

## WHERE IS LUXURY IN THIS BRAVE NEW WORLD?

### Keynote Speaker

Ken Royal                      Senior Client Services Manager,  
Gallup

### Panelists

Amit Dhamani              CEO and Managing Director,  
Dhamani Jewels

Nicolas Luchsinger      Vice President of Retail Operations  
for the Americas, Van Cleef & Arpels

Ulrik Thaysen              Vice President of International  
Retail, Pandora

### Moderator

Susan Jacques            President and CEO, Borsheim's  
Fine Jewelry and Gifts

**T**his panel brought together four unique perspectives on high-end retail. A consultant from the world's leading public opinion organization offered critical insight into the attitudes and spending behavior of today's luxury consumer. Joining him were senior executives from three successful international jewelry brands, who presented their own strategies for engaging with affluent clientele.

### KEN ROYAL

The session's keynote address began with a look at Gallup's recent consumer surveys. A poll of randomly selected U.S. households

*Keynote speaker Ken Royal revealed Gallup's latest insights into U.S. and global public opinion, as well as the importance of connecting with consumers' emotions and need for trust. Photo by Valerie Power.*



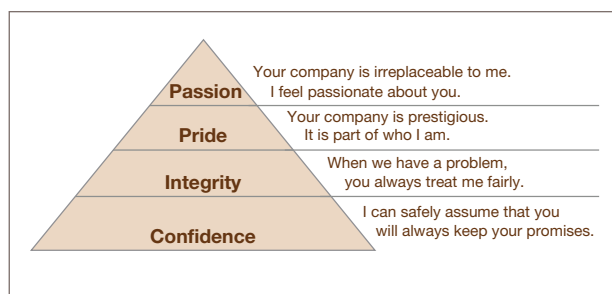
*Ulrik Thaysen, Nicolas Luchsinger, Susan Jacques, Amit Dhamani, and Ken Royal participated in the panel. Photo by Valerie Power.*

showed that consumer spending is considerably lower than it was three years ago, even among higher-income individuals. Most of the respondents added that this change in spending represents the "new normal" for them, though the sentiment could reverse with an improvement in the job market.

The polls also showed an uptick in President Barack Obama's approval rating after the death of Osama Bin Laden. When people are more positive about the president, Royal pointed out, they tend to be more positive about the economy. He added that economic confidence index numbers have generally been rising in the United States, though it is too early to tell if that trend will be sustained.

Next, Royal presented Gallup's world polls, which measured sentiment on law and order, governance, jobs, economics, migration, food and shelter, infrastructure, and health care in more than 150 countries. The poll's migration index showed that 700 million adults—16% of the global population—would like to move abroad permanently. Most expressed a desire to relocate to the United States, Canada, Spain, Saudi Arabia, Australia, and other "places where success is likely to happen," according to Royal. Countries likely to see the largest surge in population density in the years ahead include Singapore, Saudi Arabia, New Zealand, Canada, and Australia.

According to Gallup's well-being metric, which evaluates overall quality of life, 25% of the world's population reported



*This Gallup illustration connects the luxury buying experience to the hierarchy of emotional attachment. According to Ken Royal, most jewelry retailers stop at the purchase experience and never reach the higher levels of emotional engagement.*

itself as thriving, while 62% are struggling and 13% are suffering. Denmark enjoyed the highest thriving percentage, 72%, compared to just 1% of Togo's population. In the United States, 53% were thriving and 3% said they were suffering. The highest well-being index of any U.S. city belonged to Boulder, Colorado. Southern California also scored high, while the metric was dramatically lower in the country's so-called Rust Belt, where industrial jobs have been dwindling for several decades.

While the old adage says, "You can't buy happiness," Gallup has shown this is not entirely true. In wealthier countries, the population tends to have a higher well-being index. But high income does not always *guarantee* well-being, Royal added. In recent years, Egypt's gross domestic product has increased while its well-being index has fallen sharply, creating a pattern where the population's high expectations are not being met. A similar recipe for unrest has taken place in Tunisia. While there remains a vast gulf in the distribution of wealth in China and India, he noted that more of their citizens are saving money and becoming hopeful about the future.

Royal, the former chief operating officer of a family-owned jewelry store chain, then turned to the jewelry industry. Today's luxury consumer often gravitates toward well-being and experience rather than material objects. As a result, jewelry must now compete against travel, physical fitness/appearance, and technology. Retailers can adjust to this landscape by connecting their product to the emotional benefits of giving. Rather than competing with life moments such as weddings, anniversaries, and birthdays, they can align with them. Royal showed brain scans revealing clear differences in neural activity between high passion and low passion, noting that 70% of purchases are based on emotion rather than reason.

Another crucial aspect is trust. Asked which professions they trusted the most, Americans ranked firefighters first, with "high" or "very high" marks from 90% of those surveyed. Nurses, members of the armed forces, and the clergy also measured quite well. Jewelers scored only 20%, compared to 15% for members of

Congress and 7% apiece for car salespeople and lobbyists. Asked to name the most important consideration when shopping for fine jewelry, 40% said it was the quality of the item. Yet the level of trust in the store was nearly as important, at 32%. Interestingly, loyalty measured slightly higher for online retailers than for brick-and-mortar jewelers.

Royal closed his address with some considerations on selling the store experience:

- Is your store intimidating or inviting?
- Is it about a purchase or a relationship?
- Is it a place where your customers want to be?
- Do your salespeople spend 70% of their time on customers' rational needs or on their emotional desires?
- Do you transform the purchase experience into an experience that enhances well-being?

## NICOLAS LUCHSINGER

Van Cleef & Arpels opened its first boutique in 1906, next to the Ritz Hotel on Place Vendôme in Paris. As Luchsinger noted, the brand was successful from the very beginning and became a favorite among royalty and entertainers. The family's heirs continued to operate the firm until 1999, when it was sold to fashion conglomerate Richemont. Today, Van Cleef & Arpels is strategically positioned in markets such as Russia, Dubai, and the Middle East. Sales in Asia have been exceptionally strong, particularly in colored diamonds.

