FEWER, BETTER THINGS

As the global economic crisis develops, diamond promotion must evolve to meet new challenges and opportunities. In an exclusive interview with Martin Rapaport, Stephen Lussier, De Beers executive director, external and corporate affairs, discusses marketing in the new environment and the new De Beers message for diamonds.

Martin Rapaport: *What is De Beers new marketing initiative?*
Stephen Lussier: When we looked at the challenges that retailers and consumers in America are facing, we realized a couple of things: One, it was important for someone to speak for the category of diamonds in the current environment. Consumers are now choosing among categories and not among brands within categories. Two, the message had to get out quickly in order to maximize our market share in whatever pool of money there was for discretionary luxury expenditures. So, although we would have preferred to advertise collectively, we felt that De Beers had to step up on its own. It's clearly going to be a very difficult environment for all luxury goods — probably for all retail goods. New attitudes will be formed quickly by consumers, driven by the need for behavior changes. It's important that as those attitudes are formed, we get diamonds positioned to minimize any negative impact on demand during this economic downturn.


Stephen Lussier

We had research data that gave us an insight that other luxury goods companies had not yet realized: the concept of "fewer, better things." This became the core of the initiative. Luxury goods, almost by definition, are things that you never dispose of and that are made with high-quality, durable craftsmanship. Jewelry you wear and cherish is the ultimate luxury. It is something you keep forever and hand down to your children. It's the same as if you have a custom-tailored suit made or buy a pair of really good shoes. You expect them to last for years, not just until the next season when something else might be more fashionable. We think that, in an environment where you can't simply buy everything the way you did before, luxury goods that have an enduring value are going to perform better than those that change with seasonal or fashion trends or, as with electronics, become obsolete as new technology develops. Our challenge was to make sure that people understand clearly that diamonds are about enduring value — that they matter, that they are not replaced when something newer comes along.

MR: *So women want fewer things?*
SL: Our research shows that women would prefer to have fewer things of good quality. Women use an expression that they call "bundling." It means they would rather have the men who give them gifts for Christmas, birthday and

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anniversary bundle their presents into one important gift that they really want, rather than three less desirable, less expensive gifts. So the question is: What are the things women really want? Our research says that diamonds are actually valued and desired more now than they were in 2007 relative to the number two category, which is electronics and flat-screen TVs. The question is why? I think that at a time when people are questioning the materialism of what they've bought historically and whether they are really happy with what they have, the things that they tend to be happiest with are those that have more emotional value and that are enduring. Diamonds aren't the only things that meet those criteria, but they are one of them. When you ask women what things they own that they really treasure, their jewelry will come up on that list. Luxury items that are seen as emotionally important and enduring items that hold their value are more competitive in this environment than other luxuries that can't meet those criteria.

MR: ***How important is the value consideration? Sometimes diamond prices go down — would that undermine this approach? Do lower prices destroy desire by women for diamonds?***

SL: No. I don't think lower prices in moderation will destroy desire. I think that when consumers buy diamonds they don't buy to trade them in three months for a higher price — that's not the mentality of buying diamonds. But, in the long run, the fact that a luxury item is a store of value is important. Obviously, consumers certainly don't want to think that the diamond they buy today will be worth less in ten years. It is the idea of appreciating assets rather than a depreciating asset, like a car that in five years is worthless.

The concept of stored value is important and that is why we think that volatility in pricing is not a great thing for diamonds. Does that mean that there can be some fluctuation in pricing without impacting the consumer? I think so. Does it mean that, over the long run, we want to see diamonds becoming an appreciating asset? I think so. And I think both of those things are possible. Let's say you have a 38-inch, flat-screen TV. For Christmas, do you really need or even want a new 42-inch TV, which means that the 38-inch model goes off to the junkyard? Or do you choose instead a piece of diamond jewelry that you are going to wear forever, keep forever and maybe pass on to your kids? In the comparison between those two things, what we see is people saying, "I want to have something that I am going to cherish for a long time, rather than a technological upgrade of something I already own that I will eventually dispose of or trade in anyway." This idea that things become obsolete and need to be replaced in three years is a concept that I think this economic downturn will challenge.

Now, I don't mean that it is going to be easy selling diamond jewelry, because there is probably less money around, but I do think that we have a competitive opportunity.

