# De Beers – Rulers of the Diamond Industry

## The Rise and Fall of a Monopoly

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# A Brief Overview of the Diamond Industry

- Diamond market is estimated to be $30B / year
- Diamonds have no practical use to the normal person
  - Jewelry diamonds would be worth $2-30 if used industrially
- The price of diamonds do not actually reflect their true scarcity (or lack of)
- Price of diamonds have remained surprisingly stable

# De Beers

- Historically owned 85% share of the diamond market
- Owns both mines and main distribution system, Central Selling Organization
  - Mine and trading companies owned by subsidiaries with generic names
- Known for influencing supply and demand to control prices

# Tactics to Control Supply - Distribution

- Majority of diamonds from mines sold to De Beers
  - External buying offices compete with purchasers buying from outside
- Company sells them 10 times a year at “sights”
  - De Beers has sole power to determine how many diamonds to sell and at what price
  - Vast amounts of research done
- 125 - 250 “sightholders” invited to CSO to purchase diamonds

# The Iron Hand of De Beers

- Sightholders virtually powerless at sights
  - Can only accept or reject boxes
  - Not allowed to negotiate
  - Not allowed to sell to retailers who will lower prices
  - Must give De Beers information about market and inventory
  - De Beers has the right to come and audit them
- Diamond supply is their punishment/reward
  - "Perhaps you've been slightly naughty, but let's see what we can do next time." - said to a disappointed sightholder who disobeyed the rules

# Israel Incident

- In 1970s, Israeli merchants hoarded diamonds during a period of high inflation to try to profit
  - Created a shortage, driving prices up
- De Beers was concerned they no longer had control of supply in market
  - Once the hoard was dumped into market, prices would drop and they would no longer be “rare”

# Israel Incident Continued

- To force Israelis to sell their inventories, De Beers:
  - Charged temporary surcharges at CSO, to create sudden price fluctuations and make speculation risky
  - Allocated 20% less diamonds to Israelis
  - Banned Israeli sightholders from sights
- Israelis ending up selling their stocks and following De Beer’s orders

# Anticompetitive Tactics

- If price of diamonds are falling, De Beers will:
  - Hoard inventory by selling less
    - Accumulated $2B in diamonds in 1984 after allowing prices to rise too much and a sudden sell off in the market and $5B in 1990s
  - Charge higher prices to sightholders
- If new suppliers emerge, it will:
  - Flood the market with similar diamonds at below market prices

# Zaire Incident

- Zaire was not satisfied with CSO’s sales conditions
- Decided to sell on the industrial diamond free market
- De Beers responded by flooding the market with similar diamonds at below market prices
- Zaire came back to De Beers to ask for readmission into cartel
  - De Beers accepted and offered even worse terms

# Controlling Demand

- Highly effective advertising
  - Over 70% of American women own at least one diamond
  - Done through movies, magazines, celebrities, even British Royal Family
  - Used to shift focus on types of diamonds company wants to sell
- “A Diamond is Forever”
  - Campaign used to convince people not to sell or buy used diamonds

# Antitrust Violations

- In 1994, US Dept. of Justice charged De Beers and General Electric for conspiring fix prices of industrial diamonds
- Two companies allegedly provided advance notification to each other about the prices of their goods

# Antitrust Violations

- Any De Beer’s employees entering US were supposed to be arrested
  - Company has conducted business through intermediaries since 1945
- In 2004, the company plead guilty and paid a $10M fine
  - Allowed to operate directly in the US

# Losing its Grip on the Market

- In 1990s, several events happened:
  - Soviet Union collapsed, weaking partnership
  - Huge Argyle mine in Australia broke off from cartel
  - New mines in Canada discovered
  - Increasing popularity of synthetic diamonds
- Market share fell from 85% to 65%

# The Aftermath

- Stopped trying to control market and instead focus on using its marketing and brand
  - Spent $180M on marketing in 2004
- Partnered with Louis Vuitton to open retail outlets
- In 2003, earned sales of $5.5B and income of $676M

# Conclusions

- De Beers one of the most successful monopolies in history
- Used numerous tactics to successfully control supply and demand
- Monopoly fell apart when it could no longer stop other entrants

# Sources


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