



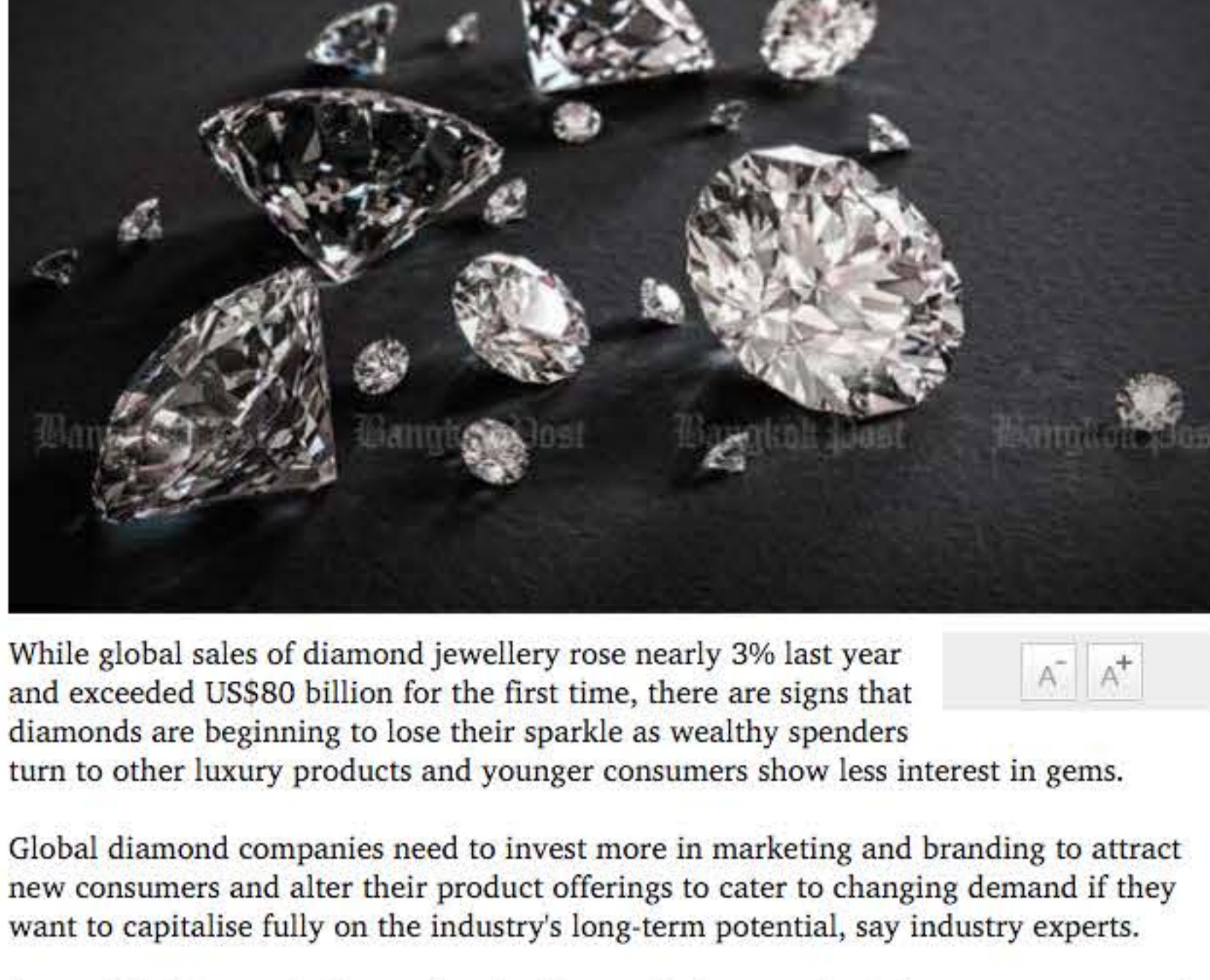
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The search for sparkle

Global diamond industry is enduring a rough patch and will need to do more to attract a new generation of consumers, but changing tastes in Asia could help restore the shine.

