are of gem quality and profitable to the trade. Since diamond mines yield a variety of colors, shapes, sizes and clarities, to enable producers to realize sustainable profits all types of stones must be passed through the marketing pipeline. To allow sightholders to pick only the most profitable or best stones would leave De Beers with thousands of unwanted diamonds. The CSO overcomes this potential problem by allocating a wide range of rough stones to sightholders.
- 4) Sightholders may not resell ***uncut*** diamonds from their box without special permission from the CSO. This rule enables the CSO to maintain monopoly control of the international diamond supply. It prevents a third party from stockpiling rough stones with the intent to jeopardize future diamond price stability.
- 5) Sightholders must provide De Beers with whatever information it needs to accurately equate demand with supply in the market. This includes the number of uncut diamonds in the process of being cut, in inventory, and previously sold as well as estimates of future sales in each category.

- 6) Sightholders may not sell their diamonds to trade members who undercut prices at the retail level.

Provided the above rules are adhered to, the CSO can literally regulate down to the carat what types and quantities of stones will be permitted to enter the market, thereby fine-tuning both diamond supply and price levels.

DIAMOND DEMAND: IMAGE MANAGEMENT AND PRICE MAINTENANCE

As articulated by Epstein (1982), "... control of the world's diamond supply is a necessary but not a sufficient condition for upholding and stabilizing the price of diamonds". When diamond supplies were rather limited diamond producers simply mined, cut, polished, and offered diamonds in traditional forms to select audiences at exclusive prices. With the discovery of vast supplies of diamonds in South Africa and later in the Siberia region of Russia, De Beers, on behalf of the international diamond industry, successfully began to *manage* consumer perceptions of the physical product to create a new image for diamonds. According to Spar (1994), De Beers' ongoing challenge has always been to sell diamonds to the masses without them being perceived as a mass-market item.

The Psychology of the Demand for Diamonds

Regardless of supply controls via stockpiling, production quotas, and sight allocations, diamond prices could not remain artificially high if consumer taste or fashions changed or if incomes suddenly plunged, as during the Great Depression. Usher (1989) noted that the advertising effects on welfare include enhancing a psychic quality of the advertised good and persuading people to act against their true interests. While De Beers could not influence economic conditions, the company could influence the consuming public to purchase diamond jewelry rather than other luxury goods. They quite successfully promoted the emotional, social, aesthetic, and cultural aspects of diamonds thus preventing price devaluations despite the existence of excess supply conditions.

Over the past 60-plus years De Beers has designed one of the most successful marketing strategies in history using a carefully orchestrated marketing program where all elements send a consistent, integrated message of romance, love, tradition, elegance, and value creation. This strategy was also acknowledged in *The Advertising Century* special edition of *Advertising Age*, which ranked the De Beer's advertising campaign as sixth best from a list of the 'Top 100 Advertising Campaigns' of the century.

In the late 1930's De Beers and their former agency, N.W. Ayer (replaced by J. Walter Thompson in 1996), undertook a campaign of subtle psychological conditioning to convince the American public to purchase diamonds. Men were encouraged to view diamonds as palpable symbols of love and devotion while women received the message that a diamond ring was an engagement necessity. The size and quality of the diamond presented signified the degree of love shared by a couple.

De Beers' promotional goal was to create a long-term sustainable impression in the public's mind that diamonds are important and necessary. To this end N.W. Ayer invented a historical background for the giving of diamonds as engagement symbols.

They established the origins of the tradition of diamonds as engagement symbols several centuries prior to its actual beginnings in the late nineteenth century in order to inculcate the attitude that, era upon era, great romances were consummated with a gift of diamonds.

Diamond advertising is unusual; until very recently brand names, price quotes, store locations, and product comparisons were distinctly absent from all messages. Instead, a mental connection was made for consumers linking diamonds with romance and love. De Beers has successfully promoted the intangible aspects of a physical product thereby “intangibilizing a tangible” (Levitt 1981) with desire, emotion, status, love and romance. “*A Diamond Is Forever*”, the focal point of De Beers’ advertising campaigns and one of the most enduring slogans of modern advertising was developed in 1948. It is meant to convey the idea of eternal romantic love as well as the notion that once received, a diamond should not be resold, thus keeping the second-hand diamond market (and price line-erosion) to a minimum.

N.W. Ayer also focused on the conspicuous consumption value of diamonds; they were upheld as symbols of a man’s economic status and lifetime success. The agency effectively used Maslow’s Hierarchy of Needs (1954) to connect diamonds with various levels of psychological needs to encourage demand. Their rationale was that diamond purchases and ownership satisfy the complex human needs of love, social belonging, self-esteem and self-actualization. Consumers were persuaded to subconsciously value diamonds far more than their actual market value.

