BUSINESS PERSPECTIVES:
CHARTING THE GLOBE

The Jewelry Market in Japan: 2020

Yasukazu Suwa

It took about 2,700 years to mine and fashion an estimated 0.8 tons of diamonds before the South African discovery in 1867. Currently, about 3.6 tons of polished diamonds are produced each year. Since the beginning of the 20th century, annual diamond mining production has tripled every 30 years. Nevertheless, if all the diamonds polished since the beginning of time were brought together, they would only fill a single double-decker bus (see figure).

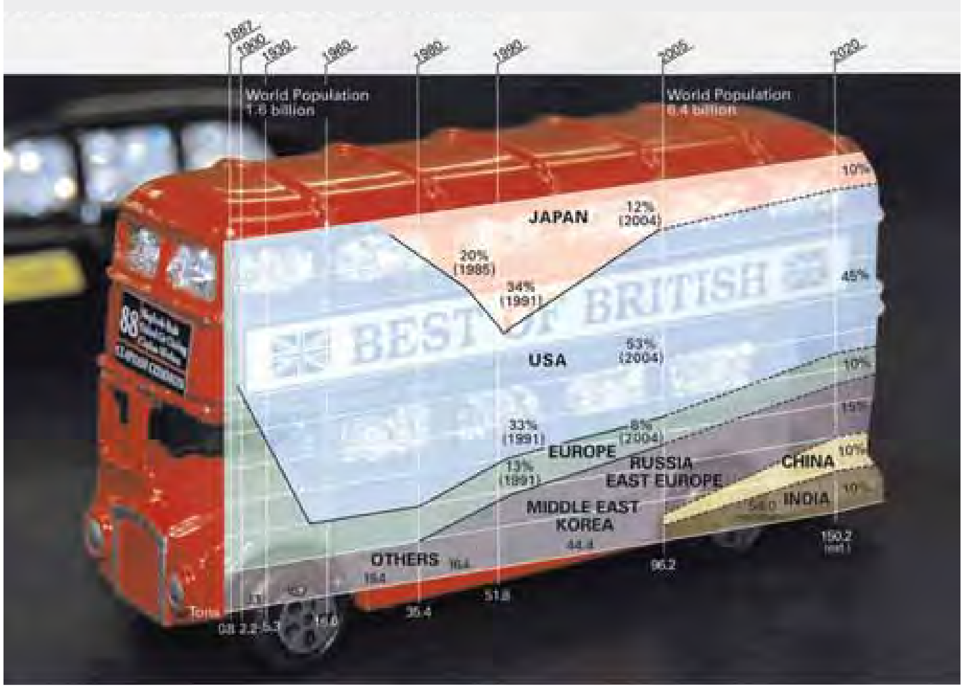
In addition, only a small percentage of gemstone production is of the finest quality. This percentage gets even smaller as production increases. More than ever, we must realize that truly fine gemstones are entrusted to us by Nature. After individuals own them for a relatively short time, these gems change hands, either as heirlooms or as estate pieces. As the world market becomes more borderless, fine gemstones and jewelry circulate freely—back and forth between the United States, Europe, Japan, China, and so on. Since new production of fine-quality gemstones is limited, recirculation is a major source of high-quality material.

Advances in treatments make it possible to convert some previously unusable material into beautiful stones, but these lack the rarity of naturally beautiful gems. Synthetic stones might be attractive, but because theoretically there are no limitations to the quantity that can be produced over time, again they lack the rarity intrinsic to the value of a natural gem.

The Current Japanese Jewelry Market

The emergence of the modern Japanese market began around 1960. Japan's share of global loose diamond imports rose to 20% by 1985, peaked at 34% in 1991, then declined to 12% by 2005; currently, its share of the world retail market for jewelry is about 10%. Meanwhile, the nation's retail market shrank from ¥3 trillion to ¥1.3 trillion between 1991 and 2005.

World Production of Polished Diamonds (in tons) and Global Distribution (by value).