Luchsinger pointed to VCA's tradition of responding to crisis with innovation. During the Great Depression it invented the Mystery Setting, an invisible mounting that has appeared in many of its finest creations. Later that decade, its designers created the zipper necklace, inspired by the Duchess of Windsor. During World War II, the firm moved its flagship store to New York's Fifth Avenue. Its signature clover motif was unveiled amid the economic turmoil of the 1970s.

A new crisis emerged on September 15, 2008, the day Lehman Brothers filed for Chapter 11 bankruptcy protection. In the global recession that soon followed, even high-net-worth individuals curbed their spending. To stimulate sales, the company began inviting a select group of clients to Paris for weeklong shopping experiences. These featured private tours of jewelry workshops, helicopter rides to castles, meetings with VIPs, and personalized jewelry presentations. Through these experiences, Van Cleef & Arpels has successfully engaged with its most exclusive clientele.

## AMIT DHAMANI

With the rapid emergence of the Chinese, Indian, and Russian markets, the global luxury consumer has a new face. And it is the

newly wealthy who are pushing luxury markets to unprecedented heights. Citing the astronomical prices paid at international jewelry auctions since 2008, a development that has generated some skepticism, Dhamani was confident that the spending spree would continue: “This individual is always looking for something unique.”

Dhamani presented a brief overview of the company his father started as a gem wholesale business in 1965. Entrusted with repositioning it as a luxury retailer a decade ago, the younger Dhamani hired a top brand strategist to capitalize on the firm’s heritage and reputation. In Dubai, the company enjoys one of the world’s premier upscale markets. Along with its excellent infrastructure and relentless passion for luxury, the city is a leading destination for tourists. According to Dhamani, these tourists have different demographic preferences. Arabs generally purchase for weddings, and Indians for festivals such as Diwali. Chinese shoppers usually have something very specific in mind and do not want a sales pitch, while Russian shoppers tend to be more impulsive. The company places great emphasis on understanding these differences and creating jewelry designs and products that align with particular nationalities. Each year the company hosts 75 seminars and workshops for targeted clients, which include business councils, the diplomatic corps, and cruise passengers. These events feature jewelry models who are trained to discuss the pieces they wear. The company does not purchase radio or television advertising, preferring the more exclusive approach of sponsoring events at polo clubs and golf resorts.

Acknowledging the prevailing uncertainty in the Middle East and northern Africa, Dhamani said it presented an opportunity for “exponential growth” in Dubai if tourism shifts from there from the areas in turmoil. He was even more optimistic about the future of the high-end market, concluding that “jewelry is a luxury and will be a luxury forever.”

## ULRIK THAYSEN

Since its launch in Denmark in 1982, Pandora has captured a significant portion of the affordable luxury segment, with a global network of 10,000 points of sale in more than 55 countries. The firm’s cornerstone product is a charm bracelet that allows more than 800 different silver, gold, glass, and gem components to be mixed and matched. Pandora is a lean, vertically integrated company with skilled in-house designers in Copenhagen, its own production factories in Bangkok, a wholesale distribution network, and branded concept stores.

Thaysen outlined Pandora’s mission: “to offer women across the world a universe of high-quality, hand-finished jewelry.” The core attributes of the brand are genuine materials that have a fem-



*Pandora’s cornerstone product is its charm bracelet. This 14K gold bracelet contains gold, brilliant-cut diamond, and cultured pearl charms. Courtesy of Pandora.*

inine, romantic touch and inspire the wearer to create and combine collections that express her individuality.

He noted that Pandora is coming off a remarkable 2010, in which it sold 57.5 million pieces of jewelry. The company also introduced a line of watches, more than doubled the number of its branded concept stores from 196 to 421, and formalized a collaboration with GIA to train its store staff. As the company continues to grow and add new products, he added, it will stay true to the Pandora image and concept.

Thaysen then presented a brief video that distilled Pandora’s best practices into the following areas:

1. Controlling its brand presence through branded sales channels
2. Developing a retail assortment that focuses on the winning products, and keeping them consistently in stock
3. Tailoring its approach to entering new markets, either alone or in close partnership when necessary
4. Focusing on its core products—bracelets and charms—that are “the Pandora DNA”
5. Executing established sales tools and platforms through its retail managers’ guide

In closing, Thaysen said Pandora is still a young company “acting unconventional in a conventional world.”

*Stuart D. Overlin*



## JEWELRY DESIGN: FROM THE MASSES TO MUSEUMS

### Speakers

Wallace Chan	Jewelry Artist
Martin Katz	Jewelry Designer
Shivan Sarna	Show Host, HSN

### Moderator

Huw Daniel	President, Platinum Guild International USA
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Popular jewelry designs now appear in a variety of venues, from museums to the red carpet to television shopping channels. A designer's success is measured by the ability to capture the attention of jewelry lovers and move them to wear a piece of art.

How designers achieve this success was the topic of this panel discussion. Moderator Huw Daniel kicked off the session with an overview of popular jewelry designs, suggesting that trends are launched when celebrities start to wear certain styles and retail customers strive to emulate them. He also offered an overview of the latest trends:

- Increased use of colored gems, including vibrant, dramatic, shocking colors
- A mix of precious and semiprecious metals
- The use of negative space, stemming from the high cost of precious metals
- Vintage-inspired jewelry
- Stacking and layering
- The impact of runway trends (designs, textures)
- "Less is more"
- The dominance of white metals in the bridal market and a resurgence of platinum in the United States in 2010

### WALLACE CHAN

Wallace Chan, a renowned designer from Hong Kong whose museum-quality pieces were exhibited for the first time in the U.S. at GIA's Carlsbad campus, shared his fascination with gemstones and his intentions as he creates jewelry art.



Panelists Wallace Chan (with translator Agatha Kessler, far left), Martin Katz, and Shivan Sarna field questions from the audience. Photo by Valerie Power.

"Precious stones bear the vast mysteries of the universe," he said. "The strength permeating [them] is tightly interlocked with humankind: It shapes our thoughts, demonstrates power and wealth, expresses our love, stimulates our minds, and charms us all."

Chan began his artistic career weaving sweaters at age 13 and became an ivory carving apprentice by the time he was 16. "I was a poor boy who had to work day and night to put food on the table," he said.

