

# THE DIAMOND INSIGHT REPORT

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*In Brief*

*2015*

DE BEERS  
GROUP OF COMPANIES



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# FOREWORD



*The launch of The Diamond Insight Report 2014 opened up the diamond industry to a wider audience and identified trends and opportunities for the industry to fulfil its growth potential.*

One of the areas highlighted in last year's report was how the diamond sector is influenced by seasonal demand patterns and industry cycles. And, to some extent, this effect can be seen when comparing performance in 2014 with what we have seen so far in 2015.

Strong consumer sales of diamond jewellery over the end of year holiday season in 2013 led to strong pipeline restocking demand at the start of 2014 and the positive demand environment continued through most of the year.

Consumer demand reached a record high, rough diamond demand was strong and this set the industry up for a positive year.

However, with consumer demand for diamond jewellery at the end of 2014 being a little softer than anticipated owing to unfavourable currency movements and a slowdown in emerging market growth, many industry participants began 2015 with more inventory than they planned. This led to a period of 'indigestion' in the diamond value chain and as a result we expect 2015 as a whole to be a more challenging year.

But it is undeniable that the fundamentals of the sector remain attractive. Once the current stocks have worked through the system, the consumer's ongoing love affair with diamonds will continue to provide a strong growth opportunity for the sector.

The history of consumer demand for diamond jewellery in India is an excellent illustration of this. In this year's short edition, the report takes a closer look at this important diamond consumer market for the industry. India's diamond consumer market has achieved almost uninterrupted growth over the last 20 years and the rapidly increasing size of its middle class points to continued growth opportunities in the years to come.

We hope you enjoy reading these latest insights into the world of diamonds and we look forward to publishing another full report, covering the entire value chain, in 2016.

**PHILIPPE MELLIER**  
CEO, DE BEERS GROUP

# EXECUTIVE SUMMARY

*This year's report provides an overview of the diamond industry's performance in 2014. In the first section, it looks at global consumer demand and the trends behind it, while the second section addresses the rough diamond pipeline and new projects.*

'In Focus', the third section of the report, takes a detailed look at India's consumer market and what have been the drivers of its extraordinary transformation in the last two decades. It also looks forward to the factors that make this country one of the main growth opportunities for diamonds in future.

The report draws on The De Beers Group of Companies' extensive proprietary data and insight as well as other industry sources.

## **GLOBAL DIAMOND JEWELLERY SALES INCREASED THREE PER CENT IN 2014, EXCEEDING US\$80 BILLION FOR THE FIRST TIME**

In local currency terms, there was growth in each of the top five diamond markets, which account for 75 per cent of global demand. Growth would have been almost five per cent had it not been for the strengthening of the US dollar against the currencies of several of the major diamond consumer markets in the latter part of 2014.

Despite the US being the most mature diamond jewellery country, its seven per cent growth was the strongest of any of the main regions. Growth (in local currency) was also seen in developing markets, with six per cent growth in China and three per cent in India.

Last year's report highlighted three key trends that are shaping the future landscape of the diamond retail sector – and these have continued.

First, consumers across the world are looking increasingly to branded diamond jewellery for product differentiation, distinctive design, authenticity and quality. This is more prevalent in the US – where four in five retailers stock brands – but developing markets are also seeing

increased sales of branded jewellery as consumers seek the greater reassurance offered by brands.

Second, the number of jewellery shops in developing Asian markets increased again last year (albeit at a slower rate), while the total number in more mature markets – especially the US – saw an overall reduction.

Third, online sales in both developed and developing markets continued to rise. While online sales in India, at less than one per cent of total sales, lag behind those in the US (at 13 per cent of total sales), increasing online penetration in developing markets is likely to result in the internet becoming a more important factor in researching diamond jewellery purchases.

Last year's Diamond Insight Report also highlighted the competitive position of diamond jewellery against other luxury products, with categories such as electronics and fashion spend gaining share of advertising voice. However, in 2014 growth in jewellery advertising spend started to reach the levels seen in the fashion industry. While it's too early to say if this trend will continue, it's a positive development that needs to be maintained if the diamond sector is to compete more effectively with other luxury products.

## EXECUTIVE SUMMARY

### CONTINUED

In 2015, while there may be growth in local currency in some markets, the continued strengthening of the US dollar against all major currencies, coupled with a slowdown in economic growth in China, is likely to lead to global diamond jewellery demand for the full year being relatively flat compared with 2014 levels.

### ROUGH DIAMOND SALES INCREASED 12 PER CENT IN 2014 TO OVER US\$20 BILLION

De Beers and ALROSA remained the largest sellers of rough diamonds in 2014, accounting for 56 per cent of global sales by value between them.

In volume terms, total rough diamond production actually decreased by three per cent to an estimated 142 million carats in 2014. The total production value was more than US\$19 billion, which represented an increase of almost six per cent on 2013.

De Beers and ALROSA remained the largest producers by both volume and value. Accordingly, Russia and Botswana remained the two largest producing countries by value.

While the development of new greenfield mines has been limited in recent years, three new mines did begin production last year, with a further mine being commissioned earlier this year. In overall terms, these new mines do not contribute significantly to global production.

Also, the project pipeline remains sparse, with only two large-scale projects currently in development – both of which are expected to begin production in 2016.

The result of these new mines coming online will be a moderate increase in diamond supply in the next few years. But, towards the end of the decade, when many existing mines will begin to see declining outputs, overall supply is likely to plateau.

In the short term, given lower polished demand levels in 2015, rough diamond demand has been more constrained as well. This is likely to have an impact on overall rough diamond production this year.

### INDIA'S DIAMOND CONSUMER MARKET HAS ACHIEVED ALMOST UNINTERRUPTED GROWTH OVER THE LAST 20 YEARS – AND THE PROJECTED BOOM OF ITS MIDDLE CLASS OFFERS AN OPPORTUNITY FOR CONTINUED GROWTH

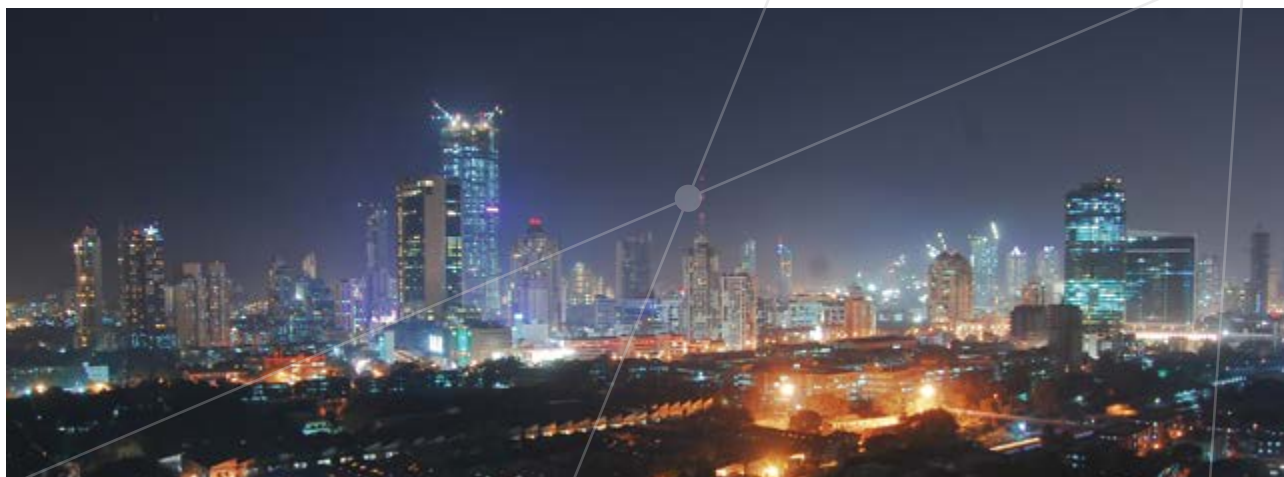
The 'In Focus' section of this year's Diamond Insight Report looks at India's highly dynamic consumer diamond market. Driven by a growing economy, an emerging middle class and a culture where precious jewellery plays an intrinsic role in social occasions and family traditions, India has become one of the world's largest consumer markets for polished diamonds.

Meanwhile, the jewellery retail landscape has changed dramatically over the past 15 years, with the number of doors selling diamond jewellery growing much faster than the average growth in all jewellery retail doors. While the retail landscape continues to be dominated by small, family-run independent jewellers, the small proportion of chains contribute a disproportionately high share of total sales value of diamond jewellery.

As affluence continues to grow, more Indian women will be able to purchase diamonds. In the next decade, 75 million new Indian households are expected to see annual income rise to a level above US\$5,000-6,000, contributing to growing diamond demand.

Meanwhile, the number of Elite and Super Elite households is expected to grow at an even faster rate, presenting the industry with a major value growth opportunity.

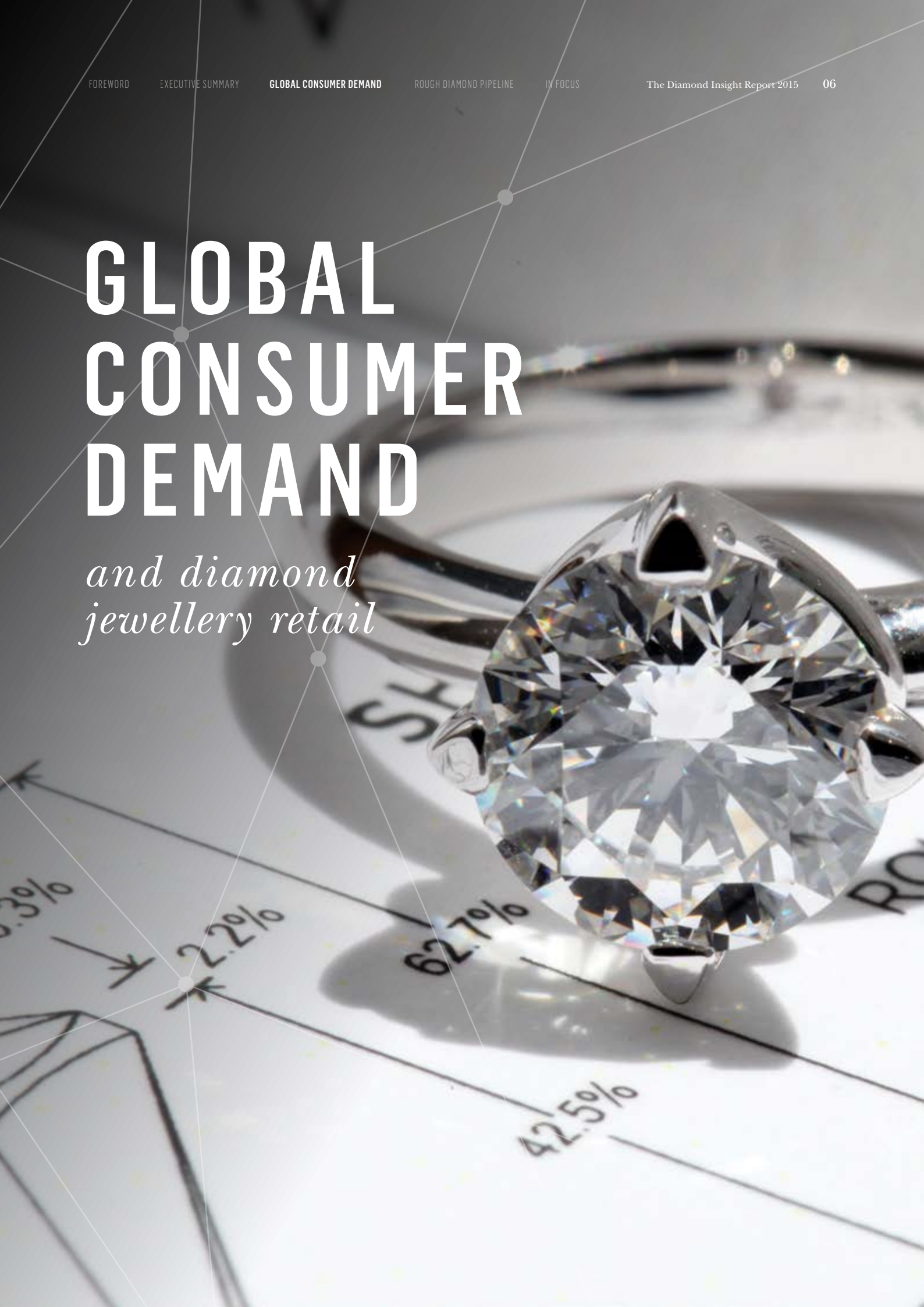
In order to capitalise on the extraordinary growth opportunity in India, the domestic diamond pipeline will need to take differentiated approaches to increase the appeal of diamonds to new consumers. Research commissioned by De Beers, covering 40,000 Indian women, the largest study of this kind ever conducted in the country, gives these stakeholders a wealth of insight into how to reach these potential consumers.