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While global sales of diamond jewellery rose nearly 3% last year and exceeded US\$80 billion for the first time, there are signs that diamonds are beginning to lose their sparkle as wealthy spenders turn to other luxury products and younger consumers show less interest in gems.

Global diamond companies need to invest more in marketing and branding to attract new consumers and alter their product offerings to cater to changing demand if they want to capitalise fully on the industry's long-term potential, say industry experts.

"One of the biggest challenges for the diamond industry today is how to preserve and increase consumer interest in diamonds," industry analyst Edahn Goland of Diamond Research & Data told Asia Focus recently.

"This is something that marketing and advertising need to take care of. In the past few years, the marketing and promotional efforts for the diamond market have diminished and the industry today is paying the price for it."

Mr Goland observed that demand in the two main consumer markets, the United States and China, had declined in the past years.

The top five markets for polished diamond sales, accounting for 75% of all global consumers, are the United States (42%), China including Hong Kong and Macau (16%), India (8%), the Gulf states (8%) and Japan (5%).

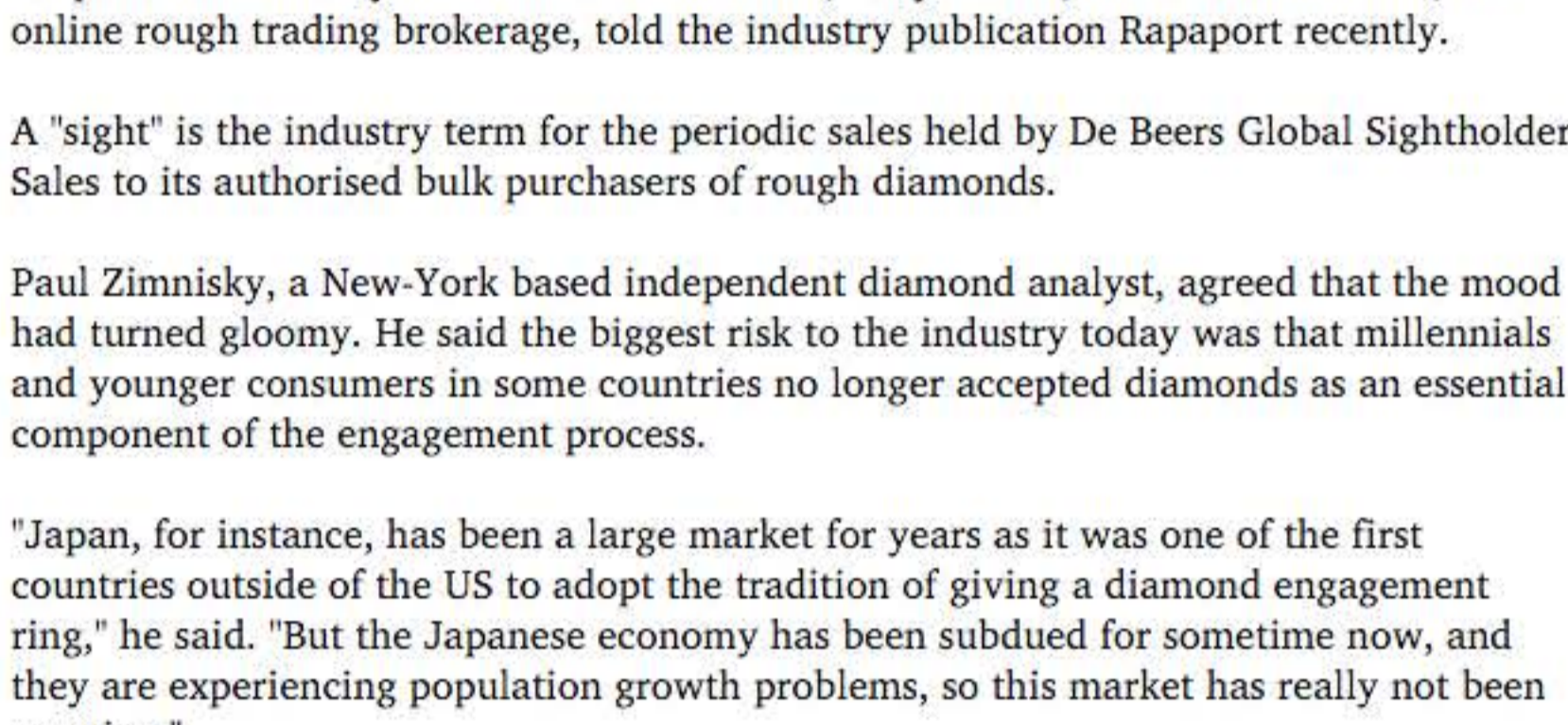
But even in these markets Mr Goland is detecting a shift in preference toward lower-cost items, and even when consumers decide to buy diamond jewellery, they may spend less than before.

