As always, it is a pleasure to be here at Rapaport. Martin, you have created a forum that believes in thinking ahead towards proactive change. I am happy to be part of this movement where, through the synergy of our thoughts, we strengthen our future.
What is the current global scenario?

Ladies and Gentlemen, the world is changing... If we continue to live in history, we will be condemned to be part of history!

Last year, we were surrounded by euphoria. This year it has been replaced with apprehension. Last year, we had a robust growing global economy. This year, we have seen the developing economies showing resilience and developed economies caving in under the pressure. Last year, we experienced a commodity and equities boom. This year, we have seen both halve in valuation. Last year, we had global inflation under control. This year, more than 50% of the world is experiencing over double-digit inflation. Last year, we thought we knew exactly where we were going. This year, we need to redefine our path and therefore, the strategies to meet the multiple challenges for growth over the next decade.

What are these challenges of change? Where are we today, what does the future hold and how do we build an effective strategy for this future? This is what I would like to talk about.
Today, the diamond value chain is experiencing winds of change, factors that could result in the emergence of a new business order.

Countries like China and India have invested heavily in polishing mid-sized high quality stones;

Local beneficiation is gaining ground with Southern Africa;

Trading markets are spreading and converting into regional hubs like Hong Kong, India and Europe

At a macro level, a shortage of rough supply will need to be balanced with growth in demand, especially as developing countries emerge as the new retail Mecca’s for jewelry.

Let us now delve deeper into the diamond value chain, and understand the factors that will determine potential change in the next decade.

I will, therefore, focus on the following:

• Factors that are likely to influence mining, manufacturing and retailing in the diamond markets over the next decade

• Where competitive advantages lie, and,

• Identification of the ‘right’ growth strategy for businesses.
Going forward, the consolidation of the diamond chain is inevitable and it is the diamond processing segment that will feel the maximum impact. The objective will be to achieve maximum value addition, without compromising on quality and compliance. At the same time, the mining and retail segments will not remain unaffected. The reality is that costs are set to rise, human capital will become more expensive and technology will be the key investment that will enable companies to balance out this cost pressure. The challenge is to understand the different drivers of change. Only then will we be able to formulate comprehensive strategies that prove effective in the long run.
Let us start at the source, Mining.

Today, Russia, Canada, Southern Africa and Australia account for almost 96% (in volume) of the world’s production of diamonds. However, diamond reserves at current production are declining. From a high of 87 years of reserves in the early 80s, it is estimated that today only 14 years of reserves remain at current production levels. Thus, supply is expected to remain flat till 2016, while demand will continue to rise, as the US market hopes to recover and the Chinese and Indian markets continue their strong growth. Therefore, the increase in rough prices is likely to continue, irrespective of whether existing players in the industry are able to absorb it or not.

Thus, while changes in the mining segment will be governed largely by events that take place at a macro level, in manufacturing and processing, it is efforts put forth by individual companies that will determine success or failure in the coming years.
Local Beneficiation in Africa

One far reaching change in the manufacturing segment will be local beneficiation. According to a recent report by KPMG, close to 10% of the world’s rough diamonds, by value, will be polished in African countries by 2015. Support for this will be a necessity for companies around the world, to ensure access to high-quality rough stones. And as this movement grows, employment in cutting and polishing is likely to move from the present traditional centers to the mining countries.

I see this shift having the following challenges –

**Firstly**, to survive, current manufacturing centers will need to broaden their offerings in the diamond markets.

**Secondly**, the beneficiation effort should translate into profits for the companies that help drive local beneficiation in Southern Africa, while ensuring economic viability for companies to move operations halfway across the world.

Currently, the diamond processing industry is intensely competitive. This will only intensify as barriers to entry are low. To ensure sustainable growth, every company in this segment will need to take a long hard look at its operations and come up with individual strategies that capitalize on their current strengths to create future opportunities.
At the same time, there can be no compromise towards adopting compliance and complete focus on high quality. These factors have become necessary for survival. And to differentiate oneself from the rest, the major investment area will be technology. Not only will this help achieve the quality desired, but will also enable companies balance out rising human capital costs, ultimately ensuring cost-effective high-quality delivery.
Emerging Trends in Jewellery

- “Synthetics”
- Fluctuating metal prices
- Stagnant Diamond Jewellery demand
- Competition from luxury products

Synthetic diamonds have also emerged as a key influencing factor in the coming years. It is, therefore, estimated that the market for synthetics will grow at a CAGR of 45% over the next decade, to cross USD 2 billion by 2015. Individual companies will need to decide whether to treat synthetics as a threat or an opportunity, and thus, strategize accordingly.