MR: ***Are diamonds a good deal relative to other luxuries?***

SL: Absolutely. One of the challenges with buying diamonds is that it seems like a lot of money for people. Let's say I have to pay $800 for a pair of ear studs, which I think is the average price in America. That's a lot of money to pay out all at once. But there is also an opportunity here for retailers to articulate what that one-time purchase price means in terms of usage. Our research shows that, on average, women wear new diamond ear studs about four times a week in the first year. And, if you actually work out what wearing them costs per day, it's actually cheaper than a Starbucks Grande Cappuccino.

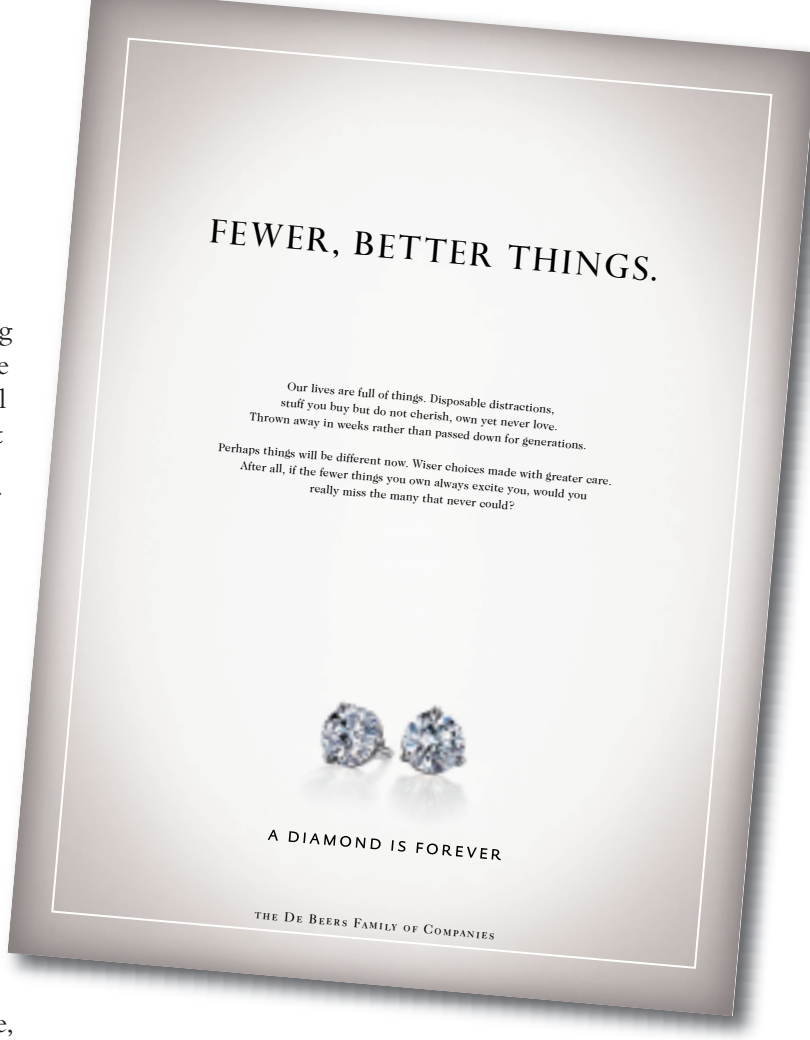
MR: ***How much is that?***

SL: Something like $4 a wearing. And that's only the first year. If you calculate usage over ten years, you're down to something like 30 or 40 cents a wearing. So it gets pretty efficient based on the fact that you continue to wear your earrings for a very long time and never dispose of them. I think it's interesting that all sorts of "old luxury" products are worn and retained by the original owner forever and they accumulate value over a lifetime. I think it's useful for retailers to be able to articulate that point to help people understand that good, durable things are worth having.

MR: ***How much are you spending on advertising?***

SL: We put an incremental $10 million into the new statement campaign in America in the fourth quarter of 2008, above and beyond what was already planned. How did we get there? We looked at all the major markets and decided what it would take to run a six-time insertion, full-page advertisement in the major newspapers in those markets. We really wanted to get this message out and we didn't have a lot of time because we didn't start working on the message until November and that meant we only had access to newspaper media. But actually, we think the approach we took stood out and had impact — so I think it worked rather well.

MR: ***Should you be advertising when the economy is doing so poorly?***



SL: Things are tough out there, absolutely. Are we going to have sales growth in this environment? That would be pretty surprising and unlikely. So what is the goal? The goal is to make sure we get our message about diamonds out at this important time when people are forming attitudes that they are going to live with for the next couple of years, attitudes that are going to drive their behavior. We think that we have a unique story to tell, and that it's worth investing in telling that story. It will do us good, for a couple of years. It's not just about Christmas 2008; it's about 2009 and 2010 as well, because attitudes formed now will drive behavior for the months and years ahead.