# GLOBAL CONSUMER DEMAND

*and diamond  
jewellery retail*





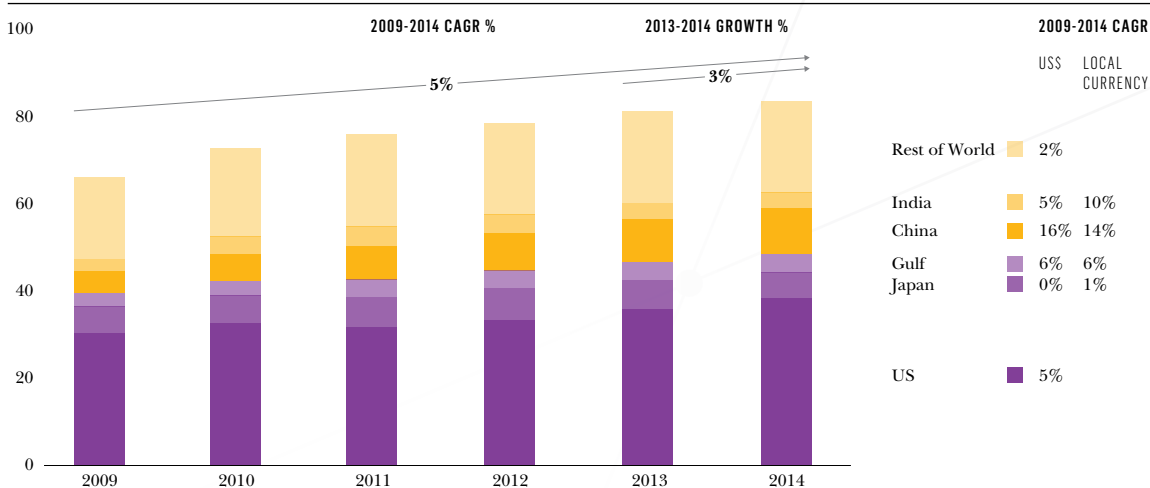
# GLOBAL CONSUMER DEMAND

*Global diamond jewellery sales increased 2.9 per cent in 2014 in US dollar (USD) terms, exceeding US\$80 billion for the first time (see Fig. 1).*

In local currency terms, there was positive growth in consumer demand for diamond jewellery across all the top five diamond markets, which account for 75 per cent of global demand. However, the unexpected magnitude of the strengthening of the USD against the currencies of several of the main diamond consumer markets in

the latter part of 2014 depressed global growth in USD terms (at constant exchange rates, growth amounted to almost five per cent). Continued USD strength in the first half of 2015 means that global USD demand growth is likely to remain lower than local currency growth for 2015 as a whole.

**FIG. 1: DIAMOND JEWELLERY SALES VALUE – GROWTH BY GEOGRAPHY (USD BN, NOMINAL)**



Note: Gulf includes Saudi Arabia, UAE, Qatar, Kuwait, Oman and Bahrain  
Source: De Beers

## GLOBAL CONSUMER DEMAND

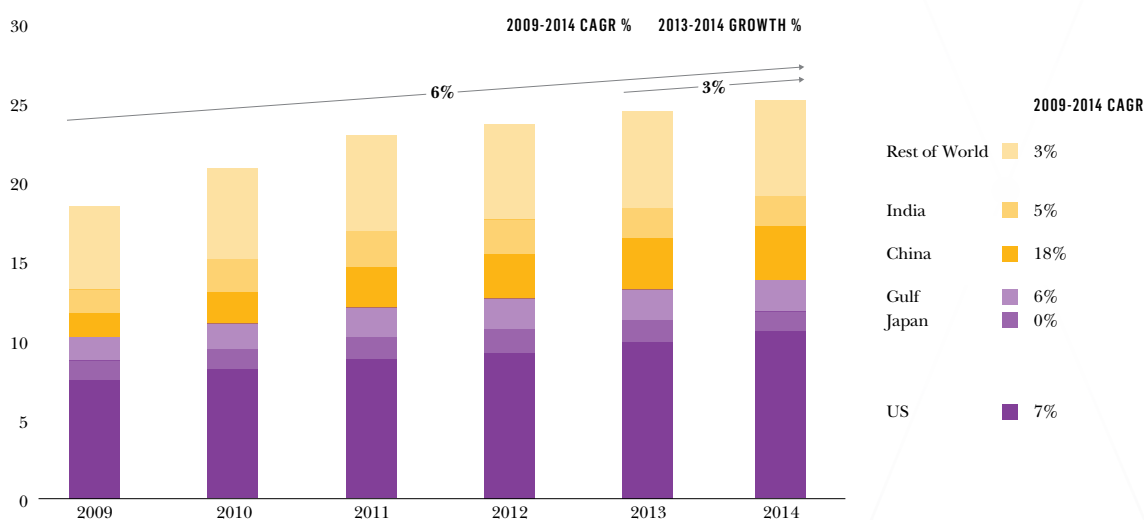
### CONTINUED

The fastest growing consumer market in 2014 was the US with a seven per cent increase in diamond jewellery consumption. Growth of six per cent in local currency saw China remain the second-fastest growing market. Indian demand increased by three per cent in local currency terms, while two per cent growth in local currency was achieved in Japan and the Gulf region.

Global demand for polished diamonds contained in diamond jewellery increased by three per cent in 2014 (measured in USD polished wholesale prices), totalling just over US\$25 billion (see Fig. 2). Growth in polished diamond consumption was more mixed in the major diamond markets, owing to the weakness of some currencies against the USD,

slower than anticipated growth over the Christmas season and slowdown in demand in China. The US led global polished diamond demand growth with a seven per cent increase, followed by China with five per cent and the Gulf region with two per cent. However, in India and Japan, local currency depreciation against the USD resulted in negative growth of one per cent and 11 per cent, respectively.

**FIG. 2: POLISHED DIAMOND SALES VALUE – GROWTH BY GEOGRAPHY (USD BN, NOMINAL)**



Note: Gulf includes Saudi Arabia, UAE, Qatar, Kuwait, Oman and Bahrain

Source: De Beers

## GLOBAL CONSUMER DEMAND

### CONTINUED

As a result of these growth dynamics, the US grew its overall share of global polished demand, with its 42 per cent share representing a level not seen since 2008, before the global financial crisis. China (including Hong Kong and Macau) increased its overall share of demand to 16 per cent, while India was the third-largest market for polished diamonds in 2014 with eight per cent, followed by Japan with five per cent. With the Gulf region accounting for eight per cent of global demand, the top five markets accounted for almost 80 per cent of global demand for polished diamonds in 2014.

Global diamond consumption has seen a significant resurgence since the global financial crisis with the five-year compound annual growth rate (CAGR) since 2009 standing at five per cent for diamond jewellery and six per cent for polished diamonds.

Looking at the composition of polished diamonds consumed in the leading markets in 2014 (see Fig. 3), there were areas of both growth and decline in carat terms. The main growth areas globally have been smaller diamonds below 0.18 carats. Fewer carats were consumed globally in the 0.18 carats and bigger ranges of medium quality, driven mainly by the slowdown in Chinese demand growth.

**FIG. 3: PROFILE OF POLISHED DIAMOND DEMAND IN THE TOP FIVE MARKETS GLOBALLY (CARATS)**

CHANGE IN CARAT CONSUMPTION IN TOP FIVE MARKETS, 2014 V 2013

Sizes	Qualities			
	High	Medium	Low	Total
1CT+	Stable consumption	Decline in consumption	Stable consumption	Stable consumption
0.50 – 0.99CTS	Increase in consumption	Decline in consumption	Stable consumption	Stable consumption
0.18 – 0.49CTS	Stable consumption	Decline in consumption	Stable consumption	Stable consumption
0.08 – 0.17CTS	Stable consumption	Increase in consumption	Increase in consumption	Increase in consumption
UP TO 0.07CTS	Increase in consumption	Stable consumption	Increase in consumption	Increase in consumption
<b>Total</b>	Stable consumption	Stable consumption	Increase in consumption	Stable consumption

**Definitions:**

High: D-H colour and IF-VS clarity

Medium: I-L colour and VS-SI clarity

Low: M and lower colour and SI-P clarity

■ Increase in consumption

■ Stable consumption

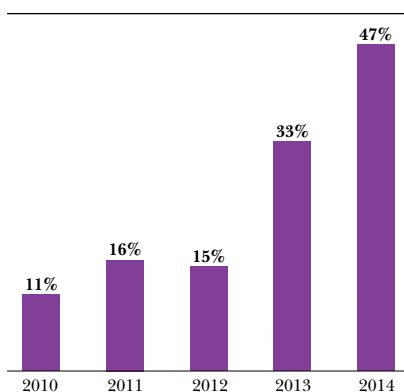
■ Decline in consumption

Source: De Beers

# THE POWER OF BRANDS

*Recent years have seen a substantial increase in the importance of brands at the consumer level globally, although there are different reasons for this trend in the developed and developing markets.*

**FIG. 4: PROPORTION OF US RETAILERS OBSERVING MORE CONSUMERS ASKING FOR DIAMOND JEWELLERY BRANDS**



Source: De Beers

While in developed markets, such as the US, brands provide product differentiation, identity and distinctive designs, in developing markets, such as China and India, brands serve as reassurance of product authenticity and quality and support consumer confidence. The industry in China and India has accordingly witnessed high acquisition rates from well-known and established local retailer brands, with sales of these products representing close to 80 per cent of new acquisitions in China and about two thirds in India.

Although the diamond jewellery sales growth of international designer brands was relatively low in India and China (with share in the low single-digits), sales of these branded products represented a more significant proportion of new acquisitions in the mature markets of the US and Japan, accounting for around one in seven and one in five acquisitions, respectively.

In the US, retailers consistently reported higher proportions of consumers looking for diamond jewellery brands (see Fig. 4), with only around one in five retailers in the US saying they do not stock any brands. Around 40 per cent of retailers said they stocked designer diamond jewellery brands such as Tacori and Scott Kay; around three quarters stock their own jewellery brands or those of diamond manufacturers; and about one in seven stock diamond brands such as Forevermark and Hearts on Fire.

**“YOU NEED A BALANCE OF BRANDED AND NON-BRANDED JEWELLERY, AS BRANDS BRING IN TRAFFIC.”**

*US retailer*

# DIAMOND JEWELLERY RETAIL

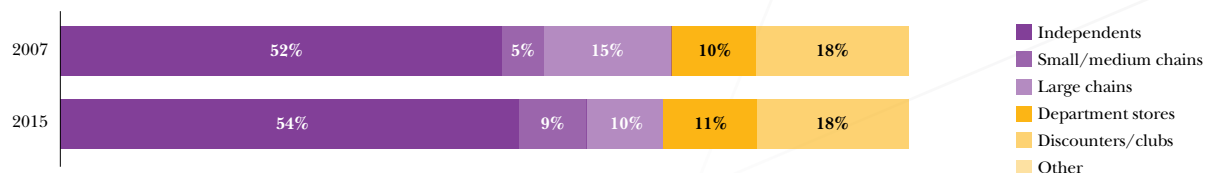
*The divergent trends in diamond jewellery retail identified in The Diamond Insight Report 2014 have continued in the past year, with more diamond jewellery shops opening in the developing Asian markets, albeit at a slower rate in more recent months, and a reduction in overall door numbers in the mature markets, particularly the US.*

An updated view of the diamond jewellery retail landscape in the US was informed by a study undertaken by De Beers in early 2015, which covered 42,000 unique diamond retail locations, representing close to 25,000 companies. While the overall number of diamond jewellery shops in the US has declined since 2007, the retail scene is not homogeneous and different trends have been in evidence in different channels.

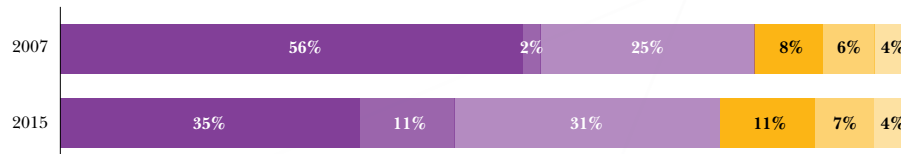
**FIG. 5: US DIAMOND JEWELLERY BY CHANNEL**

Changing retail landscape: growth in share of doors for small/medium chains and discounters, while large chains optimise and reduce their doors. In value terms, the share of independents is declining, while chains and department stores have grown between 2007 and 2015 from about a third to over half of USD sales.

**US DIAMOND JEWELLERY RETAIL DOORS BY MAIN BRICKS AND MORTAR CHANNEL**



**US DIAMOND JEWELLERY SALES BY CHANNEL (INCL. ONLINE SALES FOR ALL CHANNELS IN 2015)**



Note: 2015 data includes online sales for all channels, while 2007 data is only for bricks and mortar; figures may not sum because of rounding  
Source: De Beers commissioned Trade Structure Surveys 2003, 2007 and 2015

## DIAMOND JEWELLERY RETAIL

CONTINUED



Among specialist independent retailers, the number of doors has declined by about 4,000 since 2007<sup>1</sup>. However, the larger chains saw closures of an even greater number of doors over this period (see Fig. 5), resulting in a slight increase in share of doors for the independents and small/medium chains and a slight reduction in share for the large chains. However, in terms of sales value, the trend is reversed and the share of independents has declined dramatically to a little over a third. Over the same period, chains – from small to large – have overtaken the independent channel, generating more than 40 per cent of sales value.

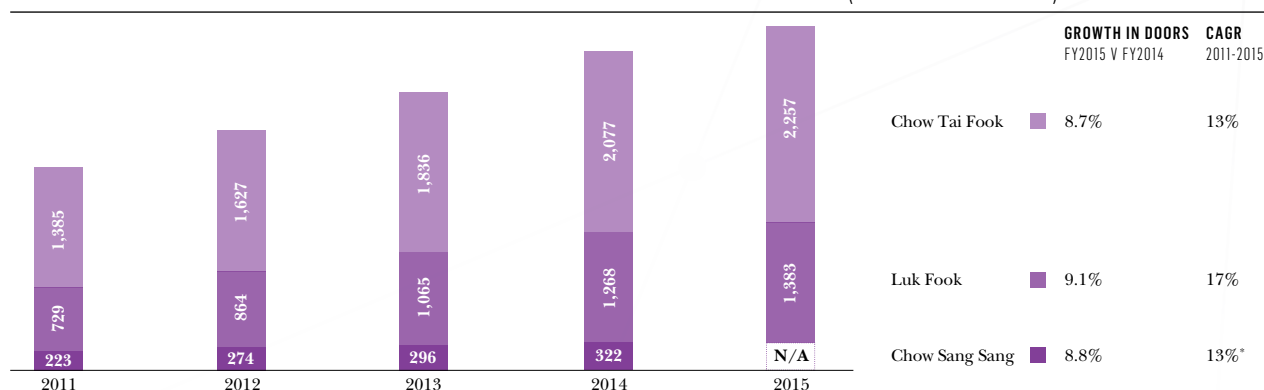
The decline in fragmentation of the US market has been accompanied by a divergent profitability trend, where the

chains and stores with sales over US\$1 million per year have maintained their profit margins in recent years, while independents and smaller stores have reported lower profitability (from all jewellery sales).