"Exotic," Wallace Chan's 772 ct blue topaz sculpture, was on display at GIA during the Symposium. Photo by Robert Weldon.



Exposed to Western carving in a graveyard, he began a quest to express three dimensions and light in his works. Today he is known for his innovative Wallace Cut, which combines the art of intaglio and cameo carving with gemstone faceting to create multiple reflections in a single work, what he calls the “dialogue of the gemstone with light.”

“I sculpt from my heart and from my hands, integrating the material into the emotional realm,” he said. “To delineate the spiritual through forms has all along nourished my world of sculpting and carving.”

Chan said that each gemstone has a life force that draws him to it.

“They fascinate me with their brilliant colors, guide me with their textural lines, inspire me with their various shapes and sizes, and touch me with the language of their soul,” he said. “And even more so, it is as if they want to attract me with their unique inclusions, gazing at me, enticing me to spy on their innermost beauty, constantly evolving and continuously processing in the mind until it is filled with the intrinsic sound of resplendent colors.”

Chan added that a true designer must be proficient in multiple disciplines, including physics, chemistry, chromatics, ergonomics, metallurgy, gemology, and psychology. “It is also important to have the unique aesthetic sense and standard of a designer, the passion and breadth of mind of an artist, and the way of thinking of a philosopher.”

“In the process of jewelry design and making, we are fortunate to be able to fully apply the proven knowledge of other disciplines, and under the guidance of the merciful wisdom of our predecessors, we can then discover and present the ultimate essence of the gem, its most picturesque and poetic glory,” he said.

He shared his experience of creating the Wallace Cut as an example of pushing himself to the breaking point to create new art.

In the “repeated, incessant calculations of light reflection and stone carving, and the repeated attempts at amalgamating all the relevant techniques together—I pushed myself to the corner. But only in those continuously extreme moments of concentration could one focus on each minute detail. . . . And in the sculpting process, the attempts to communicate with light and reflections, I almost drove myself to the pinnacles of madness,” he said.

That was when he summoned all his energies to evoke the magic of light and shadow, beyond the material realm.

“When the mind concentrated on each of these legends and stories of the gem, gazing at their spiritual forms and physical structures, it was as if the moment was frozen, the gem and I became one,” Chan said. “The soul was touched, and then and there it was the viewer’s ‘gemstone moment.’”

## MARTIN KATZ

Martin Katz, a longtime favorite of the Hollywood elite, began adorning celebrities with his jewelry in 1992, when Sharon Stone

asked to wear his pieces to the premiere of *Basic Instinct*.

“I wasn’t in the business of loaning jewelry at the time,” he said, explaining that it was not a normal practice. But when the head of Paramount Pictures asked him to do it as a favor, Katz obliged, asking to receive credit for the pieces in any magazine coverage of the premiere. Soon he was regularly walking the red carpet with celebrities who introduced him as their personal jeweler. He has jeweled more than 500 Hollywood stars since.

“It’s the repetitiveness that sticks with the audience,” he said. “One red carpet won’t change your life, but the repetitiveness, combined with advertising and editorial, makes success.”

In the beginning the limelight was a thrill, Katz said, and the notoriety brought attention to his designs. Still, he did not want the “jeweler to the stars” label. He wanted to be known for the quality of his work, not the people he associated with.

“But it opened so many doors for me. *Extra* and *Entertainment Tonight* came to my store before every red carpet to show what the celebrities would wear, and I was on *Oprah* two times,” he said. “The impact of the celebrity endorsement brought me to the awareness of others, like Victoria’s Secret and Ray-Ban.” Katz designed a \$5 million bra for Victoria’s Secret in 2008.

He found that statement pieces—large, theatrical jewelry—showed up best on the red carpet, as did vintage jewelry. After asking himself if he wanted to do theatrics or do business, he began to create “contemporary jewelry with an old soul.”

*These teardrop earrings demonstrate a pairing of contemporary and classic styles. They feature pear-shaped tanzanites, 43.20 carats total weight, with diamond shields and diamond beads micro-set with blue sapphires. Courtesy of Martin Katz.*



Katz said the trend for the luxury/celebrity market is toward classical and traditional pieces, with an emphasis on textures, manipulating metals, and placement of diamonds.

He said many of his clients have plenty of money, despite the recession, but the new way of thinking is “to not look like you’re indulging too much when everyone else is suffering.”

He has also seen more people investing in gemstones as assets. “De Beers has to parcel out [their rough] because the demand in China is so strong. The asset-collecting mentality is taking over the world. Dealer after dealer is bumping up the price.”

Still, Katz advised audience members to not get caught up in the frenzy.

“Buy the best. Buy what you know. Quality, I believe, will always be king.”

### SHIVAN SARNA

Shivan Sarna, a Graduate Gemologist and HSN show host for nearly 12 years, said she enjoys educating the shopping network’s millions of viewers about the jewelry they purchase, especially by touching on the science and romance behind the stones.

“No one needs jewelry, but we want it,” she said. Sarna explained how she uses that “psychology of acquisition” and emotional storytelling to move her customers to “buy now.” HSN can shift in real time (“the storefront changes every day”) to respond to consumer demand. Each year, the network ships nearly 6.15 million jewelry products.

Sarna urged the audience to connect with their customers by learning the technique of smiling while they talk. “I know it feels

weird and it’s not easy, but it makes a tremendous difference,” she said. “It’s not a big deal connected to gemology, but it is a huge

### HSN CUSTOMER DEMOGRAPHICS

- Large, loyal customer base
  - 4.6 million customers
  - 44% 12-month repeat rate
  - Best customers increased 7% in Q4 2010
- 82% female
- 25–65+ years old (including 46% in the highly valued 35–54 age bracket)
- 87% homeowners
- \$65,000+ household income
- \$521 annual spend (up 5.5% from previous year)
- Top markets: New York, Los Angeles, Philadelphia, Chicago

connection to sales.” She also emphasized making eye contact and giving the customer space.

When they’re ready, educate them about what they are looking at. “Start with the romance, finish with the science,” she said. “You’re selling the dream: the ability for people to wear art.”