Arto Artinian, the founder, president and CEO of Artinian Co Ltd, a Bangkok-based diamond company specialising in high-end jewellery design and manufacturing, added that he had seen some slowdown in the middle-class market given the weak economy.

However, for diamond buyers -- mainly wealthy individuals -- price is not their main concern. "It's not that they cannot afford to buy diamonds. It's that their interests now are on other things," he said.

Wealthy spenders now would rather spend their money on something more exotic, interesting and exciting than diamond jewellery, he added.

In any case, the main concern in the broader market is no longer prices but a lack of buyers for polished diamonds.



No matter how much or how little an item costs, everything sold by Tiffany comes in the same blue box, and every buyer experiences the same enjoyment, says Marc Jacheet, group vice-president for Asia-Pacific of the New York-based jeweller.

"The mood is the worst we have seen over the past few sights. ... There are no buyers for polished and only demand for a few items," Guy Harari, the CEO of Blueadax, an online rough trading brokerage, told the industry publication Rapaport recently.

A "sight" is the industry term for the periodic sales held by De Beers Global Sightholder Sales to its authorised bulk purchasers of rough diamonds.

Paul Zimmisky, a New-York based independent diamond analyst, agreed that the mood had turned gloomy. He said the biggest risk to the industry today was that millennials and younger consumers in some countries no longer accepted diamonds as an essential component of the engagement process.

"Japan, for instance, has been a large market for years as it was one of the first countries outside of the US to adopt the tradition of giving a diamond engagement ring," he said. "But the Japanese economy has been subdued for sometime now, and they are experiencing population growth problems, so this market has really not been growing."

POSITIVE SIGNS

However, the De Beers Group of Companies, the world's largest supplier of rough diamonds, remains optimistic about the long-term growth outlook.

"The diamond industry has performed more strongly than many other industries [during the economic slowdown] and we still see excellent medium- to long-term growth potential," said David Johnson, midstream communications manager of De Beers.

The demand for diamonds at the retail level remains healthy and there is no expectation of reduced prices to consumers, he added.

According to the Zimmisky Global Rough Diamond Price Index, prices have dropped about 12% over the past 12 months. The world's two largest producers have already cut production multiple times, which should allow for excess polished diamond inventory in the market to normalise.

"Rough diamond prices have been falling substantially this year because of structural issues relating to the functioning of the diamond value chain," said Mr Johnson.

The "indigestion" is occurring at the midstream level due to higher levels of inventory this year in cutting centres.

Mr Zimmisky added that global diamond demand growth still exceeded global production growth, so fundamentally that should be supporting prices.

"The cost of mining diamonds continues to increase, which should also be supportive of prices," he said. "If demand stabilises it should allow prices to continue to go higher as they have on average over the last 10 years."