Concerns over profitability have prompted retailers to look at optimising their stock levels. Many have also employed the services of aggregator companies, which can source required diamonds just in time, in addition to providing a seamless link between retailers' websites and their broader product assortments. Another approach some have taken is sourcing more directly from cutters and manufacturers, thus bypassing the wholesale distributors.

In Greater China, the major jewellery retail chains have followed an expansion programme with the CAGR in number of doors since 2011 of between 13 per cent and 17 per cent. However, the slowdown in diamond jewellery demand growth in China in the past year has influenced retailers to revise their store opening plans. Thus, a lower rate of growth is evident during the latest financial year ending in March 2015 for Chow Tai Fook and Luk Fook and in December 2014 for Chow Sang Sang (see Fig. 6). Often the strategy of retailers is to optimise their store network by closing underperforming shops and opening new ones in different locations. This approach has been used in addition to pure expansion.

**FIG. 6: CHINA JEWELLERY STORE NET NEW OPENINGS BY MAJOR RETAILERS (NUMBER OF DOORS)**



\* CAGR 2011-2014

Source: Company reports, Chow Tai Fook and Luk Fook – 31 March; Chow Sang Sang – 31 December

<sup>1</sup> Footnotes can be found on page 40

# MULTI-CHANNEL SALES STRATEGIES

*Growth of online sales across all retail has been a consistent story over a number of years. This trend applies to diamond jewellery both in developed and developing markets, but to different degrees.*

In the US, where online penetration across both traditional and mobile devices is very high, online diamond jewellery sales are estimated by different sources to be in the range of seven per cent to 13 per cent of sales value. Meanwhile, the respective share of online sales in India and China is less than one per cent. Looking ahead to 2020, analysts estimate<sup>2</sup> that the annual US online jewellery sales growth will be twice as high as bricks and mortar growth.

Diamond jewellery e-commerce has become a fact of life in the US, mainly as a result of the activity in this area of pure online operators and the large chains: these two channels account for nearly two thirds of all online diamond jewellery sales in the US. However, 2014 saw a new development in the pure online area, as Blue Nile opened a physical presence in a bricks and mortar store at the Nordstrom department store in Seattle<sup>3</sup>. While customers can only browse the wedding collection in store (with any resulting orders having to be placed online), this development acknowledges the power of a multi-channel presence, particularly where emotionally significant and more expensive diamond pieces are involved. An example of a similar dual presence in China is Z-bird<sup>4</sup>, which operates a 'clicks and mortar' concept with 'experience stores' where customers can physically explore and buy more important pieces, such as engagement and wedding rings.

For traditional diamond jewellery retailers, the online channel is as much a marketing and communications tool as it is a sales channel. In fact, in many cases the importance of the online presence in providing information outweighs the contribution to sales, as almost 40 per cent of consumers research their purchases on the internet before visiting shops and an online presence helps boost footfall. This makes an e-commerce enabled website, including for mobile devices, a necessity for all retailers in order to help them stay competitive.

**"99 PER CENT OF  
JEWELLERY CUSTOMERS  
RESEARCH THE ITEM  
ONLINE BEFORE BUYING  
IT AND I NEED TO BE AT  
THE FOREFRONT."**

*US retailer*

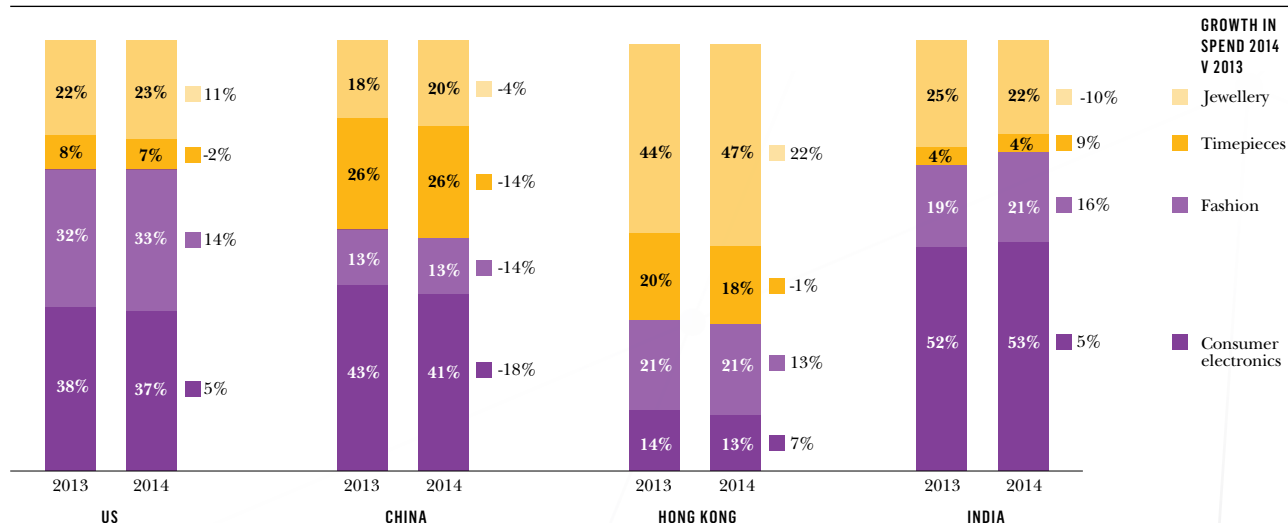


# ADVERTISING SHARE OF VOICE

*The Diamond Insight Report 2014 assessed the competitive position of diamond jewellery against other luxury categories, particularly in the US, noting that competition had been strong and increasing since the 2009 recession, with categories such as electronics and fashion gaining share of advertising voice as well as share of consumer preference and spend.*

However, in 2014 growth in jewellery advertising spend started to catch up with fashion, which had the highest growth rate in the luxury competitive set (see Fig. 7). While it is too early to say if the trend will continue, this positive development will need to be sustained if the jewellery category is to regain its pre-crisis share of advertising voice of close to 30 per cent of the luxury competitive set (2014: 23 per cent).

**FIG. 7: SHARE OF VOICE FOR JEWELLERY WITHIN THE LUXURY COMPETITIVE SET IN MAIN DIAMOND MARKETS**



Note: Calculated as marketing spend of the category as a percentage of the full marketing spend of a sample of companies. In India, the fashion category includes perfumes/deodorants.

Source: Mindshare

## ADVERTISING SHARE OF VOICE

### CONTINUED

The trend in jewellery marketing spend in China has been quite different over the past five years. Luxury jewellery brands increased their spend annually between 2009 and 2012 by double-digit percentage figures, but reduced their spend in 2013 and 2014, with the downward trend continuing into the first half of 2015. Spend by jewellery retailers, on the other hand, was on a downward trend between 2009 and 2013, but increased somewhat in 2014, only to resume the downward trajectory in early 2015<sup>5</sup>. While these most recent declines in spend could be explained by the slowing demand growth in

China, they are counterproductive in supporting demand during this period. Keeping diamonds top of mind for consumers in the new reality of lower economic growth in China will be important for both luxury brands and retailers. One positive aspect of this development is that jewellery spend has declined less than the competitive set, thus putting the category in a relatively more prominent position.

The marketing developments in Hong Kong, which forms an important part of the Greater China market, were positive in 2014, with jewellery

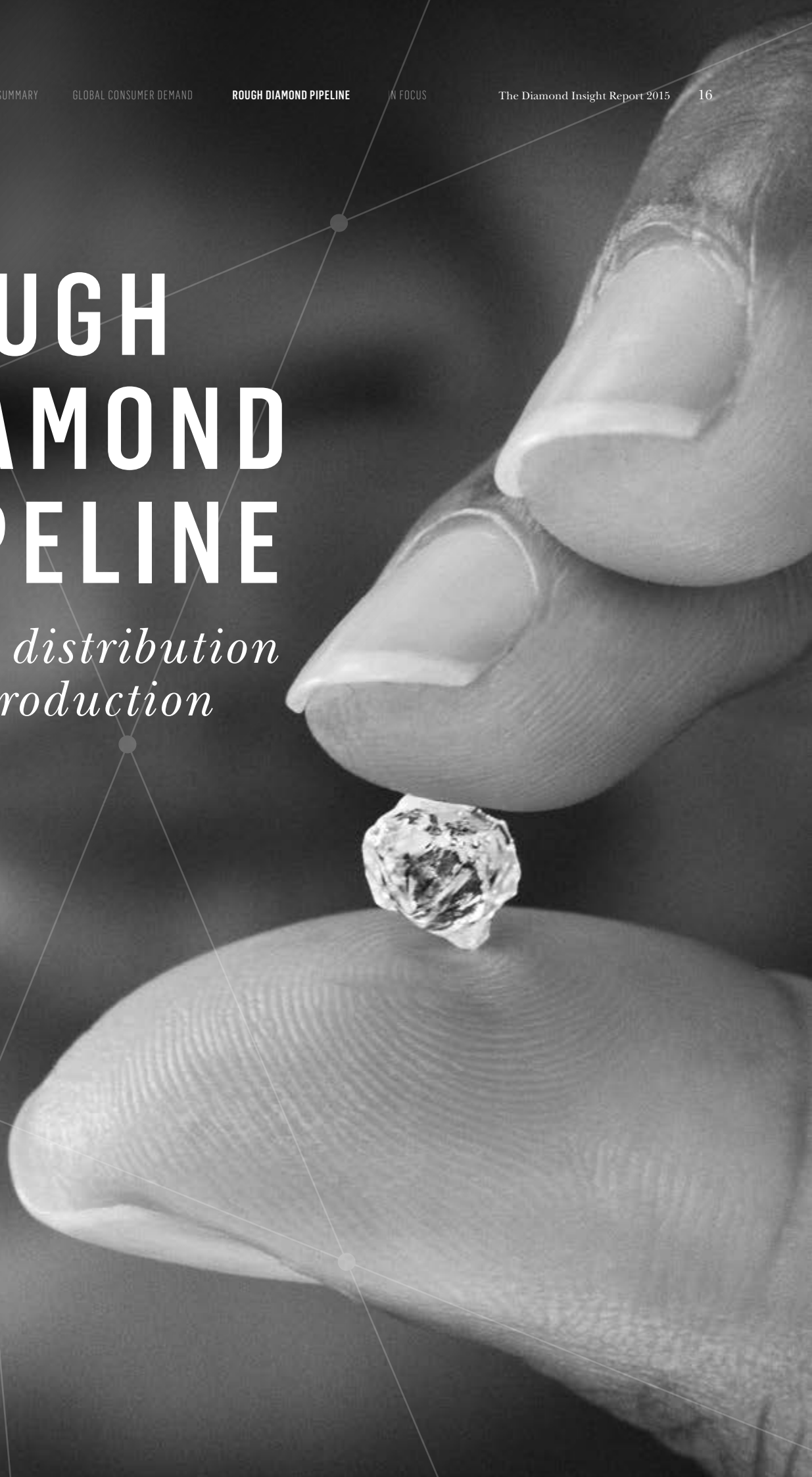
spend increasing the most within the competitive set – a move which could help reinvigorate demand growth in a market that has faced a challenging political and economic situation.

Finally, in India, the position of jewellery weakened in 2014, as the competitive set continued to spend more, while jewellery spend declined and share of voice was diminished. Clearly, reversing this situation is an opportunity for jewellery retailers and brands to consider in the immediate future.



# ROUGH DIAMOND PIPELINE

*Sales, distribution  
and production*



# ROUGH DIAMOND SALES AND DISTRIBUTION

*2014 global rough diamond sales increased approximately 12 per cent over 2013 levels to a total of just over US\$20 billion.*

De Beers remained the largest seller of rough diamonds worldwide by value with a share of 34 per cent (2013: 33 per

cent). This includes the approximately three per cent of global rough diamond sales made by DTCB (Diamond Trading Company Botswana, a joint venture between De Beers Group and the Government of Botswana) to ODC (Okavango Diamond Company, the Government of Botswana's diamond trading company).

ALROSA was the second largest supplier, accounting for 24 per cent of

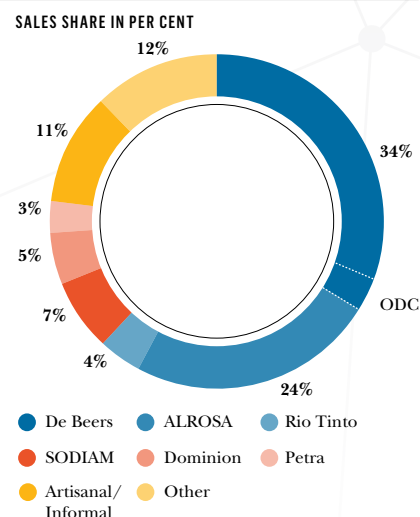
global rough diamond sales value (2013: 25 per cent). Other major suppliers included SODIAM, which organises the trade of Angolan diamonds, with a seven per cent market share (2013: six per cent); Dominion Diamond Corporation, with a five per cent share (2013: four per cent); Rio Tinto, with a share of four per cent (2013: five per cent); and Petra Diamonds, with a three per cent share (2013: two per cent) (see Fig. 8).

