

Diamond Industry:
Practical Application and Personal Adornment

Thaddeus Smith, GG

Business 101, Section 15

Professor Frank Mioduszewski

July 14, 2007

The Diamond Industry:

Practical Application and Personal Adornment

Over the past 50 years, significant changes in technology and business practices have severely affected retailers and wholesalers in the diamond jewelry trade and have created new opportunities for some industrial organizations. Through the collective effort of some scientists, annual production levels of synthetic diamonds grown in laboratory conditions have currently surpassed the annual mining of natural diamonds. To understand the current diamond industry, it is necessary to address the following questions.

1. What businesses and products require the application of diamonds?
2. Who is being affected by the technological changes in the diamond industry?
3. What business practices in the diamond industry have affected retailers and wholesalers?
4. What ethical factors influence the mining and selling of natural diamonds?

The practical application and the personal adornment of diamonds focus on these four questions.

What businesses and products require the application of diamonds?

Historically, industrial organizations such as manufacturing companies and mining companies relied heavily upon 80% of the diamonds that were mined from the ground for their drilling, cutting, grinding, and polishing tools and the remaining 20% were cut, polished and set into jewelry. Today, little or none of the mined diamonds are used industrially because scientific experimentation has made available synthetic diamonds with more precise chemical, physical and optical properties that meet the specifications required by some

high-tech industries. The U.S. Department of Interior (2004) identified the United States “as one of the worlds leading producers of synthetic industrial diamond, with an output of 252 million carats by only two companies: Diamond Innovations, Worthington, Ohio and Mypodiamond, Inc., Smithfield, PA.” One of the most desirable properties of diamonds is their extreme hardness (resistance to scratching); in fact diamonds are the hardest of all known minerals. That characteristic is the primary reason that diamonds have remained a staple item in the jewelry business.

Wholesale jewelry suppliers and retail jewelers derive a significant portion of their revenue from the diamond industry. Because of a 500 year old tradition, diamonds are the primary stones in engagement rings and they also serve as complementary side stones in other jewelry designs such as earrings, pendants, bracelets, and watches. According to a Find Article “industry estimates the United States now accounts for some 57 percent of the \$48 billion in total world retail diamonds sales.” My aunt and uncle used to be in the retail jewelry business and the diamonds sold in their store accounted for about 50% of their annual sales volume. The average wholesale price per carat for their natural jewelry grade diamonds ranged from about \$ 500 per carat for smaller stones (less than .20 carat) to about \$ 6,000 per carat for larger stones (1.00 carat and larger). After the markup of the jewelers cost to cover the overhead of doing business, consumers pay the highest price for the diamonds. In the past, there were healthy profit margins on the sale of diamonds; however with the changes in technology and business practices many diamond merchants have suffered considerable losses.

Who is being affected by the technological
changes in the diamond industry?

The profit margins of engagement diamonds and other diamonds have significantly decreased for most retail jewelers within the last 25 years because the marketplace has become very competitive from major discounters, like the television shopping channels – QVC (Quality Value, Convenience) and The Home Shopping Channel, from warehouse discounters like Sam’s Club and Costco, and from e-commerce companies like Blue Nile and Ross Simons. With just a few clicks of a mouse button shoppers can design their own diamond rings and compare prices with several companies from the comfort and the security of their home, office or while connected to the internet through a Blackberry device or the recently available Apple iPhone. With home shopping, many people have become accustomed to doing their shopping with the aid of the television, a phone and their credit card. That technological convenience has reduced the number of retail jewelers and wholesale suppliers because their heavy investment in physical store locations raises their cost of doing business and necessitates them charging more for their merchandise. As more shopping options become available with e-commerce and TV shopping medium, more consumers may change their traditional buying habits too. It would seem likely that the mining companies of diamonds would remain untouched by technology changes, but that was not the case with the Debeers Group.

According to the Debeers Group, they originally controlled “90% of the world’s supply of diamonds at the time the company was founded in 1888, but since the 20th century their share has been sliding downward to its current level of 40%.” Debeers Group blames their significant loss of their market share on the emergence of a world economy and political problems in some nations, but I support the theory that with readily available synthetic diamonds most industrial organizations no longer have to depend upon them as their original

source. The U.S. Department of Interior (2004) stated that, the prices for most natural industrial grade diamonds ranges “from \$7.00 to \$10.00 per carat, compared to \$1.50 to \$3.50 per carat for most synthetic industrial grade diamonds.” With such a substantial savings from buying synthetic diamonds and their benefit of having a closer tolerance for more specific industrial applications, it is evident why the Debeers Group have lost over half of their market share. When jewelry grade synthetic diamonds become more attractive to consumers, Debeers is likely to see more eroding of their portion of the market unless they develop a new strategy for increasing their earnings. Beyond the changes in technology, changes in business practices are impacting the future for some businesses which depend upon diamonds for a major source of their revenue.