MR: ***Are you saying that this financial crisis is creating a wave of social change that is changing attitudes and values in the mind of consumers? That it's important to get the message of "fewer, better things" out now because consumers are up in the air as they change their value system?***

SL: Absolutely. This has been a rocket economic crisis. When you have a shock like this, behavior has to change, radically and quickly. People just don't have the same money that they once had or the same security about their future. Both of those things took a hit — so if behavior changes first, then attitudes catch up. When that happens, it's a dangerous time for any product because people will rationalize their behavioral changes and then those changes will become attitudes that we will have to live with. In some ways, it's the most important time to communicate if you have a message that is fundamentally about the value of your product and its category. This is a time when you want to be out articulating your message because otherwise you're at the mercy of rationalization of behavior.

A good example is everyone is now drinking tap water in restaurants, rather than the bottled water they might have chosen four months ago. Instead of admitting to themselves that they don't want to spend $4 for a bottle of water in this economy, they tell themselves they're drinking tap water because it's more environmentally friendly than bottled water. And once they make that attitude adjustment, they won't go back to drinking bottled water, whether they can afford it in the future or not.

MR: ***How much did De Beers spend overall on marketing in 2008?***

SL: The overall expenditure globally in 2008 was quite similar to 2007. It was a little bit lower in America with a reduction in the generic activity.

MR: ***So it would be around $190 million?***

SL: When you include all the different brand activities in 2008, it was not too far off that.

MR: ***The diamond industry felt that De Beers had abandoned generic advertising and limited its effort to promoting its 93 sightholders. Now, after this economic shock, De Beers restarts the generic diamond campaign. Are you back in the generic business?***

SL: The key to success is being pragmatic. The feedback I got from the industry is that it was important for a category message in this environment, as opposed to a brand preference message. The category message is now important and we have a message that is persuasive. In the long run, we would like to see generic advertising done through a more collective industry effort rather than De Beers on its own. But we only had a couple of weeks to make this happen for Christmas and we thought this was the pragmatic and right thing to do for De Beers, as well as to benefit others in the industry. We think we will get a return on our investment. In the long run, we don't think one company with 40 percent market share should do the marketing for everyone. We hope going forward, if category marketing is important, then the industry will find a collective approach to doing it.

“Attitudes formed now will drive behavior

MR: *Kudos to De Beers for this recent effort, but what about the future? The De Beers Forevermark approach told the trade “No free ride — do your own thing.” It didn’t look like De Beers was being very loyal to nonsightholders. The feeling of the industry was that De Beers takes care of its own people exclusively. Now that there’s a recession, you’ve shifted marketing back to nonsightholders.*

SL: Our efforts are a continuation, albeit at a different level with a different message, from what we were doing in America in 2007. At the same time, in November, we proceeded with our launch of the Forevermark in China and Hong Kong. It’s important to remember that the Forevermark is not exclusive to sightholders. Any manufacturers of diamonds that can demonstrate an ethical pipeline market are eligible if they are suppliers to participating retailers. There are opportunities for others to benefit from the Forevermark and we think it’s been a pretty effective launch in China, where the diamond is a little bit different and brands play a more important role in determining category attitudes.

MR: *Is there a more important role for smaller firms in the current global economic crisis? Some believe that, in times like this, it’s the bigger firms that get into the most trouble, while the smaller firms can defend themselves because they don’t have as much inventory or debt, and can rebuild from the bottom up. Do you share this view? Are smaller companies as important or more important in times of economic crisis?*

SL: I can see pros and cons to both sides. I think that if you look at things like the banking sector, you wouldn’t really want to be a little guy because you know you need some deep reserves in a time like this. On the other hand, if you’ve built a big debt position, then you are going to be more challenged. I don’t think it’s about little or big; I think it’s about the degree to which you have decent financing behind you and a strong balance sheet.

MR: *How bad is the situation out there?*

SL: Obviously, it’s a tough environment for everybody in the retail sector. Unlike some of the other downturns, this seems a tougher environment for luxury goods players, in particular, given the impact on the financial sectors and its consumer base. If you pick a category in the luxury goods area, diamonds probably aren’t as bad because we are lucky enough to have the engagement ring business, which is a big base and far more recession proof than the pure discretionary luxuries. We’ve got another big chunk of our market that’s about celebrating important events. If you’ve been married 25 years, or 10 years, you can’t really delay that gift occasion. It’s coming now and it’s not going to come around next year. So that gives us a solid base. Then we’ve got the opportunity of enduring value. I think that people will be more comfortable buying products that they have confidence in and that are a store of value. Whether or not they are going to resell diamonds in the future, I think it makes one feel better about the expenditure. That’s the good news. The challenges are that there are a lot fewer wealthy people around and they are much less wealthy than they were. Diamonds are a luxury, which makes it challenging for all of us. But I’d rather be in the diamond business, with the opportunities we have to compete with that reduced share of expenditure, than in many other luxury products.