**FIG. 8: ROUGH DIAMOND SALES TO CUTTING CENTRES (USD BN)**

	2013	2014 EST.
De Beers	5.8	6.8
of which DTCB to ODC <sup>(i)</sup>		0.6
ALROSA	4.5	4.9
Rio Tinto	0.9	0.9
SODIAM <sup>(ii)</sup>	1.1	1.3
Dominion Diamond Corporation	0.8	1.0
Petra Diamonds	0.4	0.5
Artisanal/Informal <sup>(iii)</sup>	2.2	2.3
Other <sup>(iv)</sup>	2.6	2.9
<b>Total supply</b>	<b>18.0</b>	<b>20.1</b>
per cent growth	4.5%	12%

Notes: i) ODC sales are accounted for in the De Beers market share as sales from DTCB; ii) Reported 2014 revenue from Endiama website; iii) De Beers estimates; iv) Company reports, including Gem Diamonds, Lucara Diamond Corp., Rockwell Diamonds, Trans Hex and estimates for other smaller producers.

Source: De Beers



# ROUGH DIAMOND PRODUCTION

*In value terms, rough diamond production in 2014 was more than US\$19 billion, representing an increase of almost six per cent over 2013.*

However, in carat terms, global production declined in 2014 by approximately three per cent.

The largest producing countries by volume were Russia with 27 per cent

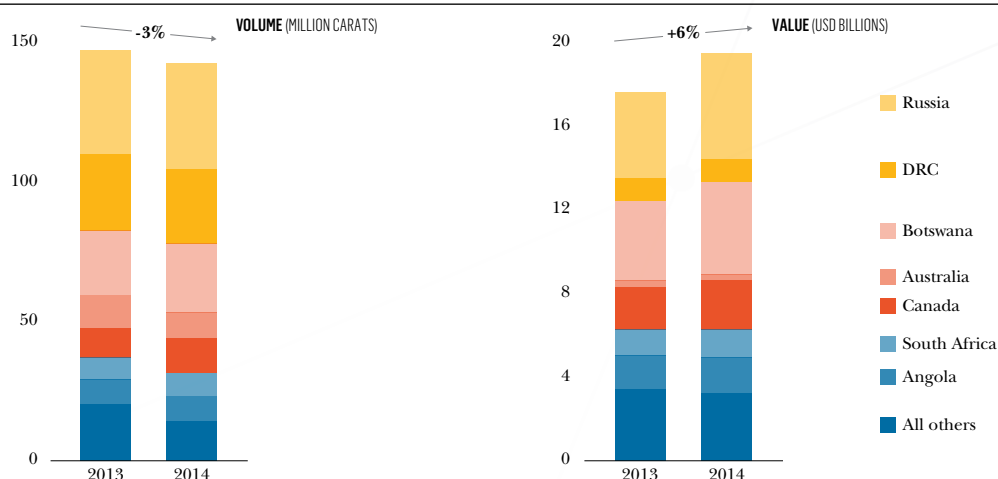
(2013: 25 per cent); the Democratic Republic of Congo with 19 per cent (2013: 19 per cent); Botswana with 17 per cent (2013: 16 per cent); Canada with nine per cent (2013: seven per cent); and Australia with seven per cent (2013: eight per cent).

Russia was also the largest producing country by value with 26 per cent of the total value produced in 2014, the same share as in 2013. Botswana was the second-largest producer in value terms with a 23 per cent share (2013: 22 per cent), followed by Canada with 12 per cent (2013: 11 per cent), Angola with

nine per cent (2013: nine per cent) and South Africa with seven per cent (2013: seven per cent) (see Fig. 9). Because of the type of diamonds mined in the Democratic Republic of Congo, its share of value of world production is estimated at approximately six per cent (2013: six per cent).

De Beers and ALROSA were the two largest producing groups in 2014 by both volume and value. De Beers' share of production was 23 per cent in volume terms (2013: 21 per cent), second only to ALROSA with 26 per cent (2013: 25 per cent). Rio Tinto was the third-largest

**FIG. 9: ROUGH DIAMOND PRODUCTION BY MAIN PRODUCING COUNTRY**



Source: De Beers



## ROUGH DIAMOND PRODUCTION

### CONTINUED



producer with a 10 per cent share (2013: 11 per cent). Dominion Diamond Corporation was the next largest producer with a four per cent volume share (2013: three per cent).

De Beers remained the largest producer of diamonds by value with an estimated 34 per cent share (2013: 34 per cent). ALROSA was the second-largest with a 25 per cent share (2013: 25 per cent), followed by Dominion Diamond Corporation with five per cent (2013: four per cent), Catoca with

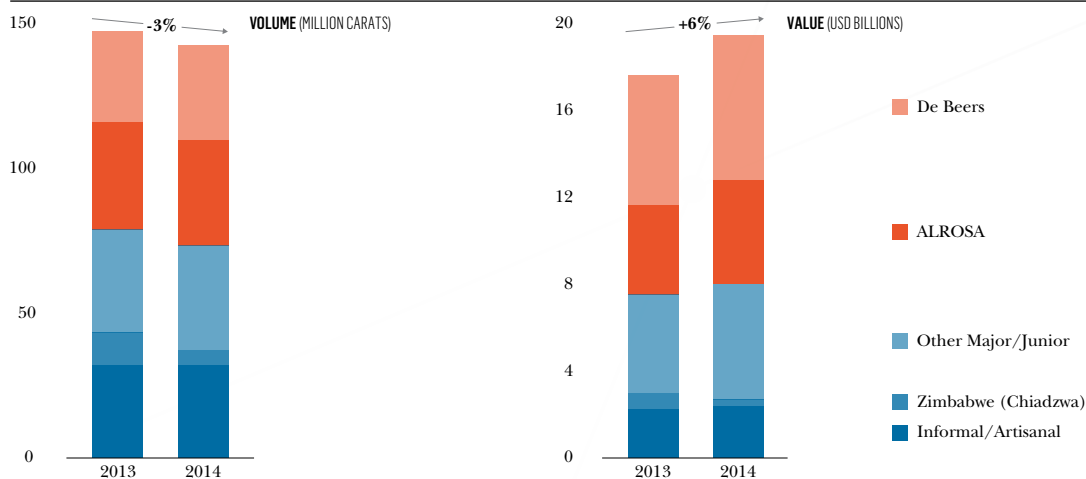
five per cent (2013: five per cent), and Rio Tinto with four per cent (2013: five per cent) (see Fig. 10).

A notable trend in global rough diamond production in 2014 was the decline in carats recovered from the Marange operations in Zimbabwe. It is estimated that approximately five million carats were recovered from these operations in 2014, representing a drop of more than 50 per cent compared with 2013 production volumes<sup>6</sup>.

#### DE BEERS' SHARE OF GLOBAL ROUGH DIAMOND PRODUCTION BY VALUE

# 34%

**FIG. 10: ROUGH DIAMOND PRODUCTION SPLIT BY COMPANY**



# LOOKING AHEAD

*In 2014, three new greenfield mines began production.*

*Two of these mines (Grib, operated by Lukoil, and Karpinskogo-1, operated by ALROSA) are located in Western Russia<sup>7</sup>.*

The third new project is the Ghaghoo mine in Botswana, the country's first underground mine, operated

by Gem Diamonds<sup>8</sup>. ALROSA also commissioned a further new mine, Botuobinsky, in early 2015<sup>9</sup>.

The greenfield diamond project pipeline remains sparse, however, with just two scale projects currently in development: De Beers and Mountain Province Diamonds' Gahcho Kué project and Stornoway Diamond's Renard project are both expected to begin production in 2016<sup>10</sup>. ALROSA has also announced its intention to begin mining the Verkhne Munscoe pipe in 2018 (see Fig. 11).

**THE GREENFIELD DIAMOND PROJECT PIPELINE REMAINS SPARSE, WITH JUST TWO SCALE PROJECTS IN DEVELOPMENT.**

**FIG. 11: DIAMOND PROJECT PIPELINE (2016-2018)\***

Deposit name	Owner(s)	Discoverer and year of discovery	Country	Status	Est. first production	Est. avg annual production (mcts)
GAHCHO KUÉ	De Beers, Mountain Province Diamonds	Mountain Province Diamonds, De Beers (1995)	Canada	Construction	2016	4.5
RENARD	Stornoway	Ashton (2001)	Canada	Construction	2016	1.5
STAR-ORION SOUTH	Shore Gold Inc, Newmont	Uranerz (1988)	Canada	Feasibility	2017+	1.7
BUNDER	Rio Tinto	Rio Tinto (2004)	India	Pre-feasibility	2017+	2.0
VERKHNE-MUNSKOE	ALROSA	ALROSA (2002)	Russia	Feasibility	2018+	1.1

\* All data estimated based on best available public information as of May 2014



## LOOKING AHEAD

### CONTINUED

While the development of new greenfield mines has been limited, several brownfield expansions are currently producing or are planned to start production over the next five years. Rio Tinto is transitioning its operations underground at its Argyle mine in Western Australia<sup>11</sup>, while similarly ALROSA is moving the Udachny mine from an open pit operation to an underground mine<sup>12</sup>. De Beers, via Debswana, is currently stripping waste for the Jwaneng mine Cut-8 project in Botswana, which is scheduled to start producing in 2017 and extends the life of mine to beyond 2030. De Beers is also constructing an underground mine at Venetia in South Africa, which will ensure diamonds are recovered at the mine until at least 2043.

Further brownfield expansions are expected to take place in Canada's Northwest Territories where Rio Tinto and Dominion Diamond Corporation have announced plans to extend production at both the Diavik and Ekati mines. Rio Tinto and Dominion Diamond Corporation will produce from a fourth pipe at Diavik (called A-21) starting in 2018<sup>13</sup>. Dominion Diamond Corporation is also proceeding with plans to mine the Jay pipe at the Ekati mine. This project would produce first ore in 2020 and extend the life of Ekati to 2030<sup>14</sup>. In Lesotho, Firestone Diamonds is building the Main Treatment Plant at the Likhobong mine. This will increase diamond production to approximately one million carats by 2019. The plant is expected to be commissioned in 2016.

The total impact of the rough diamond production expected from both greenfield mines and brownfield expansion is expected to lift total carat production to levels similar to the mid-2000s but, owing to the mix of new diamonds mined, value growth is expected to be less pronounced.



**SEVERAL BROWNFIELD EXPANSIONS ARE CURRENTLY PRODUCING OR PLANNED TO START OVER THE NEXT FIVE YEARS.**

# IN FOCUS

*The Indian consumer*



# INDIA'S DYNAMIC CONSUMER MARKET

## KEY CONSUMER INSIGHT AND OPPORTUNITIES

1. India is home to a highly dynamic consumer diamond market that has grown rapidly over the last two decades, fuelled by a fast expanding economy, a widening consumer base and a culture where precious jewellery plays an intrinsic role in social occasions and family traditions.
2. There are three distinct diamond jewellery consumer segments in India: socio-economic segments A/B (excluding all Elites), Elites and Super Elites. The latter two have a considerable share in value terms, despite representing only a small proportion of consumers, and display behaviours in relation to diamonds more in line with affluent Western consumers when compared with economic segments A/B.
3. Diamond jewellery is an 'aspirational' product in India and is more desired than other luxury categories. The level of ownership and desirability is particularly high among the Elites and Super Elites, while diamonds remain an aspirational product for the much larger non-Elite segment.
4. The highest proportion of diamond jewellery purchasers is located in Tier 1 cities (nearly 60 per cent) and in the north of India (nearly 50 per cent).
5. Love is the primary motivation for half of all diamond purchases. Unlike in many Western markets, very few men propose with diamonds in India and instead display their love with gifts of diamonds on different occasions during the marriage.
6. Purchasing journeys in India are normally a consultative process, in which women are the main decision makers, with the opinion of family and friends the most important factor in diamond jewellery selection. Retailers also play an important part in providing reassurance and advice.
7. The jewellery retail landscape has changed dramatically over the past 15 years, with the number of doors selling diamond jewellery growing much faster than the average growth in all jewellery retail doors. While the retail landscape continues to be dominated by small, family-run independent jewellers, the small proportion of chains contribute a disproportionately high share of total sales value of diamond jewellery. As affluence continues to grow, more Indian women will be able to access diamonds. Women tend to start purchasing diamonds when their annual household income reaches US\$5,000-6,000, and 75 million new Indian households are expected to exceed this 'inflection point' over the next decade. Another threshold is the monthly income at which they enter the Elite segment, above INR40,000, when multiple diamond piece ownership increases significantly.
8. The purchasing power of the highest income households is expected to rise at the fastest pace. The Elite and Super Elite women will drive high-value categories and set the trends that the wider market will seek to emulate. Gold plays a central role in Indian culture, including as a way to transfer wealth to offspring. Given the image of diamonds as a symbol of eternity, there is potential for diamond jewellery to be seen by consumers as an heirloom.
9. Brands, as a guarantee of quality and authenticity as well as differentiation, already play an important role with almost 80 per cent of women thinking that they are very important in the selection process. Brands are expected to gain further prominence for consumers in future.
10. Modern forms of retailing are gaining importance among all consumer groups. Chains are set to grow in significance and lead the way in online development, both as a sales channel and as a means of researching future acquisitions.



## INDIA'S DYNAMIC CONSUMER MARKET CONTINUED

Diamonds have always had an intrinsic appeal to Indian women, with jewellery's role embedded deep within Indian culture. Over the last decade, India's rising economic prospects have enabled more Indian women to act on their desire for diamonds. Indian consumer demand for diamonds has more than trebled over this period and India is today the world's third-biggest consumer market for diamonds.

Yet this growth story is far from over. Rising incomes and aspirations could afford India's diamond industry an even bigger prize over the next decade. To realise this potential, diamond industry stakeholders will need to be proactive in opening up opportunities in this evolving consumer market.