What business practices in the diamond industry

have affected retailers and wholesalers?

In a 2003 issue of a jeweler’s magazine, there was an alarming article about the number of retail jewelers and wholesale jewelers that discontinued their businesses from 1973 to 2003. Over that 30 years period, 25% of the retail jewelry stores closed or were bought by their competition and 20% of the wholesale jewelry suppliers closed or were absorbed by their competition. Business closings and consolidations are trends that are happening much more rapidly because of major players in other markets with companies like Wal-Mart, Target, Home Depot, and Lowes leading the way. Bates (2007) stated that “Berkshire Hathaway, the investment arm of billionaire Warren Buffett, will create one of the largest jewelry suppliers in the United States” (p. 38). About 12 major wholesale suppliers are to be absorbed into the new company to be known as Richline. Besides consolidation, a new force

has entered the United States known as the DeBeers Group, one of the principal miners of diamonds on a worldwide scale.

According to Gitman and McDaniel “during the 1980s and 1990s, the U.S. government actively promoted deregulation; the removal of rules and regulations governing business competition” (pp. 103-104). That major change helped the DeBeers Group become eligible to begin opening retail jewelry stores in the United States and in the process they have become the direct competition with many of the stores that depend upon them for their diamond supplies. Bates (2007) stated in his recent article that DeBeers plans to open stores this year in “Houston, Washington D.C., San Francisco, Chicago, Miami, and Dallas” (p. 46). That creates a serious conflict of interest for DeBeers and eventually the presence of their stores in nearly every major metropolitan area in the United States are likely to seriously impact the profit margins for many retail jewelers and gradually squeeze out many of the wholesale diamonds suppliers too. Penetration pricing during the major holidays is another business practice that has affected some retail jewelers and wholesalers.

Gitman and McDaniel cite two advantages of penetration pricing; one “the low initial price may induce consumers to switch brands or companies and two it may discourage competitors from entering the market” (pp. 412-413). For example, during the major holiday seasons LeRoy’s Jewelers, (a regional retail store under the aegis of Sterling Jewelers Inc. and their parent company Signet Group) usually advertises one carat total weight diamond tennis bracelets at below market prices. An economist might call that type of pricing a loss leader. The strategy is to lure the customers into LeRoy’s stores for their low prices and then make up the loss in margins of profit by selling additional items at regular prices and through selling their credit terms with high interest rates and late payment fees. An early form of that

strategy was perfected many years ago by the Kodak Co. with the sale of their disk cameras and rotating disk film. Kodak earned very little from the sale of the cameras (a loss leader), but they earned a substantial amount of money from the sale of the disk film (the very profitable trail item) that only fit their cameras. In a way, those strategies are a form of deception and could be interpreted as an unethical way of conducting a business, but on a more humanitarian level, certain diamond mining practices have been in the news in the last decade, which have changed the buying habits of some consumers.

What ethical factors influence the mining and
selling of natural diamonds?

Oppressive nations in Africa like Angola, Sierra Leone and the Democratic Republic of the Congo force people to mine diamonds to receive food for their sustenance, however they receive nothing else for their servitude. The conditions the workers must endure to provide food for themselves and for their families are intolerable and yet they continue because of no other choices except starvation. In the cutting and polishing factories of Surat a city north of Bombay, India where “seventy percent of the world’s production occurs, nearly a million people are employed by the diamond industry and many sleep on the factory floor” as stated by (A Trail of Diamonds, 2005, p. 87). With the cutting center in Surat responsible for the majority the world’s diamond cutting, it is very likely that most people buying a diamond in today’s marketplace share an indirect responsibility for causing the continuation of such inhumane conditions.

Natural diamonds are probably not the only goods that are purchased today where there is such a high sacrifice of human effort involved in the mining and production process, however collectively; consumers have the moral opportunity to make a difference in the lives

of many unfortunate people by selecting something else to satisfy their desires or choosing synthetic diamonds to satisfy their jewelry buying appetite.

References

A trail of diamonds. (2005). *Foreign Policy*, (150), 84-89. Retrieved June 22, 2007, from Expanded Academic Search Complete Ohiolink database (A17981475).

Bates, R. (2007). Warren Buffet makes jewelry play. *Jeweler's Circular Keystone*, 178 (7), 38.

Bates, R. (2007). DeBeers to open more U.S. stores. *Jeweler's Circular Keystone*, 178 (7), 46.

Gitman, L. J., & McDaniel, C. (2006). *The Future of Business* (3rd ed.). Mason: Thomas Higher Education.

<http://www.debeersgroup.com/debeersweb>

http://findarticles.com/p/articles/mi_hb3015/is_200306/ai_n7661520

U. S. Department of Interior. (2004). *Industrial Diamond*. Washington DC: U.S. Government Printing Office.

<http://minerals.usgs.gov/minerals/pubs/commodity/diamond/diamonyb04.pdf>