MR: *What is the outlook for China and India over the next year?*

SL: I’ve never been a great believer in decoupling. I think we are all linked around the behavior of the American consumers. You can see the impact on China already, in terms of their exports. But while China will offer better opportunities than the West, it isn’t immune to the impact and so this will be a global challenge.

MR: *Are diamonds going to be a good investment?*

SL: I’m a store-of-value man, which is different from an investment. To me, store of value means that you’ve spent money on things that have value, while investment is the return generated each financial year by that investment. It’s interesting that in this environment, diamonds are still selling at auction. I would be a lot further ahead in 2008 if I had invested in diamonds than virtually any financial investment. While people buy diamonds for the combination of emotion and store of value, not really as investments, a lot of economists think that three to five years from now, inflation will be back, and then hard assets will be more interesting than financial assets. And they don’t come much harder than diamonds.

for the months and years ahead.

MR: *A lot of firms are cutting back on marketing. Should firms be advertising more or less? What advice do you have for retailers and wholesalers marketing diamonds?*
SL: I think we'll see a reduction in overall luxury advertising expenditures as companies struggle to deal with the lower overall topline sales. You can't advertise your way out of a recession. The recession is there because people have less money. And I think that in managing business, you need to be realistic about that. The advantages are that in the end, advertising is about your share of voice relative to other advertisers. You can increase your share of voice while maintaining your budgets, and you can probably hold it even with slightly lower expenditure. The key thing is not so much about the money you spend as what you say.

My criticism of the luxury goods sector as a whole is that if you put a December 2007 and December 2008 *Vogue* magazine together, they seem pretty much the same regarding the types of advertising. Although this is a period when consumers changed a lot, it's remarkable how little evolution there has been in response to the changing circumstances. I think it's the one area where De Beers gets quite a lot of credit for the speed with which it adapted its message. That's the bigger challenge to retail. Not so much the spend level, but making sure that you are really appealing to the change in the consumer mindset. If you do that well, you're going to grab attention and get as much impact as if you spent twice as much. If you say the same old thing, people might ask, "Is that still relevant?" Focus on the message rather than the money is my advice.

MR: *So you have to change your message, go with the times?*
SL: You've got to really make sure that you're insightful about what your customers are thinking, what's motivating them and then tailor your messages to reflect that, rather than just pump out less of the same message.

MR: *What's going to happen in 2009? Is De Beers going to maintain its budget at about $190 million, or are you going to be cutting your advertising budget?*
SL: We'll watch what happens in the luxury goods world as a whole and determine what we need to do to maintain our share of voice. We'll see what impact other advertisers have, which will be interesting. We'll take a read probably in January. I think it's all about flexibility; 2009 is likely to be a tough year. We don't know if it will deteriorate further, or whether there will be any improvement toward the end of the year. I think our general approach to our business plan in 2009 — be it production levels, marketing levels, cost controls, etc. — will be to look at things quarter by quarter and then decide.

MR: *Is there any hope that the Russians and others will kick in money for generic advertising?*
SL: I'm hopeful. I think that in some ways it takes difficult times like these to identify the importance of category approach for our sector. Some sectors can live off two or three powerful brands; we don't have that kind of environment in our business. Category advertising has been a pretty proven method of generic advertising driving diamond sales. It's just that the current business models for De Beers and others on their own don't make doing that prudent business. Let's hope we can find a collective way to advertise. I think that will be good for business overall and for all the players.

MR: *Is there anything you would like to say to the diamond community?*
SL: I leave the entire diamond community with one message: We need to remember what we sell. We sell something that is precious and truly valued. It's our strength versus the competition. Given the difficult position consumers are in, we must not forget what it is that makes them want our products in the first place. It's really a time for treating diamonds preciously, treating customers preciously and being imaginative in the way we communicate with them. If we do that well, we will get a bigger share of the cake — and that's all we can ask. We can't control the size of the consumer expenditure or the size of the luxury goods expenditure. We can try to influence how much of that total expenditure we get for diamonds. ✦