To gain an insight into Indian consumers' changing attitudes and preferences, in 2014 De Beers commissioned a survey of 40,000 Indian women, as the main decision makers and buyers of diamond jewellery in India. It is likely to have been the largest consumer study of its kind ever conducted in the country. This report describes the main findings of the study and draws conclusions about the prospects for the Indian domestic diamond jewellery market, based on De Beers' historic market information and the context of broader macro-economic and social trends.

**RISING INCOMES AND  
ASPIRATIONS COULD  
AFFORD INDIA'S DIAMOND  
INDUSTRY AN EVEN  
BIGGER PRIZE.**



# TWO DECADES OF GROWTH

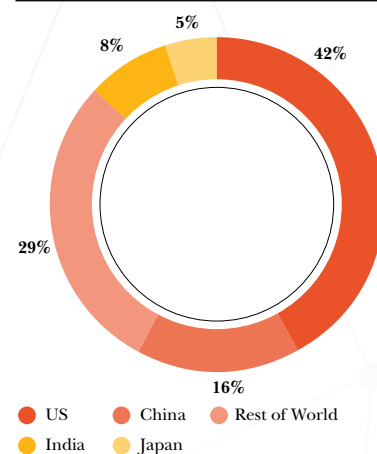
*India's domestic diamond consumer market has achieved almost uninterrupted growth over the last two decades, with demand for diamond jewellery expanding in 19 of the last 20 years in rupee terms.*

In the last decade alone, the market has nearly trebled in size to about INR22,000 crore (INR220 billion) (see Fig. 12). The brief contraction in 2013, caused by the depreciating purchasing power of the rupee and a weakening of the broader Indian economy, reversed in 2014.

Sustained growth has been driven by a widening consumer base and increasing volumes of diamond jewellery sales. Around 25 lakh (2.5 million) pieces of diamond jewellery were acquired by Indian women in 2013, roughly six times the number acquired in 2002.

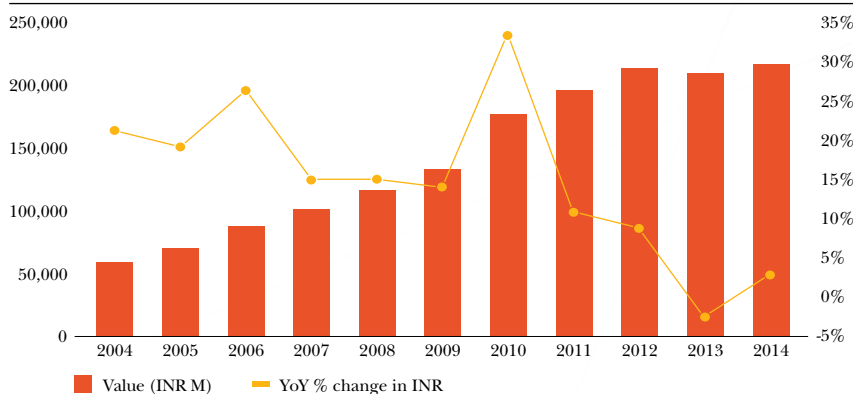
As a result, India has risen up the global diamond 'league table' and in 2014 the country was the world's third-largest consumer market for polished diamonds, with an eight per cent share of global demand (measured in polished wholesale value in USD) placing it behind only the US and China (see Fig. 13).

**FIG. 13: GLOBAL DIAMOND DEMAND, PER CENT OF TOTAL BY COUNTRY (USD, PWP, 2014)**



Note: China includes Hong Kong and Macau  
Source: De Beers

**FIG. 12: INDIA DIAMOND JEWELLERY DEMAND (INR)**



Source: De Beers

# ECONOMIC DRIVERS OF GROWTH

## THE INDIAN CONSUMER TODAY

India's economic success has increased incomes across the domestic social spectrum and given more Indian women the ability to become diamond jewellery consumers. Currently,

diamond jewellery in India is concentrated in the highest socio-economic classes (SEC) A and B in urban areas. Within these classes, women are the main decision makers when it comes to diamond acquisitions.

The De Beers survey on which this report draws therefore included women in three distinct groups: SEC A/B non-Elites; Elites; and Super Elites (see Fig. 14).

### FIG. 14: THE INDIAN CONSUMER MARKET FOR DIAMONDS

The Indian consumer of diamond jewellery comprises about 26.5 million women in socio-economic classes (SEC)

#### SEC A/B NON-ELITES

Projected population

**26.3M**



- A household in which the main income earner:
  1. Has at least a university degree **and**
  2. Performs skilled labour, is a business owner, professional or corporate manager

A and B across Tier 1-4 cities with populations in each city of between 0.5 and 4 million. The SEC A/B women who are all potential diamond buyers are further segmented into non-Elite, Elite and Super Elite groupings which have

#### ELITES

Projected population

**0.2M**



- Household income >INR40,000 (US\$700) per month **and**
- Fulfilling any of the following criteria:
  1. Owner of a car costing more than INR9 lakh (US\$15,000)
  2. Member of a prestigious club
  3. Takes holiday/business trips abroad annually

very different attitudes and purchasing patterns in relation to diamonds, as described below. The De Beers consumer survey covered 40,000 Indian women aged 18-64 representing the 26.5 million female population.

#### SUPER ELITES

Projected population

**20,000**



- Customers who spend at least INR25 lakh (US\$42,000) on diamond jewellery in a given year
- Owners or senior executives in large local or international organisations

## ECONOMIC DRIVERS OF GROWTH

### CONTINUED

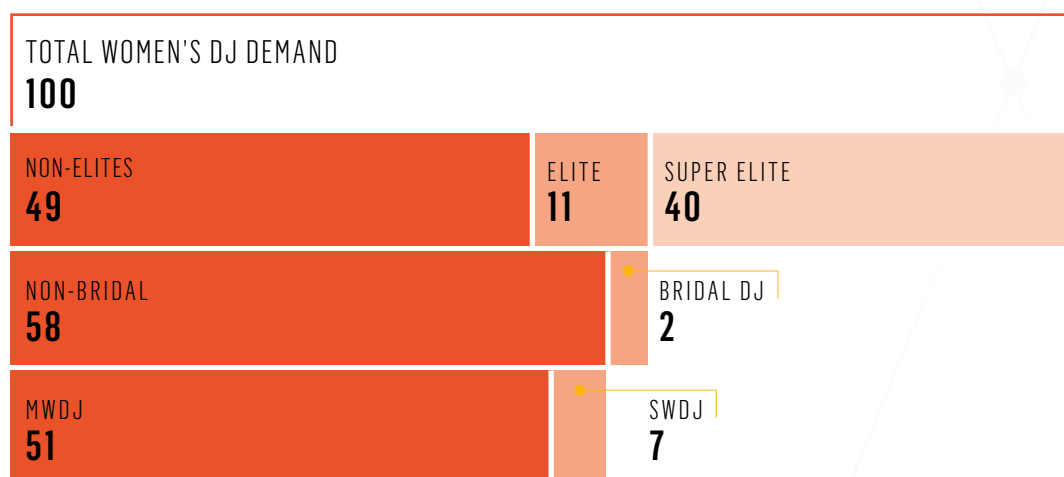
Diamond jewellery ownership in India in 2013 stood at 10 per cent of the SEC A/B non-Elite and 93 per cent of the Elite population. Among the Super Elites it was 100 per cent. The vast majority of diamond jewellery owners (89 per cent) had only one piece of diamond jewellery, while only five per cent had four pieces or more. This highlights that India is growing through new consumers entering the category every year and that it has tremendous potential for both attracting new consumers and selling multiple pieces to existing owners.

The vast majority of potential consumers of diamonds in India are in the non-Elite group. However, looking at the contribution of these consumer segments to overall diamond jewellery demand in value terms, a different picture emerges (see Fig. 15). The Super Elites, who comprise less than one per cent of diamond purchasers and less than five per cent of the number of pieces bought, contribute an estimated 40 per cent to total value of diamonds purchased. However, over time the contribution of this consumer segment to overall diamond

demand value in India has declined – in 1999 it stood at 75 per cent. Over the same period, the share of SEC A/B non-Elites in overall demand value increased from 15 per cent to almost half, pointing to the growing importance of this volume segment.

As the primary decision makers about diamond jewellery purchases, Indian women buy mainly for themselves. Indeed, 73 per cent of purchases come via this route, with just over a quarter of women buying for someone else.

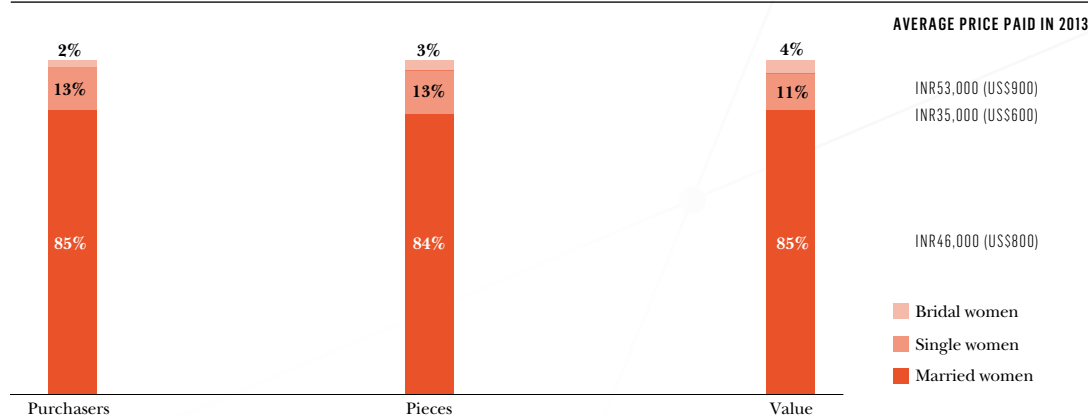
**FIG. 15: DIAMOND JEWELLERY (DJ) MAIN CONSUMER SEGMENTS IN INDIA, 2013 (PER CENT OF DJ VALUE)**



*The 2014 De Beers consumer survey focused on the detailed purchases only of women in the SEC A/B, including the Elite segment. Thus, for the rest of this report, references to diamond purchases are relevant only to SEC A/B non-Elite and Elite consumers, unless specifically stated otherwise.*

Note: Area of rectangles reflects approximate proportion of total market by value, INR terms; MWDJ (Married Women's Diamond Jewellery); SWDJ (Single Women's Diamond Jewellery)  
Source: De Beers

**FIG. 16: INDIA DIAMOND JEWELLERY SALES BY SEGMENT, 2013 (PER CENT BY PURCHASERS, PIECES AND VALUE)**



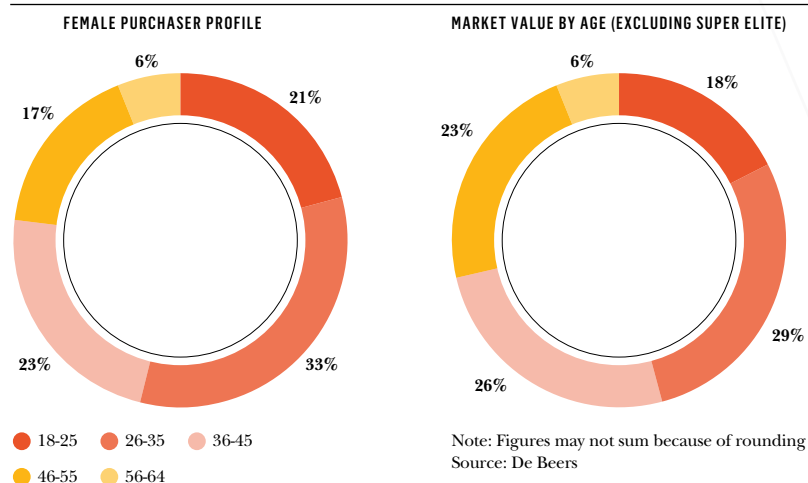
Source: De Beers



## ECONOMIC DRIVERS OF GROWTH

CONTINUED

**FIG. 17: DIAMOND JEWELLERY CONSUMER PROFILES IN INDIA, 2013**



Surprise gifting from male partners in India is limited, with only two per cent of women reporting this kind of gift in 2013.

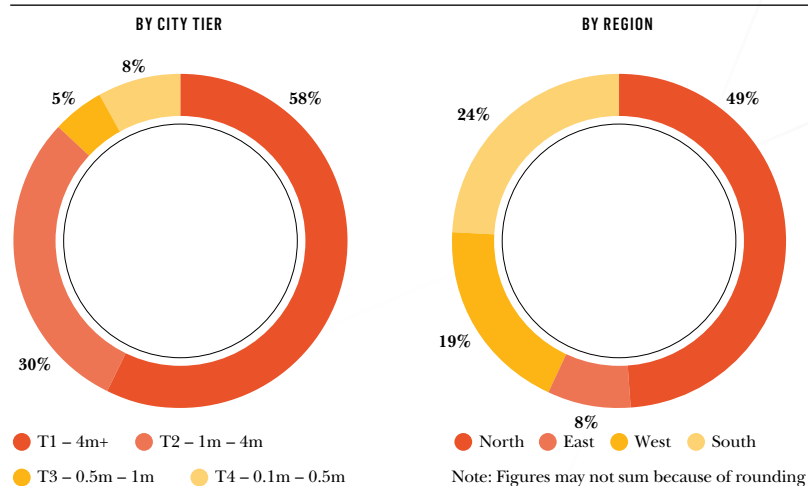
Non-bridal diamond acquisitions account for the vast majority of diamond demand in value terms in India. The definition of bridal women in the De Beers study includes women who got married in the survey year and mothers of brides in the same period. Bridal diamond jewellery is the jewellery acquired by these women specifically for the occasion of the wedding in the survey year.

In contrast to other main diamond markets around the world where bridal jewellery includes solitaire diamond

engagement rings and eternity-type wedding bands, bridal jewellery in India comprises mainly large gold pieces with numerous small diamonds.

