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Diamonds Under Pressure

LESSONS FROM A CENTURY OF MARKET FLUCTUATIONS, AND STRATEGIES FOR TOMORROW

Over the past century, the diamond industry has demonstrated remarkable resilience, adapting to economic shifts with the same precision applied to cutting these fine gems. Today, however, the industry faces a convergence of challenges — from geopolitical tensions, to the advent of LGDs, and to changing consumer preferences, the problems are mounting. **Anjana Vaswani** deep dives into the subject, gleaning lessons from the past, understanding the present, and endeavouring to chart a course for the future

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The diamond industry's journey over the past century has been shaped by its ability to weather economic storms and adapt to the changing landscapes. From the economic devastation of the 1930s to the speculative bubbles that arose in various periods, such as in the 1970s and 1980s, the industry has consistently found ways to maintain its value and relevance.

STORYTELLING AS A LIFELINE: THE 1930S, AND BEYOND

The Great Depression of the 1930s, which followed the Wall Street crash and devastated many sectors, ultimately led to one of the most successful marketing campaigns in history. De Beers's "A Diamond is Forever" campaign not only helped the industry weather the economic storm, but also firmly established diamonds as enduring symbols of love and commitment. By controlling the supply and launching this iconic marketing initiative, De Beers was able to maintain the perceived value of diamonds even during times of extreme economic hardship.

But, as Priyal Shankar, SJW Shivam Jewels, Mumbai, points out, "Every product can be sold on the strength of a story, yet, as an industry, we have been neglecting this. We have been through crises before, and during those times, the industry has always become more focused on liquidity — making sure our payables are under control, and maintaining a healthy sales cycle. That's how we have managed to get through tough periods."

But, as Shankar points out, "This time, though, things are different. We are coming out of an 'unnatural' year due to COVID-19 — unnatural in terms of the superlative revenues we saw. Those high revenues gave many of us a sense of financial freedom, but now, as we face a downturn so soon after that boom, it is hard for some to accept. However, on the positive side, the situation has also led to a growing realization that, as an industry, we need to focus on healthy, sustainable growth."

Shankar believes the industry needs to address "the lack of consistent marketing and storytelling to drive demand". He says: "I look at other industries, like luxury cars and FMCG brands, where continuous promotion keeps the demand steady, or even growing. Even something as basic as milk has well-executed marketing campaigns."

PRANAY NARVEKAR
Partner, Pharos Beam Consulting, Mumbai

Most retail ads today are centred on price tags and discounts rather than on the intrinsic value of diamonds. However, there are some positive developments, such as the recent collaboration between De Beers and Signet Jewelers. This partnership aims to promote the unique attributes of natural diamonds to a new generation of consumers in the US, emphasizing their rarity and timelessness.

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De Beers Vintage Ad

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It is clear that consistent and strategic marketing is not just an option, but a necessity to maintain demand in any industry. Pranay Narvekar, Partner at Pharos Beam Consulting, Mumbai, a consulting company focussed on the diamond industry, which recently took over the publishing of the Tacy Diamond Pipeline, could not agree more. "One of the biggest challenges today is the lack of effective marketing for natural diamonds. The total budget for the entire diamond industry is less than what Apple spends on marketing its products," says Narvekar.

"Over the past 15 years, the industry has stagnated because the overall demand did not grow, and all companies have been doing is fight for market share, often by undercutting prices. This infighting is unsustainable. The industry cannot continue to depend on De Beers, for instance, to shoulder the entire burden of marketing, but those in the middle of the supply chain do not have the margins to contribute significantly. Without a unified marketing strategy, the industry risks losing its footing in an increasingly competitive market," he adds.

Retailers, too, need to shift their focus. "Most retail ads today are centred on price tags and discounts, rather than on the intrinsic value of diamonds. However, there are some positive developments, such as the recent collaboration between De Beers and Signet Jewelers. This partnership aims to promote the unique attributes of natural diamonds to a new generation of consumers in the US, emphasizing their rarity and timelessness. Through comprehensive marketing campaigns and training initiatives for sales associates, this collaboration seeks to reinforce the value proposition of natural diamonds amidst growing competition from lab-grown alternatives," Narvekar declares.