*Amanda Luke*

## DIGITAL AGE MARKETING: ARE YOU STILL PARTYING LIKE IT'S 1999?

### Keynote Speaker

Scott Galloway      Clinical Associate Professor,  
NYU Stern School of Business

### Moderator

Thomas Yang      Senior Vice President of International,  
Callaway Golf Company

**T**he Web is dying." These were surprising words, especially from the head of a digital marketing think tank. But Symposium keynote speaker Scott Galloway was referring to the traditional Web as we have known it for the past 15 years. More and more, Internet users are switching to social media and mobile applications. Rather than visiting a brand's website, they are going to its Facebook presence or turning to Twitter. And these changes are reshaping the way companies connect with consumers.

Galloway noted that the recession forced us to reevaluate traditional notions and opened our minds to innovation. One result was the emergence of social media, led by Facebook and Twitter.

Demographic trends are driving the social media phenomenon. Over the last 15 years, 150 million new luxury consumers have come online worldwide. Some 600 million more will follow in the next 15 years, many of them from outside the United States and the other G-10 nations. These high-net-worth individuals will have a social network profile. "And new money loves prestige," Galloway continued, adding that talk of Generation Y being less materialistic is "rubbish." With Generation Y expected to eclipse the baby boomers in spending by 2017, he said, we are entering a "golden age of prestige."

The new luxury consumer is remarkably different, however. "They aren't reading the newspaper," said Galloway. "They aren't reading magazines the same way we did. . . . They have a different

relationship with technology." With the new generation of luxury consumers, being perceived as digital and innovative is a must.

Meanwhile, dramatic changes are taking place in the Internet landscape. Since 2007, MSN's and Yahoo's shares of global time spent online have fallen sharply. While Google still enjoys high usage, little time is actually spent on each search—and its share is still only half of YouTube's. Facebook, though, has captured a 12% share. By next year the site is projected to have a billion users worldwide—a number that could reach 1.5 billion if China allows full access. As Facebook continues to create interesting features that add value, it could breach the 50% mark worldwide within three years. Never, said Galloway, has a technology been adopted so rapidly.

With Facebook and the other top 10 websites receiving three-quarters of all Internet traffic, everyone else is fighting over an increasingly small share. He predicted that within a few years, "the Internet will simply be the platform that powers Facebook."

But, as Galloway showed, ad spending has not kept pace with these trends. While 26% of U.S. media consumption time in 2009 was spent on the Internet—even more for the sought-after young, affluent consumer—only 12% of all advertising dollars were spent there. Mobile phones represented another 14% of media consumption time but only received 1% of the advertising spend.

Many retailers, particularly older males from the baby boomer generation, have resisted social media because of its "unseemly" lack of privacy or out of an impulse to cling to the past. To stay relevant in luxury, Galloway said, retailers must overcome this resistance and take advantage of the new marketing opportunity. He urged attendees to consider how much time and resources they are dedicating to Facebook and Twitter, because "something very special" is happening right now: the transition from a rental



*Scott Galloway, director of digital marketing research firm L2, spoke on the social media phenomenon and its opportunities for luxury retailers. Photo by Valerie Power.*





Mobile phone applications and social media tools such as Facebook and Twitter are changing the face of marketing. Photo © iStockphoto.

model of advertising to an ownership model.

Traditional advertising only “rents” the attention of the consumer. This is a costly model, as evidenced by the \$700 million L’Oréal spent on magazine advertising in 2010. Through the transformative technologies of social media and mobile phone apps, marketing is headed toward ownership: a direct relationship with consumers. Galloway cited Ivanka Trump’s Twitter presence as an example of the ownership model. Two-thirds of her Tweets are snapshots of her life, but the other third are pure marketing for Trump Hotels. In effect, she has the equivalent of the entire population of Miami following her, listening directly to her content and sharing it with others—instantly.

According to Galloway, this kind of digital outreach in attracting and serving luxury consumers will separate the winners from the losers in the new media landscape.

Last year Galloway’s think tank, L2, published its second annual “Digital IQ Index: Luxury.” The study measured the digital outreach of 72 global luxury brands, based on dimensions of (1) website and e-commerce; (2) search, email, and online advertising; (3) social media presence; and (4) mobile apps. The brands fell into five categories:

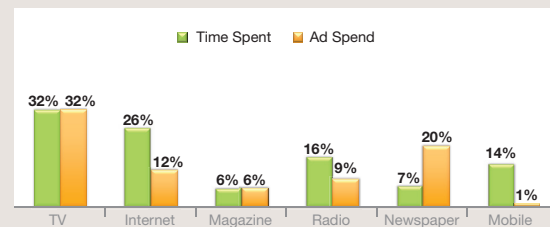
- Genius: digital as a competitive differentiation
- Gifted: brand-enhancing, experimenting digitally, conversion-oriented
- Average: functional but predictable, with few innovation leaps
- Challenged: poorly integrated purchase/product experience or limited engagement beyond the Web
- Feeble: nascent digital footprint, not committing appropriate resources

The Fashion brands—led by Coach, Louis Vuitton, and Ralph Lauren—scored exceptionally well. The lowest-performing category, however, was Watches & Jewelry. Aside from a handful that ranked as “Gifted,” they were either “Challenged” or “Feeble,” despite their considerable brand equity.

Galloway closed his remarks and answered audience questions with additional advice for luxury retailers:

- Think of social media as the population of a vast, untapped country. China is not the biggest opportunity—Facebook is.
- Be innovative—or at least be a fast follower, like Apple. Digital outreach is inexpensive, so never be afraid to take risks and occasionally fail. His mantra: “Ready, fire, aim.”
- Facilitate evangelists through content such as live chat, user reviews, and Facebook “likes.” User reviews are the fastest way to stimulate sales on a site, so never be afraid of some negative reviews. This immediacy invigorates the brand.
- Take advantage of email marketing, “an unbelievably untapped resource.”
- Have a data mindset and read websites such as Mashable.com to stay informed on social media trends. If necessary, hire a company to manage your Facebook presence.