Continued growth and wealth creation in emerging markets with stable demand in the US is what is really needed to significantly push prices higher in the near to medium term, he said.

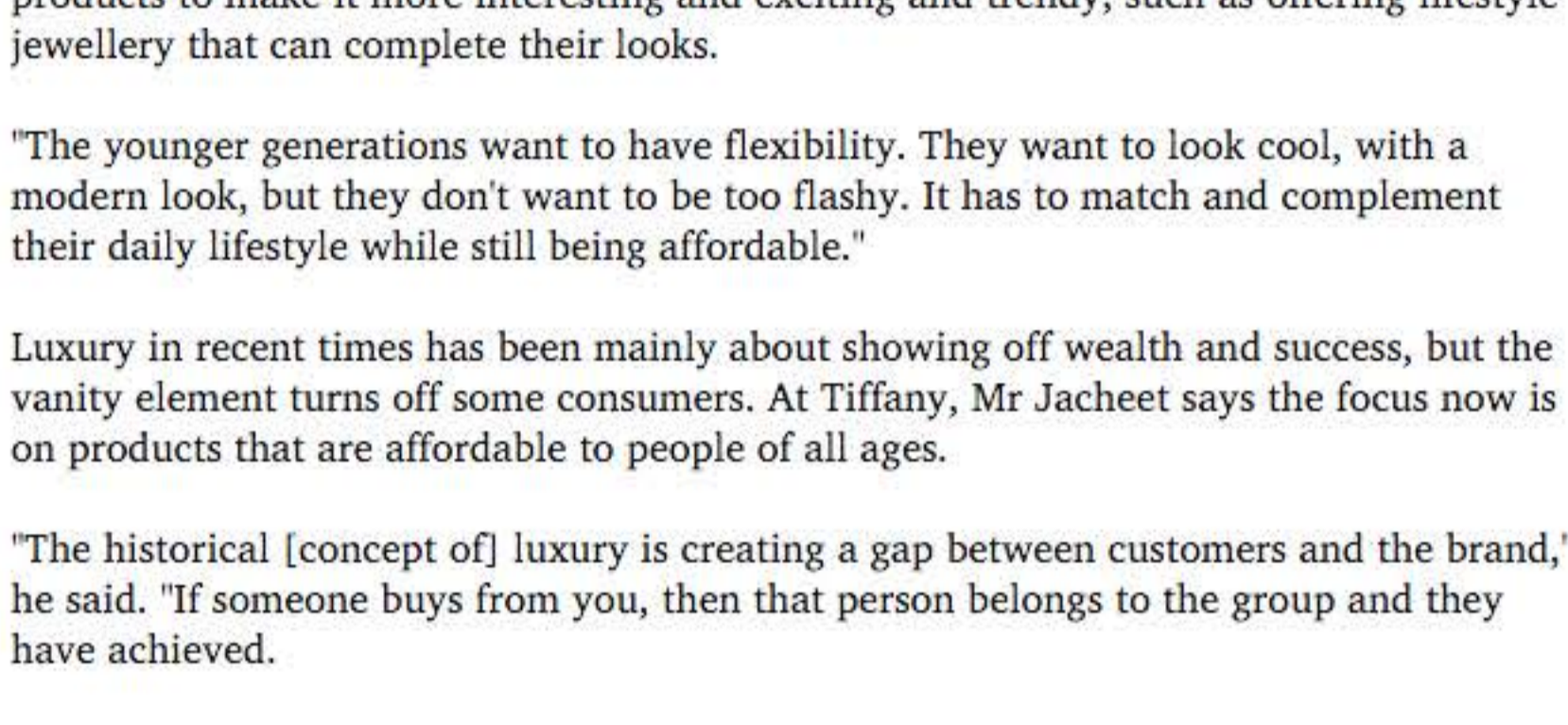
Mr Zimmisky added that in China, people are overwhelmingly embracing the idea of giving a diamond engagement ring, and the rapid growth of the middle class is allowing for this trend to grow.