DHEERAJ MENDA
Studio Rêves, Mumbai

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NAVIGATING VOLATILITY: LESSONS FROM THE 1970S AND 1980S

The 1970s brought new challenges that underscored the interconnectedness of global markets. Narvekar notes, "The 1970s were marked by inflation-related challenges that led to speculative bubbles, where the price of a 1-carat diamond soared to $40,000 — a level it has not even reached today." As prices soared, the eventual burst of the speculative bubble reinforced the need for stability, and the dangers of allowing market prices to be driven by anything other than true consumer demand.

The 1980s saw the development of Japan's economic bubble. Nilesh Chhabria, Finestar Jewellery & Diamonds, Mumbai, reflects, "In the 1990s, when Japan's economy faltered and diamond prices began to decline, the industry made a crucial mistake by turning its attention away from the market. As an industry, we reduced our focus on Japan just when it needed sustained engagement the most, leading to a prolonged period of stagnation.

"Unfortunately, I see a similar pattern emerging in China and other Asian countries today. Abandoning a market simply because it is underperforming is a significant error. The recent announcement that De Beers has planned a $8-$10 million campaign to woo Chinese buyers is heartening. We must continue to invest in marketing and advertising in regions such as China and Hong Kong, as these efforts are essential for maintaining consumer sentiment."

1990S: THE POWER OF EDUCATION, EMOTION, AND TRANSPARENCY

The 1990s brought with them the challenge of synthetic diamonds. Industry veteran, Rajesh R Shah, Partner, Venus Jewel, Mumbai, says, "The diamond industry responded by shifting consumer perceptions, and it did so by emphasizing the unique qualities of natural diamonds — such as their rarity, the billions of years they take to form, and their emotional and symbolic value."

"DeBeers, through its marketing arm, DTC, played a crucial role in promoting these attributes, and reinforcing the association between natural diamonds and life's most significant moments," he adds. Reflecting on the lessons learned during this period, Shah believes, "It highlighted the importance of education and transparency when it comes to natural diamonds, which help consumers make informed decisions. Additionally, differentiating natural diamonds by highlighting their unique origins, ethical sourcing

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As the industry navigates these complexities, the enduring allure of diamonds — their beauty, rarity, and emotional significance — remains its greatest asset. By reinforcing these qualities, while addressing modern concerns and preferences, diamonds can continue to capture hearts and the public imagination for generations to come.

(through initiatives such as the Kimberley Process), and enhancing their brand value through storytelling have proven effective. These approaches are still relevant today, as they help to maintain the preference of the market for natural diamonds."

Shankar adds: "Today, people are more relationship-oriented, and emotional value is becoming more important. Yet, diamonds are not being promoted as the product of choice in this context. As a result, the share of the wallet that people used to allocate to diamonds and jewellery is shrinking, and there is untapped opportunity there that we really should leverage".

GLOBAL CRISIS, LOCAL STRATEGIES: LESSONS FROM 2008 AND 2009

Then there was the 2008 financial crisis. This sent shockwaves through the global economy, causing diamond prices to plummet by nearly 20%. Unlike previous downturns, this crisis was characterized by its global reach, and the interconnectedness of modern financial systems. While the diamond industry's response mirrored strategies used in past crises, the scale and complexity of the situation demanded a more coordinated approach.

Dheeraj Menda, Studio Rêves, Mumbai, reflects on the industry's reaction: "In 2008, during the crash in America, which had a ripple effect across India too, dealers had their way of tackling the situation. Some stopped imports, took a break, and even shut down factories. This strategy of reducing supply has been consistent over time."

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Offering insights into the industry's adaptability, Narvekar adds, "Historically, the industry has managed cyclical downturns through various strategies. During the 2008-2009 crisis, the industry collectively decided to halt supplies temporarily, and we saw similar actions being taken in 2023. But these measures are often reactive, aimed at collective solutions, rather than addressing the root causes."