#### U.S. MEDIA CONSUMPTION VS. AD SPEND (2009)



*While the Internet and mobile phones have gained large amounts of media consumption time, advertising spending has not kept pace with this development.*

Galloway encouraged the audience to bring life to their brands by taking their content—all the history, heritage, and romance of the product—and putting it into social media.

*Stuart D. Overlin*



## THE FUTURE OF GEMSTONES AND GEMSTONES OF THE FUTURE

### Keynote Speaker

Stuart Robertson      Research Director,  
Gemworld International

### Panelists

Martin Rapaport      Chairman, The Rapaport Group

Stephen Lux      President and CEO, Gemesis  
Diamond Company

Douglas Hucker      CEO, American Gem Trade  
Association

Robert Wan      CEO and Founder, Tahiti Perles  
and Robert Wan Tahiti

### Moderator

Peggy Jo Donahue      Director of Public Affairs, MJSA



*Douglas Hucker answers a question from the audience while fellow panelists Robert Wan, Stephen Lux, Martin Rapaport, and Stuart Robertson look on. Photo by Eric Welch.*

This panel examined supply and demand and pricing trends for the products that form the basis of the jewelry industry: diamonds (including synthetics), colored stones, and cultured pearls. The speakers assessed current conditions and offered an outlook on the future of the gemstone market.

### STUART ROBERTSON

In his keynote address, industry observer Stuart Robertson noted that the last few years have altered the gem landscape.

"The future promises great opportunities," he said, but not necessarily for traditional markets such as the United States and Canada, where conditions remain "stable at best." The prospects appear much better for emerging, transitioning markets.

In colored stones, there is now more competition at the source. While this trend has led to higher prices, it has also encouraged exploration and stimulated an appetite for less-traditional stones. The diamond industry, meanwhile, struggles to find financing and credit. Many banks and lenders are hesitant to reinvest in the diamond industry, Robertson said, because of an over-reliance on memo, a model that "has been abused to the point that it's not a sustainable business practice."

In the pearl industry, the central theme has been the massive influx of attractive Chinese freshwater cultured pearls. Robertson did not consider these production levels sustainable, however. Of all gems, cultured pearls are the most susceptible to environmental forces, and he predicted that Chinese producers would eventually face natural challenges similar to those that plagued the

Japanese industry two decades ago. Robertson pointed out that the traditional trade model is giving way to a new model characterized by:

1. Producers selling directly to the consumer, competing with retailers for profits.
2. Sovereignty over mineral rights and the nationalization of mines.
3. An emphasis on responsible practices: "There needs to be action behind them, not just buzzwords."

The changing model has created an opportunity for a new generation of products: natural minerals not typically associated with jewelry; treated gems, including coated and HPHT-processed material; and blended composites such as low-quality rubies filled with lead glass. However, the abundance of low-grade starting material that can be processed into salable products has redefined the word *gem* and distorted the concept of rarity. And the industry continues to struggle with proper disclosure. "We've created an environment where there's incentive to be less than forthcoming," Robertson said. Acknowledging there is no perfect solution, he added that "protecting consumer confidence should be the aim of each market tier."

Robertson described this as a period of opportunity and growth, as advances in technology and communication energize production and sales. While exceptional and unique gems comprise the top tier of the market, the vast majority of products fall outside that category. The industry, then, should pair with fashion rather than investment as it adapts to a much different consumer market.

## MARTIN RAPAPORT

Taking on the issue of synthetic diamonds, Martin Rapaport defended them as “a stepping stone to the real thing. They create desire.” This democratization “has turned on millions who never thought they’d buy diamonds.”

Rather than looking at synthetics as a threat, he said, the diamond industry should embrace a symbiotic relationship with them. His advice was to focus on the “Three D’s”: Detection, Disclosure, and Documentation.

“Tell the truth,” he urged the audience. “I’m not afraid of synthetics, as long as we can tell the difference between what’s authentic and what’s not.”

Rapaport said the jewelry industry must always meet the demand for romantic tokens of love and affection. Whether that means a natural or synthetic or imitation diamond, what matters is the idea behind the product. “Retail profit margins shouldn’t be limited to what comes out of the ground,” he said.

“Diamonds are more than what they are,” Rapaport continued. “We are selling the *idea* of diamonds. People want what they can’t have. They treasure what they have that other people can’t have.”

While there is no guarantee that American jewelers will retain their position in the industry, Rapaport insisted that the global demand for natural diamond would continue to rise, especially as more Chinese and Indian consumers “experience the joy of jewelry.”

## STEPHEN LUX

Gemesis director Stephen Lux offered the manufacturer’s perspective on synthetic diamonds, noting the “incredible interest and strong opinions” generated by the products. In recent years his company has commercialized the two known technologies for diamond growth: CVD (chemical vapor deposition) and HPHT (high pressure, high temperature).

Lux reported that Gemesis is now achieving larger sizes. Its near-colorless products routinely exceed one carat, many of them with a G or H color grade.

“Their origin is fully known and properly disclosed on every report,” he said, adding that “deception must be avoided at all costs.”

He called GIA’s decision to issue grading reports for lab-grown diamonds “the right thing to do for the consumer.” Unfortunately, he added, the public still does not grasp the difference between the terms *synthetic* and *simulant*. Lux, who referred to his company’s product as either *lab-grown* or *lab-created*, said the term *synthetic* poses a problem, as it “suggests a fake.”

He predicted that Gemesis would achieve million-carat annual production capacity within a decade. Asked when the market would see 5–10 ct synthetic diamonds, he said they are probably still a generation away, although the company has produced some



*These jewelry pieces showcase colorless and yellow lab-grown diamonds created by Gemesis. Courtesy of Gemesis.*

yellow larger than 4 ct. He added, “It’s a safe bet that colorless won’t stop at one carat.”

While the Gemesis brand will be available through select retailers, Lux said the company plans to sell most of its goods directly to the consumer through online retail. That way, he added, “the producer can disclose and manage the story.”