The non-bridal segment makes up 96 per cent of total demand among Indian women in SEC A/B non-Elite and Elite groups (see Fig. 16), compared with 68 per cent of the total women's diamond market in the US, for example. The non-bridal segment is also growing quicker than the bridal sector in India, expanding at four times the rate of the bridal sector since 2002. This contrasts sharply with the US, where the bridal segment has taken share from non-bridal over the same period.

**FIG. 18: LOCATION OF INDIAN FEMALE DIAMOND PURCHASERS (PER CENT OF PURCHASERS EXCLUDING SUPER ELITE)**



## ECONOMIC DRIVERS OF GROWTH

### CONTINUED

Within the non-bridal segment, 89 per cent of demand value is derived from married women's purchases, which corresponds to 85 per cent of the total value in SEC A/B non-Elite and Elite groups. Single women contribute the remaining 11 per cent of demand value.

The largest diamond consumer segment by age in India is the 26-35 age group (see Fig. 17), which accounts for a third of all female diamond jewellery purchasers and for 29 per cent of value. This group is followed by the 36-45 year old segment, which constitutes about a quarter of purchasers and value.

In the past 10 years, a greater number of mature Indian consumers have purchased diamonds. In 2013, those aged 46-55 represented 17 per cent of purchasers, almost a 25 per cent increase in share compared with 2002. This segment contributes considerably more to the value (23 per cent) than its share of purchasers (17 per cent). The opposite is true of the youngest age group 18-25, where 21 per cent of purchasers contribute 18 per cent of value. This is because of the different average spend in these groups: in 2013 the youngest spent on average INR76,000 (about US\$1,300) on a diamond jewellery piece, while those aged 46-55 spent on average INR1.5 lakh (about US\$2,600). The difference in spend is driven partly by the size of the main diamond in the piece acquired: on average, the youngest women buy jewellery with polished

FIG. 19: SHARE OF DIAMOND JEWELLERY DEMAND BY PRODUCT TYPE

	2013	2006
Rings	49%	36%
Nose rings	24%	10%
Earrings	18%	23%
Necklace/Pendant	7%	11%
Bracelet	1%	N/A
Bangle	1%	3%
Mangalsutra	1%	N/A

Note: Percentage of all pieces. Figures may not sum due to rounding  
Source: De Beers

diamonds of 0.18 carats, while the average diamond size in the older segment is 0.27 carats.

People in the older age group buy a considerable proportion of diamond pieces for gifts – 40 per cent, within which 19 per cent are for daughters and a further seven per cent for daughters-in-law. Thus, younger women, become important acquirers of diamond jewellery both through self-purchase and gifting.

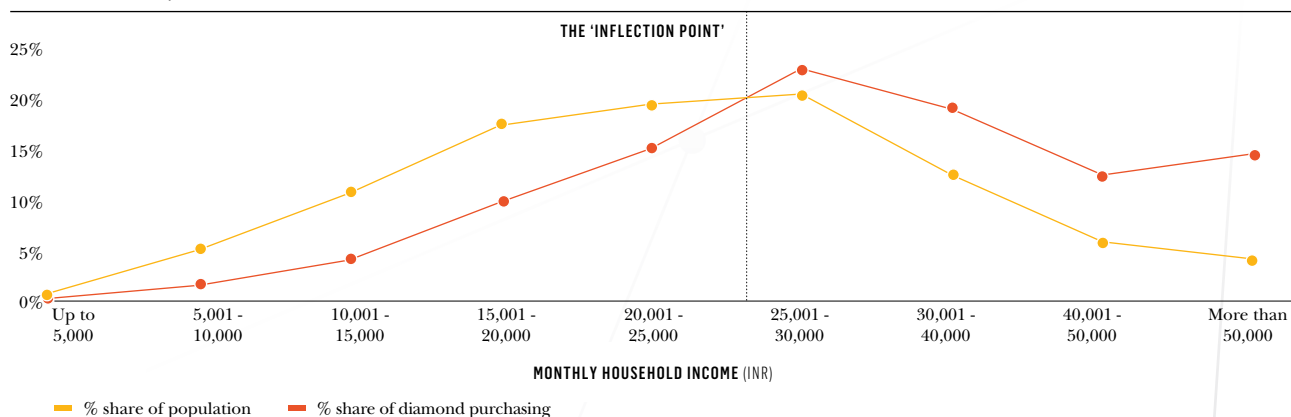
The motivations driving diamond purchases among these two age groups also vary significantly. Younger women buy much more frequently for a personal milestone, such as a birthday, with 21 per cent of all purchases in this group being motivated in this way, compared with 12 per cent in the older group. Women aged 46-55 buy much

more often to celebrate a relationship milestone, however, with 46 per cent of purchases meeting this need, compared with 30 per cent in the younger group. Younger consumers are also more self-indulgent and 13 per cent of diamond pieces they buy are to cheer them up during a difficult time, while for the older women this accounts only for nine per cent of purchases.

The second most powerful purchase driver for the older women is impulse – 34 per cent of pieces bought are either a good deal, a unique design or a nice treat. It can therefore be seen that both groups are prone to emotional drivers, but to a different extent and of a different nature.

India's diamond jewellery purchases vary by region and type of city. The north of India accounts for 49 per cent

FIG. 20: INCOME GROUPINGS' PROPORTION OF THE SURVEY POPULATION AND PROPORTION OF DIAMOND PURCHASING, 2014



## ECONOMIC DRIVERS OF GROWTH

### CONTINUED

of buyers, followed by the south of India with 24 per cent. Tier 1 cities, with populations of four million or more, account for 58 per cent of all diamond jewellery purchasers, followed by Tier 2 cities, with populations of one to four million, which account for 30 per cent of buyers (see Fig. 18).

In terms of product type bought, rings have gained share among diamond jewellery pieces purchased in India in recent years and, with almost 50 per cent share in 2013, they are the most popular product (see Fig. 19). In second position, also gaining share, are nose rings, which represent about a quarter of all pieces bought. Earrings, as the third most popular diamond product, have lost ground and in 2013 accounted for about one in five pieces. The preferences of the Elites are distinctly different, with higher shares for earrings (26 per cent), necklaces (15 per cent) and bracelets (five per cent).

### GROWTH OF MIDDLE CLASSES INDICATES A FUTURE OPPORTUNITY

#### *Historical growth*

An often used definition of middle class in India is households with annual income in excess of the equivalent of US\$10,000. However, looking at income levels in relation to diamond purchasing rates, an 'inflection point' can be observed where households begin to contribute to a greater share of diamond purchases than their share of the potential consumers of diamonds (see Fig. 20). The De Beers

survey found that this inflection point is at approximately INR25,000-30,000 per month (US\$5,000-6,000 per year), just above the current national median Indian household income of US\$4,000.

Another important threshold among Indian consumers is the monthly income at which they enter the Elites – above INR40,000, as at this level of affluence multiple diamond piece ownership increases significantly to over a third of consumers. These women have already acquired perhaps more than one piece of entry level diamond jewellery with multiple smaller stones and are focused on acquiring more significant diamonds, such as larger solitaire pieces, or higher-end multiple diamond pieces, such as bracelets.

### THE MIDDLE CLASS OPPORTUNITY

The number of households earning above the first 'inflection point' of US\$5,000-6,000 is expected to grow by 7.5 crore (75 million) over the next decade<sup>15</sup> to reach 17.8 crore (178 million) by 2024<sup>16</sup>. The non-Elite households are forecast to increase by over a third to 16.3 crore (163 million) and make up 51 per cent of all households by 2024<sup>17</sup>. This presents a considerable volume growth opportunity for the Indian jewellery retail sector, as this income group is likely to purchase mainly smaller diamonds, but to do so in high numbers reflecting their population size.

The strongest value growth is expected to be from the Elite and Super Elite segments. The number of Elites is expected to treble over the next decade to 1.2 crore (12 million) households. The Super Elites are expected to quadruple over this period and reach over 30 lakh (three million) households by 2024<sup>18</sup>. As both of these segments consume larger, higher-value diamonds, they will drive the value growth opportunity in India.

A healthy growing economy is a precondition for the continued increase of the middle classes and India's economy has a positive medium- and long-term outlook. India's GDP growth is expected to outpace China's for the first time in 2015 (see Fig. 21) and India's growth is expected to continue to outpace that of China over the next half decade<sup>19</sup>. This will be driven by India's favourable growth fundamentals, including wages and incomes that should rise faster than China's and a labour force that will overtake China's in size by 2025<sup>20</sup>. In terms of its share of world GDP, India could overtake the EU and the US by 2044 and 2049, respectively<sup>21</sup>.

FIG. 21: ANNUAL PERCENTAGE CHANGE IN REAL GDP



Source: IMF

# EMOTIONAL DRIVERS OF GROWTH

## DIAMONDS REPRESENT 'LOVE' TO INDIAN CONSUMERS

Generally, diamond jewellery is acquired by women in India for three main reasons: as an expression of love and celebration of a relationship milestone; as a celebration of a personal milestone; and as an impulse purchase.

More than four in 10 diamond jewellery purchases are made with a 'Love' motivation, while a little over one in 10 are for a personal 'Milestone'

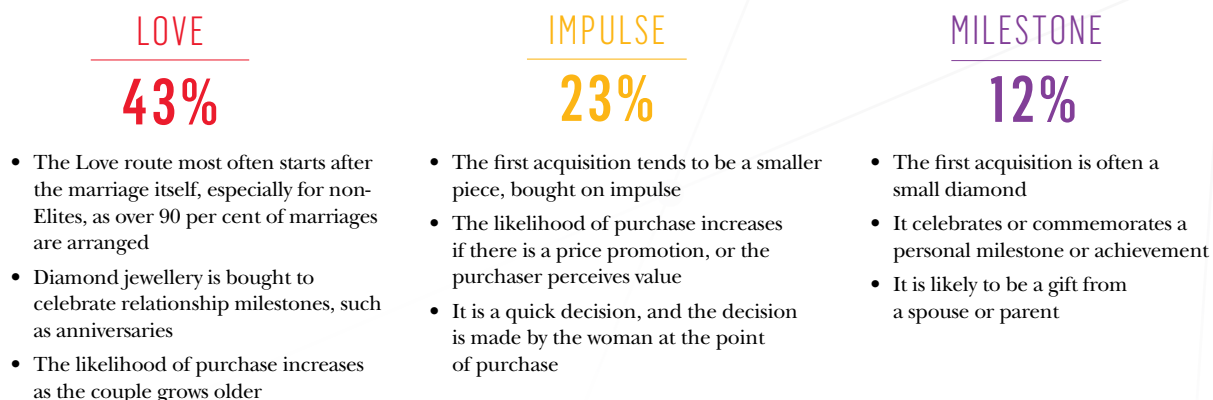
and about a quarter are unplanned 'Impulse' acquisitions (see Fig. 22).

Associations of diamonds with love are strong in India, confirmed by the fact that 61 per cent of women strongly agree that diamond jewellery is a symbol of everlasting love.

However, the Indian 'Love' acquisition route is unique in the context of other major diamond markets. In the US and China, the bride-to-be typically acquires a solitaire diamond ring

on engagement or for the wedding occasion as a symbol of love and long-lasting commitment. Today, in India, more than nine out of 10 marriages are arranged and so do not involve a love match or a proposal in the Western sense. It is noteworthy, however, that among the Elite population the ratio of arranged to love marriages is 50:50. This means that the pre-marriage 'Love' route has a bigger role to play in this consumer segment.

**FIG. 22: INDIAN WOMEN'S TOP THREE ACQUISITION MOTIVATIONS, SEC A/B NON-ELITE AND ELITE (PERCENTAGE OF ALL PIECES PURCHASED IN 2013)**



## EMOTIONAL DRIVERS OF GROWTH CONTINUED

So, for the majority of the affluent Indian population today, diamond jewellery is not positioned as a symbol of romantic love and promise at the beginning of married life. Instead, it is part of the collection of mainly gold jewellery pieces acquired by the bride as a means of receiving family wealth from the older generation. As many as 73 per cent of SEC A/B non-Elite brides and almost all (98 per cent) Elite brides bought some jewellery containing diamonds in 2013 for their wedding-related functions.

The true 'Love' acquisition route starts for Indian women after the wedding, mainly through the celebration of wedding anniversaries. This occasion

accounted for about a quarter of the women's diamond jewellery purchases in 2013. Therefore, diamond jewellery retailers in India have the opportunity to align to and grow the 'Love' route in their own way by targeting more mature couples with messages of relationships withstanding the test of time.

Some enterprising retailers are already beginning to realise these opportunities by maintaining customer databases with wedding anniversary dates, as well as birthdays, so that they can remind their clients of these important celebrations days in advance and prompt them to buy a piece of diamond jewellery. This builds up not only sales, but also customer loyalty.

**AS MANY AS 73 PER CENT OF SEC A/B NON-ELITE BRIDES AND ALMOST ALL ELITE BRIDES BOUGHT SOME DIAMOND JEWELLERY IN 2013 FOR THEIR WEDDING-RELATED FUNCTIONS.**





## EMOTIONAL DRIVERS OF GROWTH

CONTINUED

### THE 'IMPULSE' PURCHASING JOURNEY

While the post-marriage 'Love' route is the most common acquisition route for Indian women, the 'Impulse' route also represents a sizeable opportunity for Indian jewellers with over one in five pieces (23 per cent) being motivated this way. In the 'Impulse' acquisition, women are attracted to a piece of diamond jewellery because of

the design, the exceptional value for money or simply because they want a nice treat. All women buy on impulse, but the incidence is higher among the Elites at 26 per cent. As consumer affluence grows, the number of women who purchase diamond jewellery without advance planning is likely to rise. At present, the Elites and Super Elites offer vivid examples of how this happens (see Sindhu's Journey).