Reflecting on this period, Narvekar highlights that 2008-2009 also saw preferential treatment to jewellery imports removed, particularly in the US market. "In response, the Indian diamond and jewellery industry strategically shifted its focus towards exporting semi-mounted pieces and the centre stones separately," he says, adding, "The diamond industry's midstream has proven to be very sharp and resourceful."

The late 2000s also saw issues with Zimbabwean diamonds, when reports of human rights abuses became widespread. "The controversy led to a global outcry, and in 2009, the Kimberley Process Certification Scheme (KPCS) temporarily banned the sale of diamonds from Zimbabwe's Marange fields. The US tried to ban Zimbabwe diamonds, but the enforcement proved difficult, and many diamonds continued to reach the market through various channels. Some of these diamonds were distinguishable by a greenish tint, but many were not – and this was just one of the reasons why it was extremely challenging to enforce sanctions," Narvekar says.

RECENT CHALLENGES

SANCTIONS, AND THE RISE OF LAB-GROWN DIAMONDS

The situation in Russia today could mirror some of these challenges. But, as Narvekar points out, "Sanctions are often difficult to enforce effectively, and the only real beneficiaries are people who try to bust sanctions. History shows that sanctions, like those on Zimbabwe, often fail to achieve their intended outcomes, and the logistics of segregating diamonds can become prohibitively expensive. For example, we estimated that segregating Zimbabwean diamonds through the supply chain would cost around $1 billion — a cost that neither the industry nor consumers were willing to bear."

Aside from the sanctions, however, the diamond industry faces a confluence of challenges today. A Boston Consulting Group report commissioned by De Beers in May 2024 provides valuable insights. It notes that diamond production peaked around 160 million carats (Mct) in 2006, with production levels exceeding 150 Mct again in 2017, but falling to 129 Mct by 2023. This decline in production, coupled with

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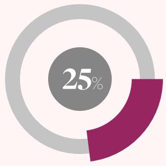
- This decline in production, coupled with the impact of sanctions on Russian diamonds, and the growing market for lab-grown diamonds, is reshaping the industry landscape.
- Entry of LGDs into the market has led to reduced demand for natural diamonds, especially in the US and China
- LGDs are becoming more associated with fashion jewellery, while natural diamonds retain their value in fine jewellery, particularly in bridal segments.



of the world's diamond consumption came from Asian markets, traditionally but this has decreased, impacted by factors such as China's economic slowdown, sanctions on Russian diamonds, and the growing presence of LGDs.

Despite this decline in demand, the volume of rough diamonds mined and processed by manufacturers has not been adjusted accordingly, resulting in an oversupply of polished diamonds.

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diamonds, particularly those bigger than 0.5 carats, following the Russia-Ukraine conflict. These sanctions are expected to reduce the supply, and, potentially, impact prices. Furthermore, the report notes that the entry of LGDs into the market has led to reduced demand for natural diamonds, especially in the US and China. However, the market is showing signs of differentiation, with LGDs becoming more associated with fashion jewellery, while natural diamonds retain their value in fine jewellery, particularly in bridal segments.

Shah is also confident that even the deteriorating market will eventually recover. "However, the industry must diversify its consumer base, and explore emerging markets," he says, emphasizing the importance of adapting strategies to counter new realities. "Many nations have import duties and lumpsum taxes, which should be reviewed," he adds, highlighting that policymakers should lend support to the sector.

"In a landscape increasingly crowded with synthetic alternatives, it is essential that we educate consumers about the unique qualities of natural diamonds — their rarity, ethical sourcing, and the billions of years it takes for them to form. This approach not only sets natural diamonds apart, but also bolsters their inherent value," Shah adds.

Chhabria also shares his perspective on the current market dynamics: "Regarding the rise of LGDs and shifting consumption patterns, the global landscape has indeed changed. Traditionally, about 25% of the world's diamond consumption came from Asian markets, but this has decreased, impacted by factors such as China's economic slowdown, sanctions on Russian diamonds, and the growing presence of LGDs. Despite this decline in demand, the volume of rough diamonds mined and processed by manufacturers has not been adjusted accordingly, resulting in an oversupply of polished diamonds. This imbalance often leads to a reduction in prices across the industry, which further exacerbates the problem in a vicious cycle."