## DOUGLAS HUCKER

The female self-purchaser is no longer buying colored gemstones, said Douglas Hucker: “She’s buying *color*.” And when it comes to color, jewelers have no shortage of tools. One is Pantone, which provides color products and services for designers of all types. There are also fashion councils that decide, months in advance, on the trendy colors for clothes, cars, and other merchandise. Hucker added that by reading fashion magazines and websites such as [fashiontrendsetter.com](http://fashiontrendsetter.com), jewelers can merchandise the right colors.

Another tool he recommended was AGTA’s Gemstone Information Manual, which spells out the various gem enhancement methods and assigns standard codes to them. CIBJO and ICA have adopted these codes, and while the terminology is still not unanimous, “you at least have to be making an effort to disclose properly.” More than ever, the consumer demands information, and it must be communicated clearly.

Gem products also face more stringent regulation from federal governments. The Tom Lantos Block Burmese JADE Act, for instance, prohibits Burmese rubies from being imported into the United States. Hucker encouraged the audience to consult the Jewelers Vigilance Committee website (jvclegal.org) and learn about the various guidelines concerning money laundering, treatment disclosure, and irradiated gemstones.

Hucker urged the jewelry industry to pay attention to corporate social responsibility. “You need to consider the impact of what you’re doing, and what effect it will have throughout the chain . . . . Being a good citizen is important to your survival because the consumer will demand it.”

## ROBERT WAN

Tahitian cultured pearl pioneer Robert Wan presented an overview of the pearl industry. He noted the Japanese akoya’s sharp decline over the last two decades, the result of financial turmoil, pollution, climate change, and fierce competition from new players, particularly China. While South Sea and Tahitian cultured pearls have suffered from overproduction in recent years, Wan said that production limits and transparency reforms should restore price stability and profitability.

He said the market is now “flooded” with Chinese freshwater cultured pearls. Production of these goods jumped from 20 tons in 1981 to 1,500 tons in 2008. Meanwhile, several new producing countries have emerged in the Pacific, including New Zealand (abalone shell), the Marshall Islands (black cultured pearls), and Vietnam (freshwater and akoya cultured pearls).

Pearl culturing involves living organisms, which makes it an inherently risky proposition. Overproduction can cause asphyxiation or disease, while hurricanes and typhoons can destroy a pearl farm overnight. But the greatest threat, Wan said, is climate change: A temperature fluctuation of just 2° or 3°C can be fatal to a mollusk.

Wan observed that cultured pearls represent only 2–5% of jewelry sales overall. There is clearly room for the market to expand, and he emphasized creativity as a selling point. “The

design of pearl jewelry, the new ideas and concepts, the exploration of baroque and other stunning shapes, the amazing colors . . . all of this gives so much room for creation.” He pointed to the Tahitian Pearl Trophy and other international design contests as a way to bring fresh ideas from all over the world.

According to Wan, Hong Kong has become the world center for the pearl business. Hong Kong holds more wholesale auctions than any other city, and its three annual jewelry fairs are the pearl industry’s largest. Dubai, meanwhile, is making a concerted effort to become an international trading center. Another one to watch is the new “China Pearl and Jewelry City” of Zuhji, near Shanghai, which will have some 5,000 offices, shops,



*Knowing color trends is one of the keys to jewelry merchandising. Pantone color management tools are just some of the many resources available to jewelers. Photo © iStockphoto.com.*

and studios employing an estimated 100,000 trade professionals.

As the cultured pearl industry continues to mature and restructure, Wan said, it must conquer new markets with an aggressive commercial strategy that includes specialized exhibitions and auctions. He named China, India, Dubai, Brazil, and Turkey as the most promising new markets.

*Stuart D. Overlin*



## EVERYTHING OLD IS NEW AGAIN: THE APPEAL OF THE AUCTION, ESTATE, AND VINTAGE MARKETS

### Speakers

Gary Schuler      Senior Vice President and Director,  
New York Jewelry Department,  
Sotheby's

Stephen Silver      Chairman and CEO,  
S. H. Silver Company

Rick Harrison      Star of History's series *Pawn Stars*,  
The Gold & Silver Pawn Shop

### Moderator

John Green      President and CEO,  
Lux Bond & Green

It was a familiar refrain during several business track sessions of the 2011 GIA Symposium: Tell the story. People love to hear the history. That's what sells.

It especially resonated during the auction, estate, and vintage jewelry panel, as the speakers discussed the growing popularity of pre-owned and historically significant jewelry.

### GARY SCHULER

The proof is in the sales, according to Schuler, who pointed out that the combined jewelry sales for Sotheby's and Christie's reached an all-time high of \$827 million last year.

The excitement began in 1987 with the auction of the Duchess of Windsor's jewels, which documented one of the most fabled romances in history. The intriguing provenance pushed prices to seven times their fair market value, resulting in a \$50 million sale.

"Crowds waited around the block outside of our offices in New York," Schuler said. "That sale is what brought notoriety to jewelry auctions and established the format for 'lifestyle' auctions."

Jewelry sales for the two auction houses continued to climb from there, to \$350 million in 1990, \$500 million in 1995, and \$690 million in 2007. Among these were some extraordinary individual diamonds: the 35.56 ct Wittelsbach Blue sold for \$24.3 million in 2008, and in 2010 the 24.78 ct Graff Pink brought \$46.2 million.

Schuler noted the growing interest in selling items at auction, which offers the global brand recognition of the auction house,



Panelists Gary Schuler, Stephen Silver, and Rick Harrison share a light moment. Photo by Eric Welch.

transparency of transactions, and the ability to reach every likely buyer around the world with comprehensive marketing and promotion. He added that there are equally strong incentives to buy at auction: easy access to information and opportunities to bid, the expertise of jewelry specialists, and a broad range of goods, styles, makers, and price points, with a focus on rarity.

The auction houses have seen a shift from trade buyers in traditional markets to private buyers in emerging markets. Asian customers increased from 6% of total buyers in 1995 to 20% in 2010, and Asian purchases represented approximately 30% of annual jewelry sales the last two years.

"People have a comfort level buying from an auction," Schuler said, and that gives them the opportunity to acquire a good value. "Some items may be much more expensive on Fifth Avenue."

In a strong market, Schuler said, more than 60% of the lots sold exceed the high estimates.

He ended his remarks by sharing specific examples of how Sotheby's has used effective storytelling to surpass expected prices.