**AS CONSUMER AFFLUENCE GROWS, THE NUMBER OF WOMEN WHO PURCHASE DIAMOND JEWELLERY WITHOUT ADVANCE PLANNING IS LIKELY TO RISE.**

### AN ILLUSTRATIVE CONSUMER JOURNEY OF AN INDIAN WOMAN

#### SINDHU'S PROFILE

- 45 years old
- Lives in Mumbai
- Married with two older children
- Runs a corporate training institute with her husband
- An impulse buyer who trusts only her regular jeweller

*Sindhu was thinking about buying herself a diamond bangle similar to the one she wears daily, but with bigger diamonds to wear to important functions or events. She had gone to her regular jeweller to repair a piece and asked if they had a suitable design.*

#### CONTEXT

The size of the diamond purchased generally increases with age, and women in India often see the size of the diamond as a mark of accomplishment. Twenty-two per cent of women purchased diamond jewellery on impulse, the second most common acquisition route.

*"He showed me the Forevermark brand directly. He tried his best, telling me all kinds of information but I didn't listen. I don't know about clarity and cuts. If someone asks me, I just tell them about the company and jeweller. I don't carry any technical information."*

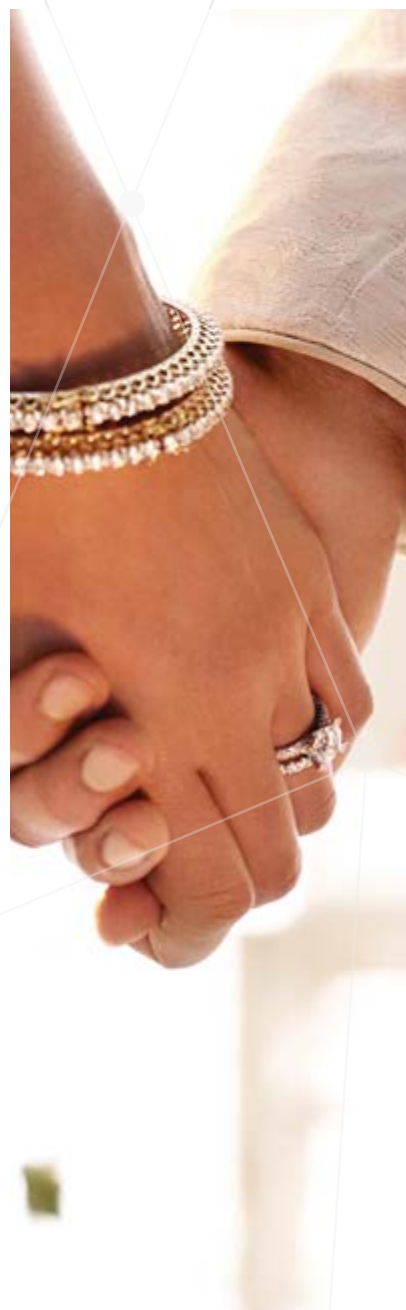
The brand of jewellery/retailer brand is the most important factor influencing diamond jewellery selection for the majority (78 per cent) of women. Almost half (49 per cent) of women believe that it is very important to seek advice from their preferred jeweller before buying and this advice ranks second only to the opinions of family and friends as the most powerful influence, with 46 per cent nominating it.

*She liked the diamonds and the design was exactly what she was looking for. Budget was not a constraint for her. Even though she had not planned to make a purchase on this specific occasion, she was so pleased with the piece that she purchased it, as she felt the price was right.*

The second most important consideration, when buying diamonds, after brand, is price, selected by 73 per cent of women as very important.

*Sindhu loves her Forevermark diamond bangle and proudly shows it off at social functions. She often gets comments on it, and always tells people it's a Forevermark piece.*

Nearly half (49 per cent) of Indian women strongly agree that a piece of diamond jewellery is the 'ultimate status symbol' and use it to differentiate themselves from their peers.



## EMOTIONAL DRIVERS OF GROWTH

CONTINUED

### DIAMOND JEWELLERY IS AN ASPIRATIONAL PRODUCT

In India, jewellery is a luxury item of high desirability, more so than in other markets where it is often challenged by other luxury products and services. For example, in 2013 fine jewellery ranked fourth on the list of gifts that US women would most like to receive, behind foreign holidays, weekend getaways and electronics. In India, fine jewellery far outweighs other luxury and experiential categories in desirability with 65 per cent of women wishing to buy it for themselves and 47 per cent hoping to receive it as a gift (see Fig. 23).

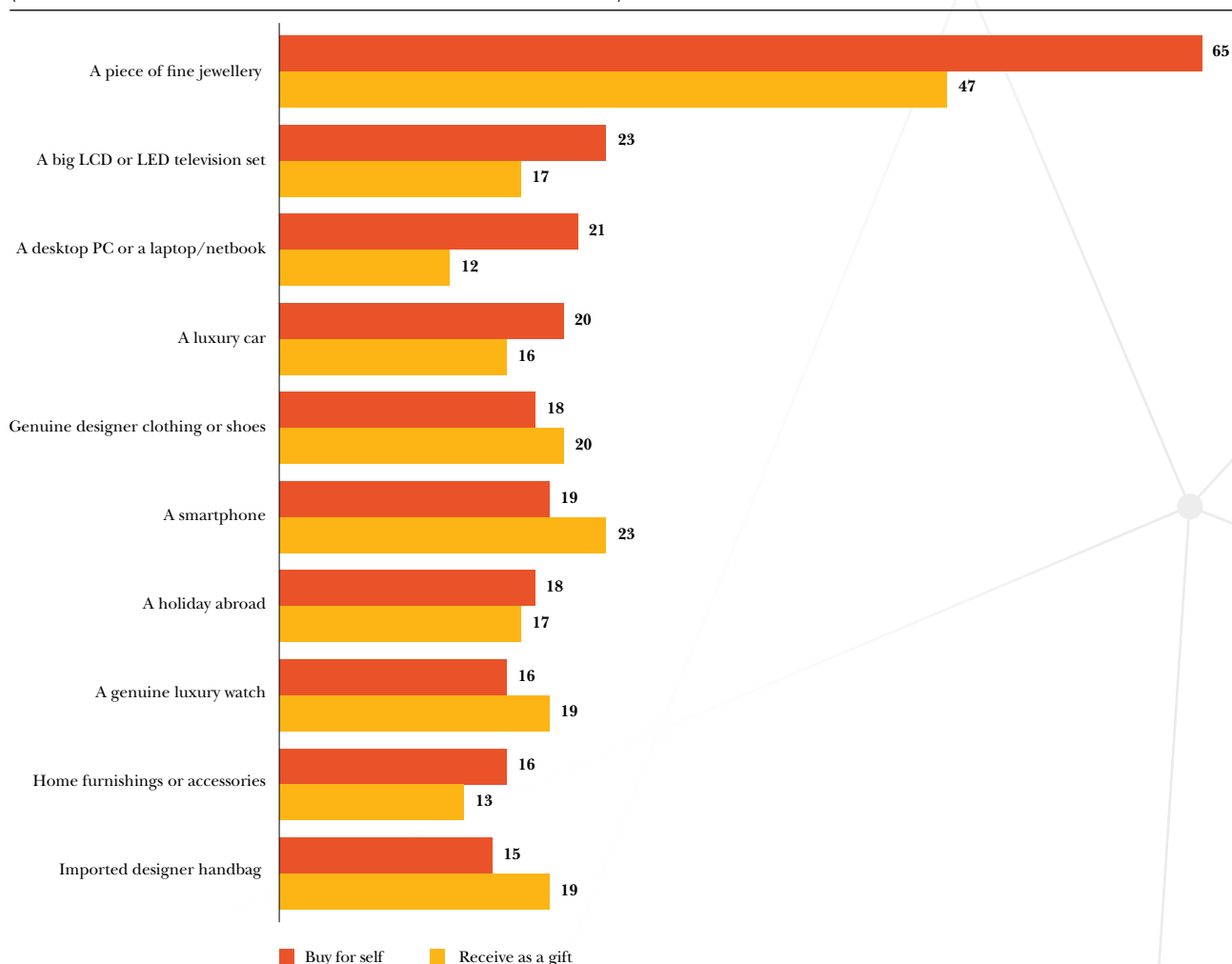
Desirability of diamonds within the fine jewellery category varies considerably among the different female consumer segments in India. Among the SEC A/B non-Elite segment, gold is the top preference for 56 per cent of women, compared with 23 per cent who preferred diamonds. But among the Elite segment, 75 per cent of women placed diamonds as their first preference in fine jewellery, with only six per cent preferring gold.

So how can retailers make diamonds more attractive to the non-Elite segment? One possible way would be through engaging with the aspirational

needs of consumers. The De Beers study showed that 52 per cent of women strongly agree that diamond jewellery is 'prestigious'. These perceptions are driven to a large extent by the behaviour of the Elites and the Super Elites, behaviour which the less affluent consumers in SEC A/B non-Elites seek to emulate.

The Super Elites themselves seek to achieve a range of social and emotional outcomes through their diamond jewellery, from visibility and recognition of status and achievement to differentiation and Western sophistication (see Fig. 24).

**FIG. 23: MOST DESIRED ACQUISITIONS**  
(PER CENT OF WOMEN SELECTING THEIR TOP THREE CHOICES)



Source: De Beers



## EMOTIONAL DRIVERS OF GROWTH

### CONTINUED



### DIAMONDS CAN PLAY A ROLE AS STORE OF VALUE AND HEIRLOOM

Eight out of 10 Indian women own a piece of fine jewellery, which demonstrates the central importance of jewellery in Indian culture. Many of these pieces are likely to have been gifted by parents to transfer wealth to their children. Today, gold fulfils the role of a store of value, investment, and liquid asset in Indian culture. The De Beers survey showed that half of all married women strongly agree that diamond jewellery is very suitable for a family heirloom. Given that diamonds are such a rare product and symbolise eternity, positioning them as an heirloom to be handed down to the next generation represents an opportunity to carve out a role for diamonds as complementary to, rather than as a replacement for, gold.

There is a strongly held view among Indian consumers that diamonds are a good store of value, with 75 per cent of women in the top socio-economic classes agreeing that they are a good investment.

### FIG. 24: INSIDE THE MIND OF A SUPER ELITE CONSUMER

Indian culture values outward expression of status. The exclusivity of diamond jewellery reassures the Super Elite consumers of their status in society. It is vital that the diamond industry continues to embrace this wealthy and international clientele.

The four key motivations for purchasing diamond jewellery among the Super Elites are identified below.

- **Diamond jewellery as signifier**

Purchasing diamond jewellery is a visible recognition of status and of achievement in life, and serves as a public mark of self-worth.

- **Diamond jewellery as differentiation**

Differentiation is about distinguishing themselves from others, allowing them to mark themselves as superior. There is a strong sense of competitive trading up.

- **Diamond jewellery as visible**

The brand has to be clear and visible, and instantly recognisable to others. The jewellery must be showy, not subtle.

- **Diamond jewellery as Western alignment**

Wearing branded diamond jewellery denotes a level of exclusivity and luxury. Super Elites who are becoming increasingly globally aware also measure themselves against foreign counterparts.

**"TWO CARATS AND ABOVE IS REALLY SPECIAL. ONE CARAT IS STANDARD. A TWO CARAT DIAMOND MAKES ME SEEM ACCOMPLISHED, STAND OUT IN A CROWD, LIKE YOU'VE DONE SOMETHING IN YOUR LIFE."**

*Forevermark-commissioned research.*

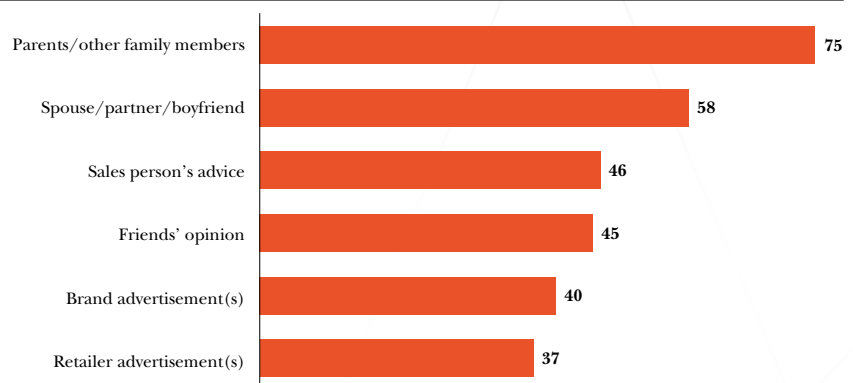
# THE ACQUISITION PROCESS

## FAMILY AND RETAILERS SHAPE PURCHASING DECISIONS

The purchasing journey in India is a consultative process, especially for important pieces of jewellery, with shopping trips taking place in family groups and decisions made on the basis of their recommendations (see Fig. 25). When women were asked about the activities they performed before purchase, the most common response was 'seek advice from friends and relatives', with half of the survey participants selecting this response. By comparison, only 10 per cent of women in China seek advice in this way.

Existing family connections with a local jeweller are also a powerful influence on purchasing decisions in India, with 46 per cent of women rating sales person's advice as a very important influence and 49 per cent saying they seek advice from their preferred jeweller. This means that the in-store experience and interaction with the retailer is highly valued by consumers and that retailers have an important role to play in shaping customers' purchase decisions.