Throughout the last five decades the promotional campaigns conducted by De Beers have been nothing less than brilliant...and very successful. Their earliest advertisements were elegant and sophisticated, characteristics which endure to this day. De Beers was also a pioneer in product placements. During the Golden Age of Hollywood many famous stars were filmed on screen and off wearing notable pieces of jewelry provided by De Beers. Perhaps the crowning achievement of De Beers’ product placement initiative is found in the film *Gentlemen Prefer Blondes* where Marilyn Monroe sings “Diamonds are a Girl’s Best Friend”, a memorable phrase which has undoubtedly been repeated countless times since the movie premiered. De Beers’ and N.W. Ayer’s vision has been realized; diamonds gradually became an integral part of romance, courtship, and marriage rituals worldwide. So ingrained in the public’s mind is the notion of presenting a diamond at these special occasions that couples who cannot afford diamonds early in their partnership choose to defer the purchase until a later time rather than forego it completely.

Despite the incredible success enjoyed by DeBeers, they currently face two daunting challenges – maintaining their status as the premier brand label for diamonds in an era marked by an expanding supply of uncut diamonds and stimulating primary consumer demand for diamonds. De Beers’ specific challenge today is to unlock people’s desire to spend more of their disposable income on diamonds, ideally by increasing marketing expenditures to levels consistent with that of other luxury goods firms. Hopefully, this will increase primary demand for diamonds to an annual growth rate of 5-6% per annum, improving both share price and return on capital employed.

THE FUTURE OF DE BEERS: PRODUCT DIFFERENTIATION THROUGH DIAMOND BRANDING

In early March 1998 De Beers announced the development of a diamond branding technique whereby high-quality diamonds sold by the CSO would be branded with a “De Beers” mark and serial number. Prior to a full-scale launch, the branding strategy underwent a nine-month pilot program or test market in the United Kingdom with a few hundred stones. According to De Beers’ director Stephen C. Lussier, who heads the company’s consumer marketing division, the branding initiative originated in De Beers’ “gem defensive research” against synthetic, fracture-filled, color enhanced and other types of artificially treated stones (Even-Zohar 1998).

The decision by De Beers to formally brand diamonds marketed through the CSO is a risky, yet crucial step necessary to maintain control of the world’s diamond market. In an era where ‘brands’ reign supreme, it may be difficult to foresee any problems with a well-designed branding program. But De Beers is both a unique company and a unique brand. By launching a corporate branding strategy De Beers may introduce the following business ‘risks’:

1) De Beers’ has spent the last 50 years building *primary* demand for generic diamonds. With the proposed branding strategy they are shifting their focus to building *selective* demand for De Beers’ branded diamonds. Despite De Beers near universal recognition as ‘The Diamond Company’, claims of uniqueness may be difficult to substantiate.

2) The association of De Beers and diamonds is fairly well established within the consuming public but it is on a superficial level. Consumers recognize the name “De Beers” but do not know much at all about the company and its methods of operation. De Beers is part of an international cartel that is not allowed to operate legally in the U.S. and their marketing operation is viewed by many as a monopoly. As De Beers increases its presence in the retail arena it is likely to draw more attention from the U.S. Justice Department regarding its anti-trust activities.

3) Lastly, it is anticipated that there will be widespread *trade* resistance to diamond branding. For various reasons, branding will give a competitive advantage to De Beers to the detriment of other channel members. The fear exists that any unbranded stones sold by the trade may not be able to compete with De Beers’ branded stones.

Why Brand Diamonds?

For De Beers to successfully maintain its branding strategy, consumers must be convinced that meaningful differences exist between a De Beers diamond and generic or other branded diamonds increasingly available. Through the centuries diamonds have been perceived as pseudo-commodity goods, differentiable only by intrinsic quality characteristics and not by producer/production efforts. By placing a “De Beers” brand on its diamonds, the corporation is taking their well-known corporate identity and transferring all psychological, financial, and emotional associations the consuming public has with it to their product. In so doing, De Beers will attempt to continue to charge premium prices for what they will claim are superior diamonds.

The importance of branding in the diamond industry has been recently underscored as the industry confronts the challenge of 'blood diamonds'; African diamonds mined in Sierra Leone, Angola and other Western African states that are used to purchase weapons and finance rebel activities. All diamond producers today are facing the specter of a broad-based consumer boycott similar to one that crippled the fur industry a decade ago. Recent articles in both *Newsweek* (Masland 2000) and *The Economist* have explicitly made an analogy to the fur industry. The article in *The Economist* refers to a photograph in the *New York Post* of a horribly maimed child in Sierra Leone, suggesting that this is the consequence of diamond buying. What is at issue here is public opinion. As the fur industry has regretfully discovered, once public opinion is no longer controlled by the firm (industry) it is very difficult to redirect the impact of negative public opinion. Thus the role of diamond branding in the future may be akin to *appellation de origin* (where the diamond came from and under what circumstances it was mined) rather than as an assurance of quality.