- **Promoting the stories behind the jewels:** An 8.66 ct Burmese ruby and diamond ring, from the collection of famed philanthropist and patron of the arts Isabella Stewart Gardner, was estimated at \$1–1.5 million, and sold for \$2.1 million (\$242,000 per carat).

## SOTHEBY'S JEWELRY AUCTION OVERVIEW

- The 2010 sales drew participants from 83 countries.
- The average annual spend by a jewelry auction buyer in 2010 was \$275,000, compared to \$80,000 in 1995.
- The average price of a jewel sold by Sotheby's in 2010 was \$93,000.
- There has been a shift from trade buyers in traditional markets to private buyers in emerging markets.
- Asians represented 20% of total buyers in 2010, with Asian purchases accounting for approximately 30% of annual jewelry sales in the last two years.
- In 2010, Sotheby's sold a magnificent pink diamond (24.78 ct Fancy Intense pink, VVS<sub>2</sub>) for \$46.2 million to London jeweler Lawrence Graff. This price, against an estimate of \$27–\$38 million, placed it in the realm of fine art masterpieces.

- **Providing the context for rarity:** A ring containing a 10.46 ct Internally Flawless Fancy Light pink diamond reportedly from India's fabled Golconda region, estimated at \$1.4–\$1.6 million, went for just under \$2.3 million (\$217,000 per carat).
- **Creating a buzz:** A 30.48 ct D-Flawless oval diamond was promoted as "The Perfect Gift." Estimated at \$3.3–\$3.8 million, it fetched \$4.1 million (\$135,000 per carat).
- **Emphasizing jewelry as decorative art and showcasing superb craftsmanship and design:** A plique-à-jour enamel pendant brooch by Marcus & Co., ca. 1900, was estimated at \$40,000–\$60,000 but brought \$302,500.

"It's all about romancing the stone," Schuler said. "It's always about the story: People love the story."

## STEPHEN H. SILVER

Silver agreed, saying that while estate and antique jewelry represent only 2% of the marketplace, "We still have great stories to tell."

He explained how developments in science and technology have influenced the artistic capabilities of designers over time. The advances in how gemstones could be cut, for instance—from the saw to torch to laser—can be seen in jewelry's progression from the Art Nouveau and Edwardian styles to Art Deco.

"That had a tremendous impact, both positive and negative, on how we cut," Silver said.

He went on to tell the stories behind some of the pieces he

has acquired over the years, including the Cranberry diamond; the Irving Scott Corsage Ornament, which he donated to the GIA Historical Collection in 2003; and the Cullinan Blue Diamond Necklace, which he donated in 2010 to the Smithsonian National Museum of Natural History, where it is on permanent exhibit.

Silver purchased the Cranberry as a 1.66 ct Fancy Vivid purplish pink and had it recut to a 1.46 ct Fancy purplish red. "I overpaid for it by 20% at the time, but the intensity and saturation of the material was so beautiful" that he saw the potential for dramatic improvement. "It was truly the most amazing transformation," he said, calling it one of the most aesthetically pleasing red diamonds he has seen.

Silver discovered the Irving Scott Corsage Ornament in Saratoga, California, when the last remaining heir of the ship-building magnate asked him to see 250 pieces that were tucked away in a garage safe. Silver said that by examining the hallmarks and stamps of some of the pieces, he could trace the family's movements back to 1780. The corsage ornament is of French Belle Époque provenance and features an unheated 40+ ct Russian pink topaz.

## RICK HARRISON

Harrison is a storyteller of a different ilk, whose tale of success veers sharply from the usual career path in the gem and jewelry industry.

*This 24.78 ct Fancy Intense pink emerald-cut diamond with VVS<sub>2</sub> clarity sold for \$46.16 million, a record price for any jewel sold at auction. Courtesy of Sotheby's.*





*The Cullinan Blue Diamond Necklace, which dates back to 1905 and contains 5.32 carats of blue diamonds, is one of the pieces Stephen Silver has acquired over the years. He donated it to the Smithsonian National Museum of Natural History in 2010. Photo by Harold & Erica Van Pelt; courtesy of S. H. Silver Co.*

A self-described “born hustler,” he dropped out of high school to pursue a \$2,000-a-week fake Gucci bag business. Then he waited years for the population of Las Vegas to pass the 250,000 mark, when city officials would issue an additional pawn shop license. He paid \$20,000 for a license that is

worth close to \$2 million today, he said.

Now the star of History Channel’s reality television show *Pawn Stars* and owner of The Gold & Silver Pawn Shop, Harrison said most of the shops in Las Vegas are owned by large corporations. They simply type an item’s description into a computer to get a price.

He decided to “change things up” and began to emphasize the origins, lore, and history of the items in his shop, because “that’s what people get excited about.” He began to consume history books and all the information he could find.

“I am the biggest nerd you will ever meet in your life,” Harrison said. “I read three to four hours a night.” As far as his shop’s merchandise, they’re “not the most glamorous items, but there are a million little things you can tell people, and I give my staff 10-minute history lessons on every object that comes in.”

Harrison also calls on a pool of experts to determine the authenticity of items and fill in any missing information gaps. He said customers appreciate this honesty and the transfer of knowledge that takes place.

“The day you think you know everything is the day you go out of business,” he said.

Harrison’s business model has helped propel *Pawn Stars* to the highest-rated cable television show in the United States. The show’s success helps draw 4,000 people to the store each day, bringing in 6,000 to 7,000 items per month. And it’s made him a reality TV star. “If I walk into the store, business ceases,” he said.

In the session wrap-up, Silver said he feels shows such as *Pawn Stars* and *Antiques Roadshow* have been good for the auction and estate jewelry industry. “They are credible shows by credible people and have set the barometer for what we do, so people are more open to a discussion of reality. They have been a positive development.”

*Amanda Luke*



## PLAYING A BIGGER GAME: BETTER BUSINESS FOR A BETTER WORLD

### Keynote Speaker

Dr. Brian Nattrass     Founder, Sustainability Partners

### Moderator

Bev Hori     Vice President of Education and  
Chief Learning Officer, GIA

**T**he gem and jewelry industry has a huge advantage over other products in terms of sustainability, according to Dr. Brian Nattrass, founder of one of the world's leading consultancies on sustainable enterprise.