**FIG. 25: MOST IMPORTANT INFLUENCES IN THE DIAMOND PURCHASING JOURNEY (PER CENT 'VERY IMPORTANT')**



Source: De Beers

## BRANDING FOR SUCCESS

Brands are playing an increasingly prominent role in the diamond purchasing journey. De Beers-commissioned research among retailers has shown that 21 per cent of diamond jewellers stock brands, compared with only nine per cent of all jewellery retailers. In India, these

**BRANDS ARE PLAYING AN INCREASINGLY PROMINENT ROLE IN THE DIAMOND PURCHASING JOURNEY.**

## THE ACQUISITION PROCESS

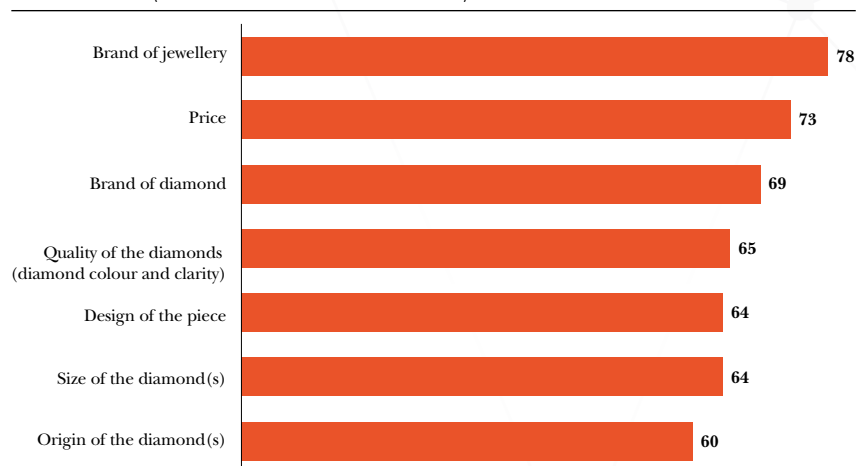
### CONTINUED

are overwhelmingly local retail and jewellery brands, with international brands not yet having made a significant impact on local purchases.

The jewellery brand is the most important factor in diamond jewellery selection, with 78 per cent of women viewing this as 'very important', ahead of other factors including price (73 per cent), quality of diamond (65 per cent) and design (64 per cent) (see Fig. 26). The strong growth of national jewellery chains such as Tanishq and Malabar Gold and Diamonds is testament to this increasing loyalty towards prominent retailer brands.

The Forevermark brand was launched by De Beers in India in 2011 and by mid-2015 the number of doors in which it is present has reached almost 160. This growing presence in the Indian diamond jewellery market and the positioning of beauty and rarity with an emotionally appealing story of responsible sourcing has propelled Forevermark to the third most preferred brand by consumers, coming only behind well established and familiar brands Tanishq and Gitanjali.

**FIG. 26: MOST IMPORTANT FACTORS IN SELECTING DIAMOND JEWELLERY (PER CENT 'VERY IMPORTANT')**



Source: De Beers

The rise of diamond jewellery retail brands supports Indian demand for diamonds through increasing levels of marketing investment. In 2014, the total marketing spend by diamond jewellery and retail brands in India was up 50 per cent from 2010 levels, to over INR600 crore (over US\$100 million)<sup>22</sup>. Increasingly, some large

diamond brands are drawing linkages with cultural touchstones such as Bollywood in order to achieve this. Drawing on endorsements from Bollywood celebrities is a trend that has particular success among the SEC A/B non-Elites, with 66 per cent reporting being influenced by it (compared with 49 per cent of Elites).



# THE ROLE OF RETAILERS

## THE RAPID GROWTH IN DIAMOND JEWELLERY OUTLETS

The 2000s were a period of fast growth for diamond jewellery retail in India, with an increasing proportion of jewellers selling diamonds.

Approximately one third of jewellery retailers sold diamond jewellery in 2011, up from just a fifth in 1994.

Jewellers have been attracted to the category by the potential for higher sales and margins. On average, those that stock diamonds in Tier 1-3 cities achieve sales eight times larger per outlet than those that do not, and diamond jewellery accounts for about a third of total sales at an average diamond jewellery stockist.

Today, growth in diamond jewellery doors has come back in line with overall jewellery doors growth, but the potential for future growth in volume acquisitions offers potential to new entrants just as much as it does for established diamond jewellery retailers.

A key trend in the Indian diamond jewellery retail scene is the increasing importance of large chains. In 2011, these comprised only two per cent of diamond jewellery outlets, but were responsible for 17 per cent of the sales. The increase in the significance of chains is part of the rise of modern formats in the broader Indian retail market, favoured by young, urban consumers. The increase in share of larger retail formats is expected to be accompanied by an increase in share of total retail sales made up by the 'organised' sector from eight per cent today to 24 per cent in 2023<sup>23</sup>. Diamond jewellery retailers are therefore likely to face increased competition from more modern jewellery retail formats and the organised sector in the coming years.

**THE POTENTIAL FOR FUTURE GROWTH IN VOLUME ACQUISITIONS OFFERS POTENTIAL TO NEW ENTRANTS JUST AS MUCH AS IT DOES FOR ESTABLISHED DIAMOND JEWELLERY RETAILERS.**



## THE ROLE OF RETAILERS

CONTINUED

### ONLINE IS AN ENABLER OF RICHER SHOPPING EXPERIENCES

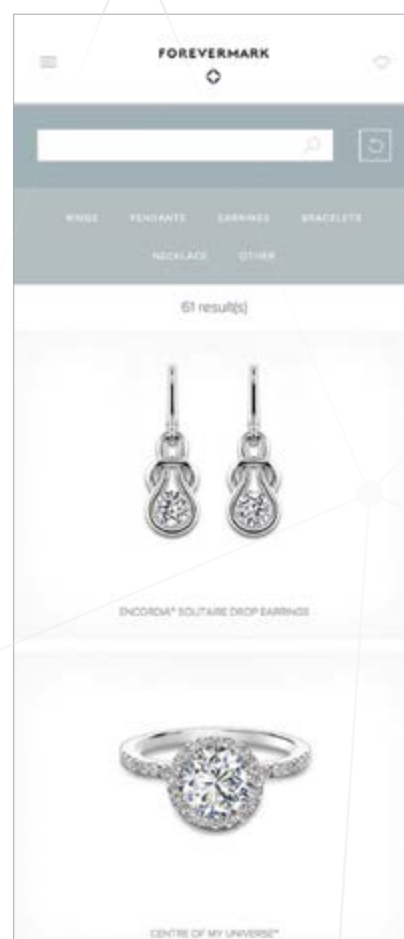
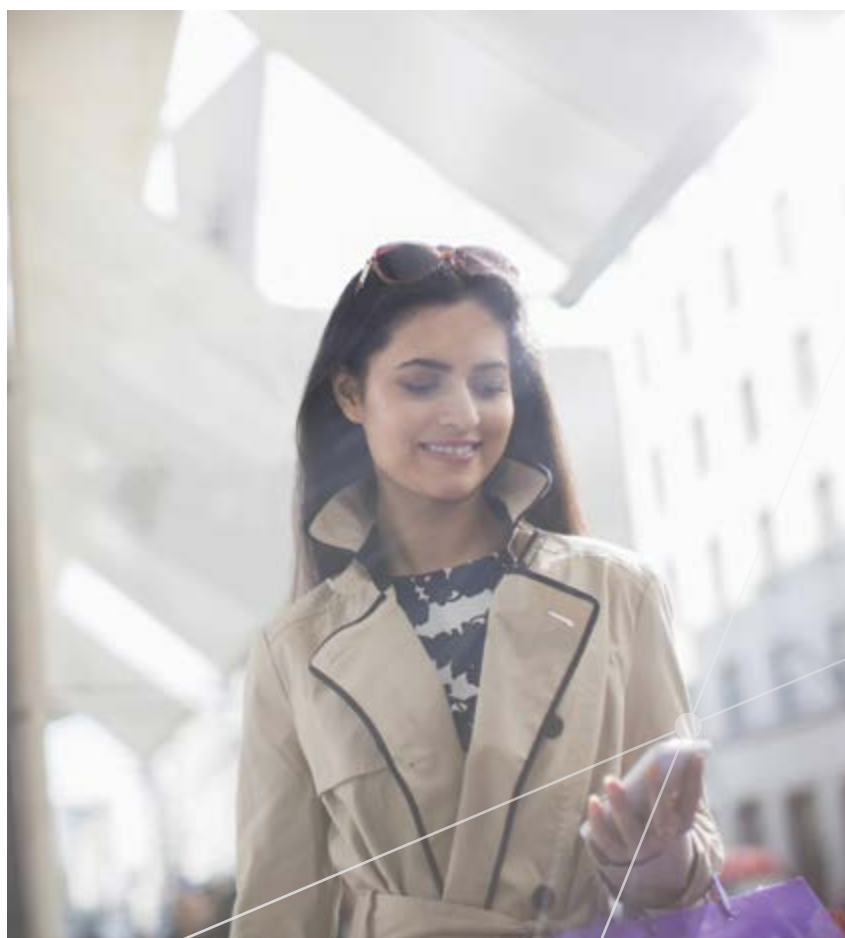
The growth of e-commerce is a global phenomenon that has had limited impact on diamond jewellery sales in India up to now. Only one in every 100 diamond jewellery pieces is currently bought online in India. This is in stark contrast to the US, where in 2013 18 per cent of diamond jewellery acquisitions were made online.

Similarly, online currently has a relatively low reach in India as a pre-purchase research tool. In India, 12 per cent of women use the internet to pre-select designs or learn more about diamond jewellery. In more advanced markets, the proportion is higher, with over a fifth of Chinese women and around a third of American women using online as a research channel.

However, as internet penetration and sales of smartphones accelerate, online is likely to become more important in India, both as a sales channel and a research tool. The young generation is driving growth of online, and the incidence of online diamond jewellery purchasing among women aged 18-25 was three per cent in 2013, three times higher than the overall online diamond jewellery buying rate. Online is also used more frequently for diamond jewellery purchasing by the Elites (two per cent of all purchases). The combination of a youthful and affluent user base makes online a valuable tool for growing diamond sales at present and even more so in the future.

### CONCLUSION

It is evident that the Indian consumer market presents a significant growth opportunity for diamonds. The sector is diverse, with three distinct and very different consumer segments that will require differentiated approaches by diamond retailers in order to realise the growth opportunity. The most successful retailers of the future will need to employ a variety of approaches, including effective consumer messaging and positioning of diamonds for different occasions to different audiences; strengthening of retail and diamond jewellery brands; compelling marketing; and developing modern retail formats with an online presence.




## FOOTNOTES

- <sup>1</sup> **USA Bureau of Labor Statistics, Quarterly Tracking on Number of Jewelry Establishments**
- <sup>2</sup> **IBISWorld research and analysis firm, 2015**
- <sup>3</sup> **Blue Nile**  
[www.bluenile.com/showcase-collection-seattle](http://www.bluenile.com/showcase-collection-seattle)
- <sup>4</sup> **Gemological Institute of America**  
[www.gia.edu/gia-news-research-zbird-industry-hsu](http://www.gia.edu/gia-news-research-zbird-industry-hsu)
- <sup>5</sup> **Mindshare, China**
- <sup>6</sup> **Ministry of Mines, Chamber of Mines Zimbabwe**  
[www.mineweb.com/news/diamonds-and-gems/zimbabwe-2014-diamond-exports-down-34/](http://www.mineweb.com/news/diamonds-and-gems/zimbabwe-2014-diamond-exports-down-34/); De Beers analysis
- <sup>7</sup> **Mining.com**  
[www.mining.com/web/commissioning-of-grib-complex-marks-successful-implementation-of-modular-plant-design](http://www.mining.com/web/commissioning-of-grib-complex-marks-successful-implementation-of-modular-plant-design)
- ALROSA**  
<http://eng.alrosa.ru/alrosa-launches-mining-on-karpinskogo-1-pipe>
- <sup>8</sup> **Gem Diamonds**  
[www.gemdiamonds.com/gem/en/operations/botswana](http://www.gemdiamonds.com/gem/en/operations/botswana)
- <sup>9</sup> **ALROSA**  
<http://eng.alrosa.ru/alrosa-launches-mining-on-botuobinskaya-pipe>
- <sup>10</sup> **Stornoway Diamonds**  
[www.stornowaydiamonds.com/English/our-business/renard-project/default.aspx](http://www.stornowaydiamonds.com/English/our-business/renard-project/default.aspx)
- <sup>11</sup> **Rapaport**  
[www.diamonds.net/News/NewsItem.aspx?ArticleID=50149](http://www.diamonds.net/News/NewsItem.aspx?ArticleID=50149)
- <sup>12</sup> **ALROSA**  
<http://eng.alrosa.ru/alrosa-commissions-udachny-underground-mine>
- <sup>13</sup> **Dominion Diamond Corporation**  
[www.ddcorp.ca/investors/news-single?id=1993309](http://www.ddcorp.ca/investors/news-single?id=1993309)
- <sup>14</sup> **Dominion Diamond Corporation**  
[www.ddcorp.ca/investors/news-single?id=2025431](http://www.ddcorp.ca/investors/news-single?id=2025431)
- <sup>15</sup> **Calculated based on nominal (ie non-inflation adjusted) terms**
- <sup>16</sup> **Oxford Economics Forecasts, June 2015**
- <sup>17</sup> **Oxford Economics Forecasts, June 2015**
- <sup>18</sup> **Oxford Economics Forecasts, June 2015**
- <sup>19</sup> **IMF World Economic Outlook, April 2015**
- <sup>20</sup> **UN Population Division**
- <sup>21</sup> **PwC, 'World in 2050', February 2015**
- <sup>22</sup> **Mindshare India; calculated in real terms at today's exchange rate**
- <sup>23</sup> **Fashion and Beauty Sector India – Market Entry Opportunities for UK Companies', UK India Business Council, 2014**

A glossary containing the technical terms used within this report can be found at [www.debeersgroup.com/glossary](http://www.debeersgroup.com/glossary).

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**DE BEERS UK LTD**  
17 CHARTERHOUSE STREET  
LONDON  
EC1N 6RA

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