A single double-decker bus could transport all the diamonds fashioned since recorded time. As this chart shows, at one point (in 1991) Japan consumed 34% by value of all newly polished diamonds, but today it has less than a 12% market share. Estimates for total quantity of polished diamonds, shown at the bottom of the chart, were derived from A.A. Levinson, J.J. Gurney, and M.B. Kirkley, "Diamond sources and production: Past, present, and future," Gems & Gemology, *Vol. 28, No. 4, pp. 234-254. Figures above the bottom line show total estimated production of polished diamonds for specified periods. The market shares for polished diamonds for 1985, 1991, and 2004 are based on Diamond Trading Company estimates. Mining production estimates for 1991 through 2015 are courtesy of Andrew Coxon, DeBeers LV.*

In 1985, the relative values of Japanese imports of diamonds, colored stones, and finished jewelry were 70%, 15%, and 15%, respectively. By 2005, this distribution had changed to 46%, 6%, and 48%. Diamond imports fell due to a drastic drop in sales of small-carat-size engagement rings. Relative imports of finished jewelry increased as about half the domestic manufacturers went out of business. This increase included "superbrand" goods as well as less-expensive jewelry from Thailand, China, and India.

Twenty years ago, most Japanese consumers saw themselves as comfortably middle class. Today, 80% of the population feels that they are in the lower middle class, and few feel that they are rich. The Japanese jewelry business must now deal with two very different market segments.

Looking Forward

The future holds a number of scenarios for Japan and the global jewelry industry:

1. *Japan will maintain its 10% share of the world's polished diamond market through 2020, but jewelry imports will continue to grow relative to loose gemstone imports.* Meanwhile, the jewelry market will become more polarized. Japan's high-end consumers will prefer rare, high-quality untreated gemstones, and they will be asset conscious and more global in their purchases. The faster-growing low-end market will be dominated by commercial, treated, and even synthetic stones; these shoppers will be more price conscious and purchase locally. Within this polarized market, high-end gemstone-oriented jewelry will remain the driving force behind all jewelry sales. The low-end jewelry market will follow the trends and styles that are established by the more affluent market.

2. *Branding and traceability will be more important to consumers worldwide.* Where jewelry is made will matter less to consumers, while a manufacturer's reputation for quality and reliability will mean more. Traceability and positive determination of country of origin will become more important as consumers become more sensitive to issues such as "conflict" diamonds, child labor in developing countries, and other political and human rights concerns.

3. *Recirculation will be more prevalent in the fine jewelry market.* Just as the supply of gemstones is now more global, customers for fine jewelry are more mobile than ever. They purchase fine-quality gemstone-oriented jewelry from all over the world. This trend will continue in the future. The role of gemological laboratories in distinguishing country of origin and methods of treatment will become increasingly important as fine qualities circulate between markets.

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The Italian and European Goldsmith Industry: Current Status and Possible Future Scenarios

Leopoldo Poli

Given the social, political, and cultural events of the last decade, the question before us is whether there will be genuine opportunities for growth and development for the Italian and European goldsmith industries. Recent events have generated crises and related difficulties, but in markets the word *crisis* is always synonymous with *opportunity*, and opportunities are truly what make the difference in the success of a company. The challenge for the next decade or two will be to transform some players in the goldsmith world from passive into active participants who turn change into opportunities.

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Crises

The economic crisis throughout Europe has put a growing number of jewelry companies at risk. Problems related to unemployment and the erosion of salaries have made the purchasing power of the middle classes precarious. Only companies that know how to invest in the emotions of their clientele—persuading them to spend less in other luxury areas—have maintained a solid market share. Italy, in particular, has been at a disadvantage due to the introduction of the euro.

The second crisis is foreign competition. China, India, and Turkey, all new players on international markets, have started exporting products of increasingly high quality, benefiting from lower costs due to their highly competitive local wages.

Italy's long, rich history of jewelry design and manufacturing has made it a trendsetter in the modern market. Photo ©Leopoldo Poli.

Third, there is a crisis in the motivation to acquire gold jewelry. Other consumer market segments have taken over the role of jewelry, which has witnessed a decline in the myth of ostentation together with the emergence of "functionality" —new electronic gadgets, exotic travel, and health spas.