Branding diamonds will also allow De Beers to more efficiently allocate their multi-million dollar yearly marketing budget. From the early days of the diamond cartel, De Beers and the CSO have successfully maintained diamond prices by regulating supply and creating demand for the benefit of *all* diamond producers, cartel members and non-members alike. Today they sell 75% of the world's diamonds while their engaging and highly effective "A Diamond Is Forever" advertising campaign benefits 100% of the world's producers. At the present time approximately 25% of all diamond producers benefit from this 'free-rider' phenomenon.

Given the recent upheaval in the diamond industry, caused primarily by rough diamonds leaked onto the market by Russia and Angola, De Beers' management concluded that it is necessary for its very survival to 'protect its own.' Branding is a way to leverage the company's marketing skills and advertising investment for the sole benefit of its producing members and sightholders and to the exclusion of all non-CSO members and non-CSO marketed goods.

In his *1997 Chairman's Statement*, Nicholas Oppenheimer emphasized that the \$200 million spent yearly by De Beers to promote diamonds worldwide is "... a service, which we undertake primarily on behalf of our core producers and clients." He also noted that the newly implemented branding concept "...will give additional comfort to our clients and be a guarantee of quality and trust to the consumer" (De Beers 1997 Annual Report). Additionally, Even-Zohar (1998) writes that De Beers' managing director Gary Ralfe warned the diamond trade in early 1998 that:

...in the future De Beers will be driven to seeking to ensure that what money it feels it can afford to spend on the promotion of diamond jewelry is focused towards those diamonds which come out of its own mines and those of its partners in Africa or pass through the CSO, rather than giving a free ride in its promotion to those diamonds which remain outside the CSO system.

From an economic perspective, diamond branding will enable De Beers and the CSO to evolve (eventually) from a dominant player in an oligopoly market structure selling a commodity product to a firm offering a unique product in a competitive marketplace. Firms wishing to maintain their dominance in a dynamic market must be

concerned with the demand for their product. Diamonds will still be available from non-cartel members but they won't carry the "De Beers" brand name and guarantee. Therefore, by virtue of their commanding market share, De Beers will be able to operate as a quasi-monopoly, albeit not a perfect monopoly. And as a monopoly, De Beers will be able to strictly regulate the supply of their De Beers' branded stones. While the market may have access to nearly limitless quantities of generic or unbranded diamonds, De Beers can withhold their *brand name* diamonds to maintain an illusion of scarcity.

Another benefit of diamond branding is the judicious use of the well-known "De Beers" name and its associated equity at the corporate level. As George F. H. Burne, Managing Director of De Beers Canada explains "We spend \$200 million a year promoting diamonds basically for other people. Our name is quite well known and we wondered how we could use it better" (Voss 1998). The name "De Beers" has been synonymous with diamonds since the 1930's and use of the De Beers name in promotions has, up to this point, been subtle but pervasive. Their corporate image as a diamond mining entity is well established, yet this is the extent of the knowledge consumers have concerning the company. Branding diamonds with the corporate name will push De Beers from the background to the forefront and acquaint consumers with this marketing powerhouse.

An additional goal of branding is to take advantage of the equity, or added value attributable to branded products. Most brand-marketing consultants would concur that a brand generates and maintains consumer-based equity with strong, favorable, and unique brand associations, in that order. Uniqueness is irrelevant if the association is unfavorable and a favorable impression is meaningless if the association is weak. De Beers does have a very strong association between the corporate name and diamonds and at the present time the association seems to be favorable. However, for consumers to continue to view De Beers favorably, the company may need to reach an agreement regarding their "monopoly" status with the U.S. Justice Department and build their reputation as a seller of clean, rather than blood, diamonds by continuing to issue certificates of origin.

De Beers' immediate marketing challenge lies in establishing unique brand associations. As De Beers recently announced, they must distinguish their diamonds from non-branded diamonds and persuade consumers to pay more for the De Beers brand name. If their branding strategy is executed properly, consumers will purchase a brand-name De Beers diamond and will agree to pay premium prices to own the branded product

To summarize, the key issue regarding **why** De Beers is undertaking branding appears to be one of *control*. More specifically *control* of their marketing dollars to minimize the 'free rider' phenomenon, *control* of the supply of branded stones offered to the market, and *control* of consumer perceptions of their corporate identity and product quality. Interestingly, a goal of control fits perfectly with the cartel's historical methods of operation, even though controlling the supply of rough stones is no longer a feasible option.

Implementing and Monitoring the Branding Initiative

The United Kingdom pilot project (De Beers' terminology for the test market) commenced in August 1998 and was scheduled to last for nine months to a year. The branding project was a spin-off from earlier research into ways to protect consumers from synthetic stones deceptively represented as genuine diamonds. Beyond this defensive tactic the strategic goals of the branding initiative were: 1) to increase consumer confidence in diamond quality and origin, 2) test the strength of the De Beers name, and 3) see if the De Beers' name carried any value or equity.