Why? Because jewelry has been worn for 100,000 years as a way to express the intangible messages of prestige, love, and power.

"It's so interesting, as a social scientist, how intrinsic to being human jewelry is," he said. "It's really a long sustainability story for your industry. What I find so fascinating is that when talking about sustainability, there is no other commercial enterprise that has got sustainability in its roots as jewelry and gems do."

And the fact that metals and gems come from the earth itself means "we're really talking the same language: Sustainability and the gem and jewelry industry go hand-in-glove," he said.

Dr. Nattrass spoke of the Brundtland Commission, created by the United Nations in 1983 to study the effect of population growth, technology, and consumer demand on Earth's resources. The final report, published in 1987, defined sustainable development as the ability to meet the needs of the present generation without compromising the ability of future generations to meet their needs.

Since then, business has replaced government as "the most powerful institution on the planet," and it needs to take responsibility for making sure the planet's resources can support the population.

"This is a new role for business, not yet understood and accepted," Dr. Nattrass said. "It's about investing ourselves in a task of historic proportions. Sustainability and the whole emerging climate change really is the issue of the moment."

The U.S. Army, one of Sustainability Partners' clients, is taking the topic of climate change and its implications for security "extremely seriously," he said.

"The military sees the world being squeezed. We're using up the good things on this planet that are required for human life," Dr. Nattrass said. "Our life-supporting resources are declining, while our consumption of life-supporting resources is growing."

He described the "shadow side" of global megatrends as an exploding population, a widening income disparity, rising



*Dr. Brian Nattrass, characterizing our present course as "inherently unstable and unsustainable," offered examples of corporations that are making sustainability an integral part of their operations. Photo by Eric Welch.*

resource consumption, pollution, and ecological stress. The evidence is seen in a variety of developments:

- The Arctic icecap has shrunk 22% since 1979. Continued thawing of the polar icecaps will cause the seas to rise three to four feet (more than a meter) by the end of the century.
- Water scarcity: Only 1% of the world's freshwater is suitable for direct human consumption.
- Twenty percent of the world's population owns 86% of the assets.
- The world population has tripled in our lifetime and will reach 9 billion between 2030 and 2050.
- Oil production has been flat for four years, and there is a growing gap between oil supply and demand.

The U.S. Army considers energy, water, and the environment the critical factors for global stability in this century. When these factors are not in balance, Dr. Nattrass said, people live in poverty, suffer high mortality, and move closer to armed conflict. "It is a breeding ground for disaffection, dissatisfaction, and unhappy people. There are real changes in natural systems that are most likely to happen in regions of the world that are already fertile grounds for terrorism," he said, which creates a new security paradigm.



*The audience prepares for Dr. Nattrass's presentation. Photo by Eric Welch.*

"Terrorism is a much smaller threat than climate change."

Dr. Nattrass emphasized that the path we are on is "inherently unstable and unsustainable." We need to reconsider everything: how we source, manufacture, sell, transport, and handle our products' end of life; how we grow our food; and how we ensure our security.

"We are one integrated system. What happens in China does matter to us," he said. "What are we going to do about it? Are we prepared to invest ourselves in a task of historic proportions?"

Dr. Nattrass shared examples of companies that have committed to sustainability and outlined some the benefits they have reaped:

- Lower expenses for resources, transportation, and waste
- Enhanced innovation of products
- Increased market share as more and more consumers look for sustainable products
- Better public perception
- Greater competitiveness and profits

"You don't have to compromise who you are, no matter what your brand is," he stressed. "You don't have to sacrifice anything—quality or image—just bring yourself to this new enterprise and do it your way."

## CASE STUDIES

**Starbucks** created a program called Shared Planet to educate its customers about why they should care about sustainable products. Their slogan: "It's Bigger Than Coffee."

"Starbucks really gets it because everything they sell is food, which is really vulnerable," Dr. Nattrass said. "When the climate changes so it is untenable to grow coffee, tea, or sugar, then they are out of business."

The company identified three main sustainability areas:

- Certified ethical sourcing of 100% of its coffee by 2015
- Environmental stewardship: creating "green" stores that save energy and water and are LEED certified (an international standard for green buildings), while making food and beverage packaging completely recyclable
- Contributing millions of hours to community service

"The idea is that when the customer buys a product from them, they are making the world a better place," he said.

**Wal-Mart**, the world's largest non-oil corporation, set out to be 100% supplied by renewable energy and to create zero waste. The company sends its own sustainability assessment to each of the 100,000 suppliers it works with to make sure they meet such criteria.

"Wal-Mart is having an amazing impact all the way down the supply chain," Dr. Nattrass said.

This has produced savings in energy and distribution costs, which get passed along to the consumer, and improved efficiency and reduced waste. Sustainability has been good for business.

"It takes all of us working together—collaborating with our suppliers, nongovernment agencies, and the government—on common solutions," said Matt Kistler, Wal-Mart's senior vice president of sustainability, in a video clip.

**Nike** was the "world's most despised company" back in the late '90s, Dr. Nattrass said, when the words "slave labor" and "sweatshops" became associated with its overseas manufacturing facilities.

"They thought that as long as the local laws were obeyed, that was sufficient," he said. But American and European consumers let them know they expected more from a leading brand.

"This really hurt them," Dr. Nattrass said. But it also caused Nike to reassess its business model and undergo profound change.

One of the company's first initiatives was the "reincarnation of the sole," which recycles used sneakers to make surfaces for playgrounds. The Nike Environmental Apparel Design Tool, released in 2010, helps designers make responsible choices that address the full life cycle of their products.

"We can engage designers at the earliest stage of the process so we can see the impact downstream," said Lorrie Vogel, general manager of Nike Considered, a program that takes into account every environmental aspect of its products. Nike has collaborated with Patagonia, Wal-Mart, Target, and more than 60 other companies to create apparel standards.

"We believe that it is important to move the industry towards more sustainable innovation," Vogel said.

*Amanda Lake*