Today's European Players

Today, there are four main players in Europe's gem and jewelry industry, which have mixed prospects for the future:

- **Historic jewelry brands:** They have their own history, combined with a strong tradition in both production and marketing. These firms can be expected to maintain a sizable market share, though it has been diminished by producers from lower-wage nations. The ones who will remain strong are those who organize themselves in a market-oriented way, seizing new opportunities, anticipating trends, and communicating the product emotionally via brand identity.
- **Emerging steel and silver brands:** These young companies entered the market in response to the need for a new type of jewel, precious in design if not necessarily in the materials used. They have built on the emotion and symbolism of their product, aiming it at the youth market. The winners will be those who know best how to interpret the trend for "hot" metals, by discovering materials and designs that fit in with current styles.
- **Fashion companies:** These are fashion brands that have entered the jewelry market in order to deliver a "total look." They put forward industrial products that make an effort to present a distinctive design and are sophisticated technologically, flaunting their Italian workmanship.
- **Small artisanal companies:** These are small, traditional manufacturing companies that develop their brands and are characterized by high-quality craftsmanship. Some are disappearing because others have eroded their market share, and some are winners thanks to the intrinsic strength of the artisanal product. Those companies that put forward innovative designs, distinct from mass-produced items, will succeed. Opportunities for these companies are both in the specialist sector serving the big brands, and in the promotion of their own brands with a high-quality product.

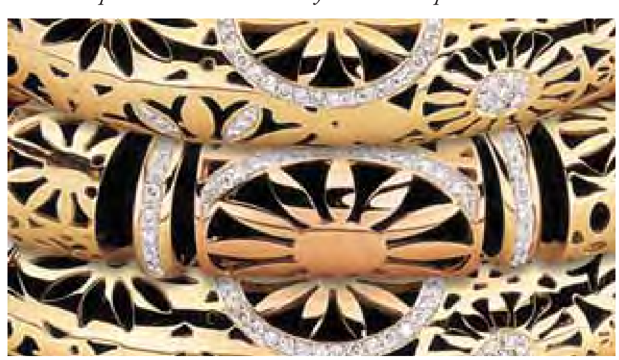
Trends and the Trendsetter

The strength of a brand is measured in emotional terms; the key is to conduct a dialogue in a differentiated way with one's clientele. Choosing the right communication means significantly enhancing the value of a product so that a larger slice of the population will want to trade up (see, e.g., M. J. Silverstein and N. Fiske, *Trading Up, the New American Luxury*, Portfolio, New York, 2003).

In every area of business, the most enthusiastic client is the trendsetter. Successful producers cater to tastemakers who influence and "infect" other groups of consumers. By knowing the trendsetters and working with them, we can achieve success without excessive investments in advertising, because the product is truly exceptional.

Industrial production that lacks "added value" will be penalized. Therefore, we should continue to develop products with strong artisanal characteristics that value their origins and traditions. Italy has an enviable tradition of fashion and design. In this respect, our competitors are at a disadvantage because they are not creators of trends.

The European jewelry market is facing a variety of new challenges and competition. To survive, companies will need to anticipate design trends and protect their brand identity. Photo ©Leopoldo Poli.



The Gulf Perspective

Amit Dhamani

The Gulf region, comprised of the United Arab Emirates (UAE), Saudi Arabia, Qatar, Kuwait, Bahrain, and Oman, is one of the fastest-rising commercial centers on the global map. The state of Dubai, in the UAE, has embarked on an aggressive growth strategy by liberalizing its economy and reaching out to global partners in many key industries, making it the gateway to the Gulf. With gross domestic product (GDP) growth of 9.4% last year, the second highest in the world, Dubai has become a major upscale tourist and business destination for travelers from Europe, Russia, India, and neighboring Asian countries.

More than 120 shipping lines and 105 airlines connect Dubai to 145+ global destinations. Supported by a superior transportation, telecommunications, and finance infrastructure, Dubai is well equipped to manage some of the world's most sophisticated and ambitious projects to date.

Liberal tax and property-ownership laws have attracted wealthy expatriates, creating a business boom. Out of a population of 1.2 million, 60% are from 140 different nations. Fueled by oil and the booming real estate and retail sectors, the region has one of the world's highest per-capita incomes; coupled with the growth of tourism and the population's affinity for gems and precious metals, its jewelry market has grown at a faster rate than anywhere else in the world. Jewelry sales reached $15 billion in the Gulf countries last year, of which diamond jewelry sales accounted for $3.5 billion; these figures are growing by leaps and bounds.