Boodle & Dunthorne, an upscale jeweler in the U.K. was the exclusive retailer of "The De Beers Diamond Marque" during the test market. A few hundred branded stones, sized 1/3rd carat and larger, were offered to consumers at their stores in Manchester, Chester, and Liverpool. A De Beers research team developed the proprietary technology, which is under patent registration review worldwide. The process involves inscribing individual security or registration numbers and the De Beers name on the diamond table (the large, flat surface that is always visible, even when set in jewelry). The microscopic inscriptions are invisible both to the naked eye and a jeweler's loupe and can only be viewed with the aid of a powerful microscope or with the special reader device developed and patented by De Beers. The inscription can be removed through polishing.

It is important to note that the branding process will not be limited to diamonds cut by De Beers or diamonds from De Beers-owned mines; any fine quality (exact quality specifications are not available at this time) diamond distributed through the CSO is eligible to be branded but only sightholders will be allowed to submit diamonds for branding. According to Stephen Lussier, the brand does not signify that the diamond was owned by De Beers. Rather, the brand is a guarantee of quality and authenticity backed by De Beers and their reputation of integrity, much like the Good Housekeeping Seal of Approval.

Initially, all qualifying and branding will be done by De Beers' research laboratory in London. Sightholders will send *cut* and *polished* stones to London where the stones will be inscribed then sent back. Fees for the inexpensive inscription process along with those for handling, shipping, and administrative support have not yet been determined but may be included in the price of sight boxes discussed earlier.

In his Chairman's Statement in the *1998 De Beers Annual Report*, Nicholas Oppenheimer remarked that results from the test market were encouraging and supported the belief that the De Beers' name and reputation enhances the value of diamond jewelry.

CONCLUSION

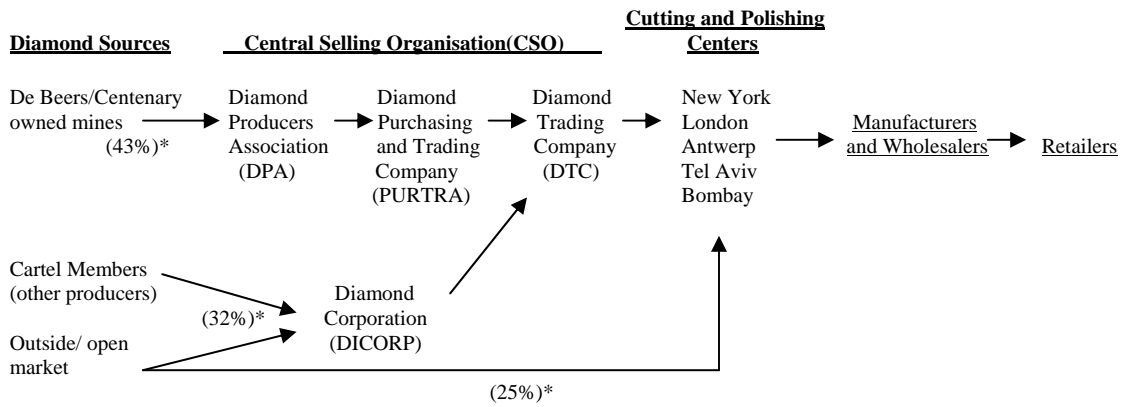
Today increased global competition is effecting change in all industries; even the vaunted diamond cartel has been forced to respond to market forces. De Beers is facing its greatest challenge ever as the cost of maintaining the illusion of scarcity exceeds its financial reserves and public sentiment towards the diamond industry turns unfavorable with claims of "blood diamonds". De Beers' recently announced marketing strategy is clearly more market responsive leaving De Beers with much less control over the supply of diamonds and distribution channels than at any point during the company's 100 year history. While De Beers is fully confident of its future as a major participant in the diamond industry, only time will tell if De Beers' 'Diamonds are Forever'.

Table 1
Markups on Gemstones (1985)

<u>Stage of distribution</u>	<u>Markup (%)</u>	<u>Average value of 0.5 carat gem (\$/carat)</u>
Cost of mining		\$ 60
Mine sales	67	\$100
Dealers of rough gems	20	\$120
Cutting units	100	\$240
Wholesale dealers	15	\$276
Retail	100	\$552

Source: G. Ariovich, "The Economics of Diamond Price Movements," *Managerial and Decision Sciences* 6, no. 4 (1985): 236.

Figure 1
Rough Diamond Distribution



* World value of rough diamond production

Sources:

G. Ariovich, "The Economics of Diamond Price Movements," *Managerial and Decision Sciences* 6, no. 4 (1985): 237.

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