While individual efforts will drive growth in diamond processing, macro-level factors will also have a role to play. Fluctuating metal prices, combined with rising rough prices and slowing diamond jewelry demand, will require companies to monitor production and costs on an ongoing basis, since a slight shift in either could throw schedules and pricing into disarray.

It is evident that operations in mining and processing will grow and expand into new geographies in the coming decade. While growth strategies will be formulated across the globe, success will be determined only through cooperation – and largely through cooperation in marketing investments from mining companies, retail brands and governments. This will help plan primarily for the overall growth of diamond jewelry consumption, and, further to survive a downturn and ensure that we emerge stronger out of any crisis.

Our survival is therefore based on our united strength.
On the retail side, China, India and the Middle East will be the fastest growing jewelry markets in the next decade, with a combined share of 34.4% of global consumption. This growth will be at the cost of current jewelry consumption strongholds like the US, Italy, Japan and the UK. Thus, understanding a diverse consumer base has become critical.

As India and China develop, organized retail will also grow, proving to be a major driver of growth. However, in order to capitalize on this growth, there is a need for more intensive jewelry promotion and a stronger emphasis on branding. The former will be effective in boosting demand, while the latter will help create differentiation in the midst of competition, especially in emerging markets. The challenge will now be to identify different as well as new customer segments against the backdrop of diverse cultures.

A detailed understanding of all these factors and how they will influence our businesses is the need of the hour. And in order to create a sustainable growth strategy for the coming decade, this understanding will need to be translated into the ‘right’ business model, in sync with business objectives.
So, what is the strategy.

At the outset, it is imperative for every stakeholder in the diamond industry to work towards its objective – that of enhancing stakeholder value through a responsible approach to business. In doing so, one of the primary decisions a business will need to make is to define its business model.
The “Right” Growth Strategy

For a scale player, key focus areas will include compliance, quality and simplification of processes and for family-owned businesses, the need for corporatization. A niche player will need to build a sound vision, find its unique strength in product / process – one that is not easily replicable, focus on innovation and continue creating a competitive advantage in consumer delivery. While this may sound simple, it isn’t so, when seen in the context of a complex operating environment. This is where the above analysis of influencing factors will prove to be helpful.

So where do we start...

Current trends indicate that planning with a slowdown, or a recession, in mind will serve businesses well, since it will help them deal more effectively with the highly competitive market, where rising costs exist along with slowing demand.
Foundations of a Strategy…

Any operating strategy will need to take into consideration:

- The balancing of innovation costs with operating costs, keeping in mind the need for incorporation of the latest technology in the manufacturing process.
- A strong focus on R&D, both in technology and design, and effective supply chain management.
- Risk management and risk mitigation techniques.
- Restructuring, consolidation and/or relocation when necessary.
- The right leadership, leading a highly skilled workforce.

At the same time, strategy will also be affected by external influencers:

- Effective product strategy
- Information management, since the ability to capture and analyze information will separate the successful firms from the rest.
- Experimentation with new retail formats such as malls, hypermarkets and convenience stores and an increased emphasis on branding and marketing.

The above are all given. The one given that cannot be forgiven is, the lack of insight into your stakeholder’s world. Why would a business partner (be it a banker or a supplier) want to transact with you on attractive terms, thereby giving you the competitive advantage, if you do not occupy a compelling space in his business? Why would a customer be loyal if you have given him nothing to be loyal for? Customers only give reciprocal loyalty if they have had consistently compelling experiences with your product or your service. Satisfaction no longer guarantees customer loyalty.
Therefore, you will realize that the choices are many, and there is no right answer for businesses to ensure success. Sustainable growth will not be possible without the industry stakeholders working together with

- a common vision for the future,
- a future based on an inclusive approach,
- responsible behavior and
- accountability for their actions.

This is the foundation for the key to our success, creating **a compelling value proposition** for our business partners and for our customers.
WIN or LOSE...

“the choices we make, will dictate the life we lead”

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We cannot close our eyes or shut our minds to the challenges of the future. When we open our eyes and minds, the issues will still be there, only larger. We need to think constructively and act deliberately. Let us not forget that, the Lord gave us 2 ends to use. One to sit with, one to think with. Our future depends on which we choose. Heads we win, Tails we lose.

Ladies and Gentlemen, A Diamond is Forever. Can we find ways together to ensure that our businesses are built that way too? Because ultimately, the choices we make, will dictate the life we lead.

Thank You.