In Dubai alone, estimated retail jewelry sales were $3 billion last year, with half of this for diamond jewelry. The average per-capita jewelry sale was $2,500, the world's highest by far. With approximately 850 retail jewelry outlets in Dubai at present, and tourists accounting for 54% of jewelry purchases, these figures are bound to continue rising in the future; it is estimated that 40 million tourists will be visiting this region by 2015, up from 9 million presently.

Consumers in the Gulf region tends to prefer diamonds in all shapes at 0.50 ct and above, usually D–I color and VVS–SI clarity ranges, with certificates from international labs. Diamond watches are quite popular, especially international brands. As with many other major markets, the favored colored stones are emeralds (see figure), rubies, and sapphires. Among the many retailers already operating in the Gulf countries are world-renowned houses such as Tiffany, Cartier, Bulgari, De Beers, Chopard, Dhamani, and Damas.

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There is a growing market in the Gulf region in general, and Dubai in particular, for fine jewelry such as this emerald and diamond necklace. The heart-shaped Colombian emerald weighs 160.53 ct. Courtesy of Dhamani Jewels.

With the establishment of the DMCC (Dubai Multi Commodities Centre), the Dubai Gold and Commodities Exchange, the Dubai Diamond Exchange, the Dubai Gem Certification, and the Dubai Cut Diamond, Dubai has become a major global player. DMCC is the arm of the Government of Dubai that is helping create market opportunities for all businesses. To date, 850 international companies have listed with the DMCC. The 64-floor Al-Mas Tower, which is scheduled for completion by the end of 2007, is solely dedicated to diamond traders, local and international. All told, Dubai's jewelry retail space is expected to triple in the next few years.

Dubai also hosts international jewelry shows and exhibitions year-round, with the ICA Congress set to be held there in 2007. These events serve as yet another platform for international jewelry companies to make their way into this market.

With new developments taking place at a rapid pace, Dubai and the Gulf hold enormous growth potential for all international businesses. Dubai welcomes the world's gem and jewelry industry to be a part of history in the making.

India: The Jewel in the Crown

Rajiv P. Mehta

As one of the fastest-growing economies in the world, India has undergone a radical transformation in the last decade. In addition to significant government deregulation, the business environment has been supported by a stable political environment, an independent judiciary, a strong banking structure, and well-regulated capital markets. According to the IMD Global Competitiveness database, the overall ease of doing business in India is now comparable to that of China.

India is already home to the world's largest diamond cutting and polishing industry, but what is noteworthy is its recent evolution into a major hub for the global gem and jewelry industry. India is the third largest consumer market in terms of polished wholesale prices, accounting for 7% of the world's total, after the U.S. (50%) and Japan (13%). But in terms of growth, India leads the list.

This competitive position in the industry is the result of growth in several areas. Over the years, India has created a highly skilled and comparatively cheap workforce that is being effectively utilized to set up large, low-cost production operations for domestic and export markets. On the organizational front, companies are adopting innovative strategies in manufacturing and distribution, while focusing on quality.

India's $1.2 billion consumer market for diamond jewelry is highly dynamic, with urbanization and rising per-capita income resulting in changing customer preferences and demand patterns. Today, diamonds are no longer an indulgence: Quality, reliability, and wearability are critical purchase triggers. Realizing the need to continuously improve the skill set of its labor force, India has invested in a large number of institutions to support the design and development of jewelry products. For example, the Indian Diamond Institute in Gujarat, supported by the Union Government and the Gems and Jewelry Export Promotion Board, offers courses in three languages and the Indian Institute of Gems & Jewelry in Mumbai imparts international training in all aspects of jewelry design and manufacture. At the same time, liberalization of government policy overall has served the country's gem and jewelry industry well. Special economic zones and continued governmental support for foreign direct investment and joint ventures all along the diamond chain promise a bright future for the industry.

Today, India has the potential to grow and develop in every aspect of the gem and jewelry industry. In the midst of global competition and expanding markets, the identification of the right opportunities and the shaping of a well-defined and forward-looking strategy will determine success in the days ahead.

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