India is following a similar trend. "Consumers in these countries see value in buying a diamond as a store of wealth, as they do with precious metals and other precious stones; to them diamonds are more than just jewellery," he said.

Marc Jacheet, group vice-president for Asia-Pacific with Tiffany & Co, which recently opened its first store in Bangkok, is also not seeing any decline in diamond demand, saying jewellery will always remain relevant in people's lives.

"In good times or bad times, every day there will be young girls graduating from high school, every day men are kneeling down and asking their loved ones 'Will you marry me?' and every day there will be successful women achieving their business goals," he said.

In his view, people need to believe, to belong, and to be loved, and diamond jewellery can help complement those moments. "Just like books, jewellery is absolutely useless, but it is absolutely needed. It is something you need to underline the best moments in your life," he said.



Tiffany & Co has brought its iconic brand to Bangkok with a store at The Emporium

THE NEW BUYERS

One of the major challenges for jewellers today is to attract new generations to the diamond jewellery business.

According to Mr Artinian, many younger people may think that they won't look cool wearing diamond jewellery. "They don't want to look like a Christmas tree," he said.

Older consumers, meanwhile, love jewellery and have bought a lot in the past, but now they are no longer interested in buying more, he added.

"As a jeweller, we have to be innovative. The jewellery industry has been very traditional in the way it does business. The industry has to change. The attitude toward the consumer has to change," he said.

Mr Artinian said his company was trying to put a concept that diamonds can be a daily luxury. "Not just the kind that you buy and put it in the safe, or only wear when you go to special events. It has to match the lifestyle; it can't be just the museum jewellery," he said.

He believes jewellers should come up with new and innovative ideas to make jewellery more exciting so younger people would wear it. "We try to be more innovative in our products to make it more interesting and exciting and trendy, such as offering lifestyle jewellery that can complete their looks.

"The younger generations want to have flexibility. They want to look cool, with a modern look, but they don't want to be too flashy. It has to match and complement their daily lifestyle while still being affordable."

Luxury in recent times has been mainly about showing off wealth and success, but the vanity element turns off some consumers. At Tiffany, Mr Jacheet says the focus now is on products that are affordable to people of all ages.

"The historical [concept of] luxury is creating a gap between customers and the brand," he said. "If someone buys from you, then that person belongs to the group and they have achieved."

"The way we believe in luxury is an inclusive luxury. We are not in the vanity business. It's not the higher the price, the more luxury you have. It is the true value and the moment in life that matter."

At Tiffany & Co, the price spread goes from \$250 to \$20 million and there is a product for every taste and budget.

"There could be an 18-year-old buying a \$700 item standing next to a super-rich 40-year-old buying something worth \$700,000 -- and both of them feel exactly the same," said Mr Jacheet.

"We are in the business of care and joy and we treat every customer exactly the same. All these items are packaged in exactly the same blue box."

Another way to gain attention among potential diamond buyers is to look at their purpose for buying, which varies differently across countries.

De Beers' Mr Johnson noted that 73% of diamond purchases in India came from women purchasing for themselves and the main motivations were love (43%), impulse (23%) and to mark a milestone (12%).

In China, the love motivation represents around 50% of purchases, followed by milestone motivation (23%) and the "spoiling" motivation or a treat for oneself (16%).

"Diamond consumption in China is led by married women who acquire almost two-thirds of pieces," he said, adding that the second most important consumer segment was brides-to-be, followed by single women.

Mr Goland added that in China, diamonds were important purchases for the bridal segment as well as status symbols. Consumers in India, meanwhile, are looking to expand their jewellery choices beyond the traditional gold jewellery and diamonds are becoming a very popular alternative.

"Currently, retailers are bracing for a challenging holiday season," he said. "They expect demand to be there, although they may find that consumers are focusing on lower price point items."

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