Chhabria continues, "What we should be doing is regulating the supply chain more effectively, ensuring that mining companies adjust their output, and manufacturers align their production with real consumption patterns. This approach will help maintain a healthy market and stable prices. I'm encouraged to see that some manufacturers are already recognizing this need, and have begun to scale back production in response to current market conditions. Recently, we have observed a positive trend, where prices are starting to rise again due to limited stock and more controlled production. These steps are crucial for creating a sustainable and resilient diamond industry for the future."

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NILESH CHHABRIA
Finestar Jewellery & Diamonds, Mumbai

In the 1990s, when Japan's economy faltered and diamond prices began to decline, the industry made a crucial mistake by turning its attention away from the market. Unfortunately, I see a similar pattern emerging in China and other Asian countries today. Abandoning a market simply because it is underperforming is a significant error. The recent announcement that De Beers has planned a $8-$10 million campaign to woo Chinese buyers is heartening. We must continue to invest in marketing and advertising in regions such as China and Hong Kong, as these efforts are essential for maintaining consumer sentiment.

TIME FOR A NEW STORY

Innovation and technology are becoming increasingly central to the evolution of the diamond industry. Shah emphasizes the importance of leveraging technology to create a wow-factor and jaw-dropping shopping experiences, both online and offline. It includes embracing digital transformation, enhancing transparency and traceability through blockchain, and focusing on customization and personalization to meet the demands of younger consumers. For Shah, the integration of technology is not just about keeping pace with the times; it is about setting new standards for quality, transparency, and customer experience.

Shankar reiterates the necessity for industry players to support initiatives such as those of De Beers and the Natural Diamond Council, which actively promote natural diamonds. He believes that shaping consumer perception is crucial, particularly in a market increasingly influenced by synthetic alternatives. "It is essential that we educate consumers about the unique qualities of natural diamonds — their rarity, ethical sourcing, and the billions of years it takes for them to form. This approach not only sets natural diamonds apart, but also bolsters their inherent value."

NAVIGATING CHALLENGES WITH OPTIMISM

Ultimately, Shah believes that the industry is better equipped now, with more tools and strategies at its disposal, to manage challenges, compared to previous decades. "Maintaining a balance between traditional craftsmanship and modern innovation is key," he notes. "We've invested

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RAJESH SHAH
Partner, Venus Jewel

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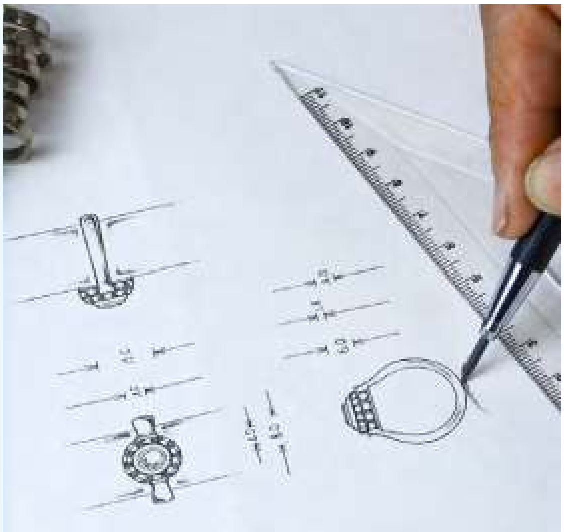

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in training artisans, while incorporating advanced technologies, ensuring that we meet contemporary consumer demands without compromising our heritage."

As the industry navigates these complexities, the enduring allure of diamonds — their beauty, rarity, and emotional significance — remains its greatest asset. By reinforcing these qualities, while addressing modern concerns and preferences, diamonds can continue to capture hearts and the public imagination for generations to come.

As the industry faces these pressures, it may help to remember that diamonds are forged under intense conditions. Similarly, the future of the industry may be shaped by the challenges of today, emerging even more brilliant and enduring. The next century of diamond trading holds the promise of new opportunities to write the next chapter in the storied history of these remarkable gems.